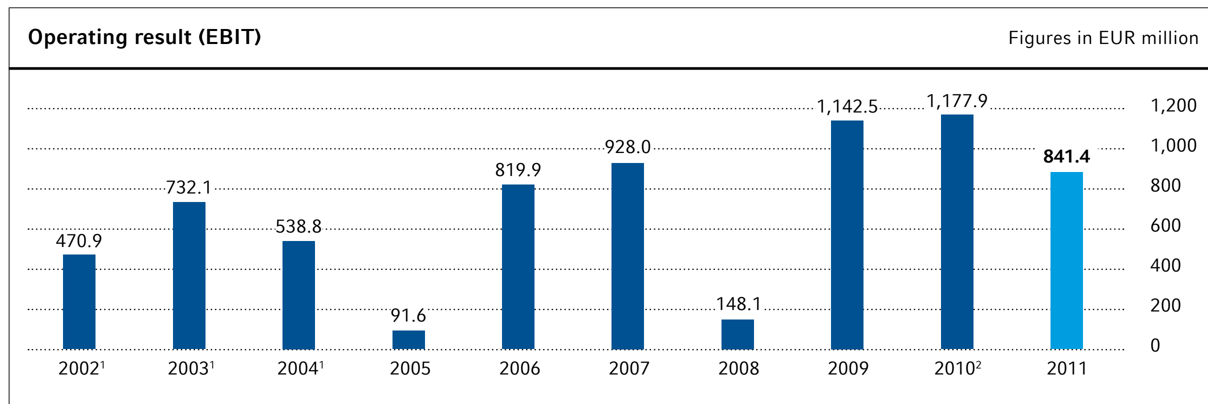
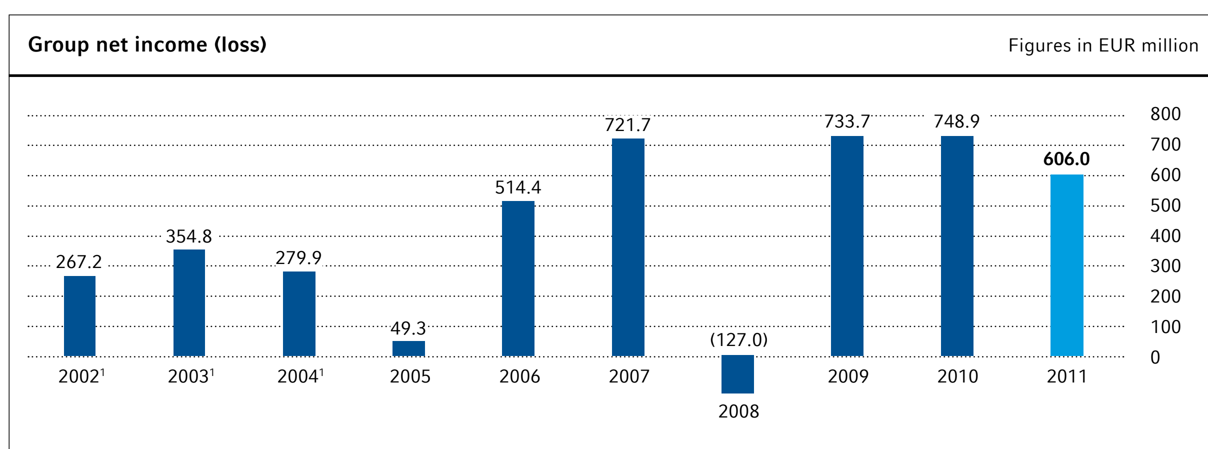
somewhat different

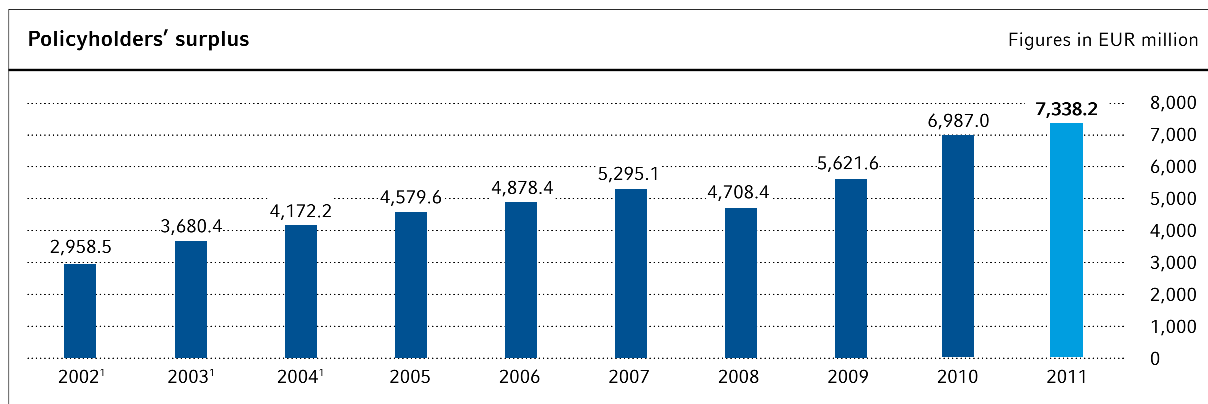
Annual Report 2011

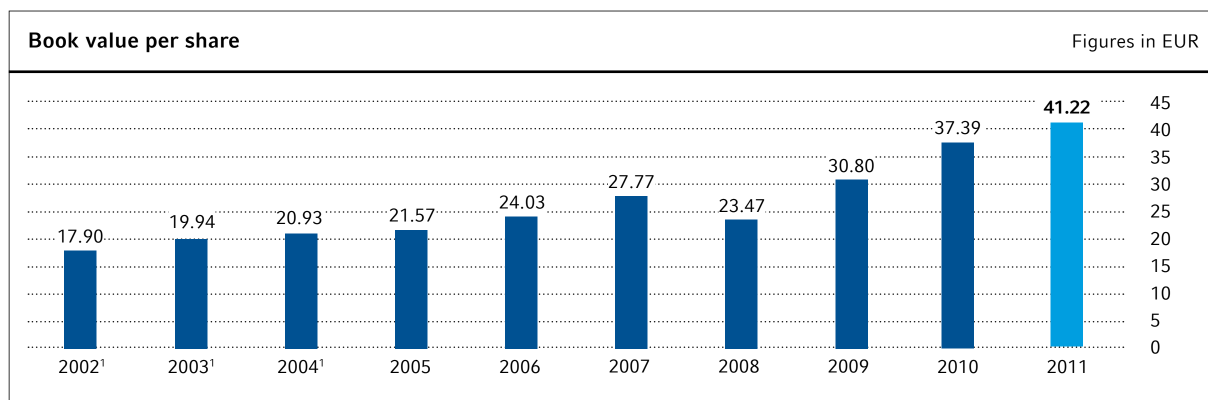
hannover re®

An overview









1 Based on US GAAP
2 Adjusted on the basis of IAS 1

The Hannover Re Group

America

Hannover Rückversicherung AG Canadian Branch – Chief Agency
Toronto, Canada

Hannover Rückversicherung AG Canadian Branch – Facultative Office
Toronto, Canada

Hannover Re Services USA, Inc.
Itasca/Chicago, USA
100.0%

Hannover Life Reassurance Company of America
Orlando/Charlotte/Denver/New York, USA
100.0%

Hannover Life Reassurance Bermuda Ltd.
Hamilton, Bermuda
100.0%

Hannover Re (Bermuda) Ltd.
Hamilton, Bermuda
100.0%

Hannover Services (México) S.A. de C.V.
Mexico City, Mexico
100.0%

Hannover Rückversicherung AG Bogotá Representative Office
Bogotá, Colombia

Hannover Rückversicherung AG Escritório de Representação no Brasil Ltda.
Rio de Janeiro, Brazil
100.0%

Europe

Hannover Rückversicherung AG
Hannover, Germany

E+S Rückversicherung AG
Hannover, Germany
63.7%

Hannover Life Reassurance (Ireland) Limited
Dublin, Ireland
100.0%

Hannover Reinsurance (Ireland) Limited
Dublin, Ireland
100.0%

International Insurance Company of Hannover Limited
Bracknell/London, United Kingdom
100.0%

Hannover Life Reassurance (UK) Limited
Virginia Water, United Kingdom
100.0%

Hannover Services (UK) Ltd.
Virginia Water, United Kingdom
100.0%

Hannover Rückversicherung AG Tyskland filial
Stockholm, Sweden

Hannover Rückversicherung AG Succursale Française
Paris, France

Hannover Re Services Italy Srl
Milan, Italy
99.6%

HR Hannover Re, Correduría de Reaseguros, S.A.
Madrid, Spain
100.0%

Asia

Hannover ReTakaful B.S.C. (c)
Manama, Bahrain
100.0%

Hannover Rückversicherung AG Bahrain Branch
Manama, Bahrain

Hannover Re Consulting Services India Private Limited
Mumbai, India
100.0%

Hannover Rückversicherung AG Korea Branch
Seoul, Korea

Hannover Re Services Japan K.K.
Tokyo, Japan
100.0%

Hannover Rückversicherung AG Shanghai Branch
Shanghai, China

Hannover Rückversicherung AG Taipei Representative Office
Taipei, Taiwan R.O.C.

Hannover Rückversicherung AG Hong Kong Branch
Hong Kong, China

Hannover Rückversicherung AG Malaysian Branch
Kuala Lumpur, Malaysia

Africa

Hannover Life Reassurance Africa Limited
Johannesburg, South Africa
100.0%

Hannover Reinsurance Africa Limited
Johannesburg, South Africa
100.0%

Hannover Reinsurance Group Africa (Pty) Ltd.
Johannesburg, South Africa
100.0%

Compass Insurance Company Limited
Johannesburg, South Africa
100.0%

Australia

Hannover Rückversicherung AG Australian Branch – Chief Agency
Sydney, Australia

Hannover Rückversicherung AG Australian Branch – Facultative Office
Sydney, Australia

Hannover Life Re of Australasia Ltd
Sydney, Australia
100.0%

%-figures = participation

Key figures

Figures in EUR million	2011	+/– previous year	2010[1]	2009	2008	2007
Results						
Gross written premium	12,096.1	+5.8%	11,428.7	10,274.8	8,120.9	8,258.9
Net premium earned	10,751.5	+7.0%	10,047.0	9,307.2	7,061.6	7,292.9
Net underwriting result	(535.8)		(185.1)	(100.4)	69.6	(131.0)
Net investment income	1,384.0	+9.9%	1,258.9	1,120.4	278.5	1,121.7
Operating profit (EBIT)	841.4	–28.6%	1,177.9	1,142.5	148.1	928.0
Group net income (loss)	606.0	–19.1%	748.9	733.7	(127.0)	721.7
Balance sheet						
Policyholders' surplus	7,338.2	+5.0%	6,987.0	5,621.6	4,708.4	5,295.1
Equity attributable to shareholders of Hannover Re	4,970.6	+10.2%	4,509.0	3,714.4	2,830.1	3,349.1
Non-controlling interests	636.0	+4.5%	608.9	542.1	501.4	572.7
Hybrid capital	1,731.6	–7.4%	1,869.1	1,365.1	1,376.9	1,373.3
Investments (excl. funds withheld by ceding companies)	28,341.2	+11.5%	25,411.1	22,507.0	20,137.2	19,815.3
Total assets	49,867.0	+6.7%	46,725.3	40,837.6	37,490.2	37,068.4
Share						
Earnings per share (basic and diluted) in EUR	5.02	–19.1%	6.21	6.08	(1.05)	5.98
Book value per share in EUR	41.22	+10.2%	37.39	30.80	23.47	27.77
Dividend	253.3[2]	–8.7%	277.4	253.3	–	277.4
Dividend per share in EUR	2.10[2]	–8.7%	2.30	2.10	–	1.80+0.50[3]
Share price at year-end in EUR	38.325	–4.5%	40.135	32.71	22.50	31.55
Market capitalisation at year-end	4,621.9	–4.5%	4,840.2	3,944.7	2,713.4	3,804.8
Ratios						
Combined ratio (non-life reinsurance)[4]	104.3%		98.2%	96.6%	95.4%	99.7%
Large losses as percentage of net premium earned (non-life reinsurance)[5]	16.5%		12.3%	4.6%	10.7%	6.3%
Retention	91.2%		90.1%	92.6%	89.1%	87.4%
Return on investment (excl. funds withheld by ceding companies)	3.9%		3.9%	4.0%	0.4%	4.6%
EBIT margin[6]	7.8%		11.7%	12.3%	2.1%	12.7%
Return on equity (after tax)	12.8%		18.2%	22.4%	–4.1%	23.1%

1 Adjusted on the basis of IAS 1
2 Dividend proposal
3 Bonus
4 Incl. funds withheld
5 Natural catastrophes and other major losses in excess of EUR 5 million gross for the Hannover Re Group's share as percent of net premium earned
6 Operating result (EBIT)/net premium earned

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Ulrich Wallin Chairman of the Executive Board

Dear shareholders, ladies and gentlemen,

For globally operating reinsurers the 2011 financial year was most notable for an extraordinarily heavy burden of natural catastrophe losses. According to the available market data, the insured major losses exceeded the level of USD 100 billion in the year under review. After 2005, when the insured catastrophe losses were somewhat higher still, this is the second-highest figure in the history of the insurance and reinsurance industry.

These hard numbers do not even come close to describing the devastating repercussions of these natural disasters. The impact on those living in the regions affected by such natural catastrophe events is far more dramatic. Not only did they result in the tragic death of a large number of people – the forces of nature also deprived many of the survivors of the economic basis for their daily lives. Special mention should be made here of the disastrous earthquakes in New Zealand and above all in Japan. As a reinsurer, we cannot prevent such disasters. Perhaps, however, the losses paid by the reinsurance industry can at least help here and there to somewhat alleviate the

economic implications of these destructive events. For our company, therefore, it was important to remain a reliable partner for our clients – after the losses, just as we were before – and to continue to provide them with reinsurance capacities for natural catastrophe losses.

The climate on capital markets was also thoroughly challenging in the year under review. Most significantly, the sovereign debt crisis in the Eurozone caused considerable volatility. On the other hand, however, the sharply reduced interest rate level for high-quality government bonds also gave rise to gains that were reflected in the reinsurers' balance sheets. Looking ahead to the medium term, most economists expect interest rates to remain low. This will probably lead to a gradual decline in the investment income booked by insurers and reinsurers, which will make it necessary to generate an improved underwriting performance.

In common with other market players, we too were impacted in substantial measure by the major losses. The burden of catastrophe losses and major claims reached EUR 981 million for net account, some EUR 451 million higher than the loss expectancy. In view of the losses incurred in the first quarter, we had already revised our guidance downwards from EUR 650 million to a profit of more than EUR 500 million. The fact that we ultimately achieved net income of EUR 606 million can be considered highly gratifying in light of this major loss expenditure.

It is also particularly pleasing to note that even in the challenging 2011 financial year we were able to boost our shareholders' equity and the book value per share by more than 10 percent. Not only that, thanks to the very positive cash flow from operating activities the portfolio of assets under own management grew by more than EUR 2.9 billion in the year under review – or 11.5 percent – to EUR 28.3 billion. We were thus again able to substantially increase the value of your company and the financial strength of Hannover Re in 2011. None of this would have been possible without the outstanding contribution made by all our staff, to whom I would like to take this opportunity to express my sincerest thanks – also on behalf of my colleagues on the Executive Board. Our gratitude is due especially to the team at our Tokyo branch, who were affected not only professionally but also personally by the repercussions of the devastating earthquake in Japan.

The increased shareholders' equity, in particular, enables us to pay a dividend for 2011 that is in fact somewhat higher than our strategic dividend target of 35 to 40 percent of our Group net income. The Supervisory Board and Executive Board will propose to the Annual General Meeting that you should be paid a dividend of EUR 2.10 per share.

Permit me, if I may, to turn to the development of the financial year: in our non-life reinsurance business group we maintained the growth course charted in previous years. Our premium volume grew by 7.7 percent (9.4 percent adjusted for currency effects) to more than EUR 6.8 billion. This targeted and selective growth derived especially from our business in the speciality lines and from emerging markets. The growth stimuli were also supported, above all, by the significant improvement in reinsurance conditions that took hold from April 2011 onwards as a consequence of the considerable major losses incurred in the first quarter. Yet the net income of EUR 456 million after tax and non-controlling interests generated by our non-life reinsurance business group was also highly satisfactory in view of the aforementioned heavy major loss expenditure. This is all the more remarkable inasmuch as despite the run-off profits booked on our loss reserves in the financial year their confidence level continued to increase. Nor is the positive overall assessment of the result diminished by the fact that it profited from tax refunds including accrued interest of altogether EUR 128 million. It should, after all, be borne in mind that charges in the corresponding amount had been taken in previous years.

Reflecting the aforementioned major loss burden, the combined ratio climbed to 104.3 percent after 98.2 percent in the previous year. This was, however, at least partially offset by a thoroughly gratifying increase of 17.2 percent in investment income.

The development of our second business group – life and health reinsurance – was less vigorous in the year under review than in prior years. This is true of both premium growth and profitability. With net income of EUR 182 million we nevertheless achieved a satisfactory performance. The business development was pleasing in the United Kingdom, Germany, Scandinavia, France and the Asian markets, where we generated good results overall. Our Australian portfolio was, however, adversely impacted on account of additional reserves that had to be constituted for disability business. We had already responded to the emerging more problematic development of this segment in the past and since 2009 we have not written any further new business relating to the affected coverage concepts. Profitability in life and health reinsurance was also influenced by the volatile conditions on capital markets. The widening of credit spreads on bond markets led to a negative performance of the derivative to be established on deposits held by US cedants on behalf of Hannover Re.

In our assessment, longevity risks in the United Kingdom continue to offer good business prospects. In December, therefore, we successfully concluded a block assumption transaction to protect the longevity risk of a pension fund. In this respect, we assume only the biometric risk of longevity, not the investment or inflation risks. The volume of the assumed future pension commitments totalled around 800 million pounds sterling, which will accrue to our account plus the reinsurance margin as premium over the run-off of the block of business. The assumption of such longevity risks necessitates only a minimal use of capital because they have a negative correlation with mortality risks. This business consequently produces an attractive return on equity.

We also strengthened our traditional US risk-oriented life business in the year under review. Not only did we grow our new business, we also acquired an additional reinsurance portfolio. This will generate an annual premium volume of some USD 80 million and attractive margins.

We are thoroughly satisfied with the development of our investments despite the turmoil on international capital markets. Thanks to the enlarged asset volume we were able to boost ordinary investment income by almost 10 percent in spite of the decline in interest rates. In addition, profits were generated in the context of portfolio reallocations from government to corporate bonds that accounted for a significant portion of the total net realised gains. The inflows from the operating cash flow were invested primarily in corporate bonds, asset-backed securities and real estate.

Our portfolio of listed equities, which we had built up again since the third quarter of 2010, was liquidated with virtually no effect on income. Based on our enhanced risk management system – following the experience of 2008 – we decided to take this step in response to the sudden surge in volatility on stock markets in the aftermath of the Japan earthquake. The price decline on equity markets in the course of the year consequently had no further adverse implications for our result.

Overall, then, we generated income from assets under own management that for the first time surpassed EUR 1 billion. Including deposit interest and expenses, net investment income climbed by 10 percent to EUR 1.4 billion – thereby reaching the highest ever level in the history of Hannover Re.

The regular review of our corporate strategy was also on the agenda for the year under review. Under our revised strategy we have elaborated our business model even more clearly and put in place a foundation that will enable the individual organisational units to align their targets rigorously with the overarching strategic objectives. In this way we are seeking to further extend and cement our position as one of the leading reinsurance groups. The focus here is on profitable growth and a sustained above-average return on our equity. Special importance attaches to risk management. On the basis of our internal risk capital model we manage the assumed risks with the goal of optimising the risk-weighted return. In this context, we set great store by protecting our shareholders' equity against excessive volatility in results. Bearing in mind the 2011 claims year and its accumulation of natural catastrophes, we can assert with an eye to the profitability of Hannover Re that our risk management has once again demonstrated its resilience.

The sovereign debt crisis in the Eurozone and the accumulation of major losses had a moderating effect on the performance of the Hannover Re share in the year under review. Including the dividend paid, it nevertheless delivered a slightly positive performance that was thus somewhat better than the DAX and MDAX.

Turning to the current financial year, the market climate in non-life and life/health reinsurance is somewhat more favourable now than it was even in the previous year. Particularly in non-life reinsurance, we are seeing modest hardening on the markets driven by rate increases in property catastrophe business and under loss-impacted programmes. This was also evident for our company in the main treaty renewals as at 1 January 2012, where we booked premium growth of 6 percent on the back of rising rates. In life and health reinsurance, too, we see good opportunities for further profitable growth. This is especially true of US risk-oriented life reinsurance, longevity business in the United Kingdom and the markets of Eastern Europe and Asia. It is our assumption, therefore, that we will be able to move forward on the growth track that we have been charting since 2009 – both in non-life and life/health reinsurance. We also believe that with further growth in our investments under own management we can generate a net return in the order of 3.5 percent.

I would also like to thank you, our valued shareholders, most sincerely for your trust – also on behalf of my colleagues on the Executive Board. Going forward, as in the past, we shall do our utmost to continue to successfully grow Hannover Re's business with an eye to the existing opportunities and risks. It is and will remain our goal to increase the value of your company on a sustainable basis.

Yours sincerely,

Ulrich Wallin
Chairman of the Executive Board

Executive Board of Hannover Re

Ulrich Wallin

Chairman

Business Opportunity Management
Controlling
Corporate Communications
Corporate Development
Human Resources Management
Internal Auditing
Risk Management

André Arrago

Global Reinsurance
– Catastrophe Business
– Facultative Business
– Non-Life Reinsurance

Dr. Wolf Becke

until 31 December 2011

Claude Chèvre

since 1 November 2011

Life and Health Reinsurance
– Africa
– Asia
– Australia and New Zealand
– Latin America
– Western and Southern Europe

Jürgen Gräber

Coordination of worldwide Non-Life Reinsurance
Quotations Non-Life Reinsurance
Retrocessions
Specialty Lines worldwide
– Aviation and Space
– Credit, Surety and Political Risks
– Marine incl. Offshore Energy
– Structured Reinsurance Products incl. Insurance-Linked Securities
– UK & Ireland and London Market, Direct Business

Dr. Klaus Miller

Life and Health Reinsurance
– Longevity Solutions
– North America
– Northern, Eastern and Central Europe
– United Kingdom and Ireland

Dr. Michael Pickel

Group Legal Services, Compliance
Run-Off Solutions
Target Markets in Non-Life Reinsurance
– Germany, Austria, Italy, Switzerland
– North America

Roland Vogel

Asset Management
Facility Management
Finance and Accounting
Information Technology

Seated from left to right: **Claude Chèvre, Ulrich Wallin, Roland Vogel**
Standing from left to right: **Dr. Klaus Miller, Jürgen Gräber, André Arrago, Dr. Michael Pickel**

The Hannover Re share

Turbulent stock market environment

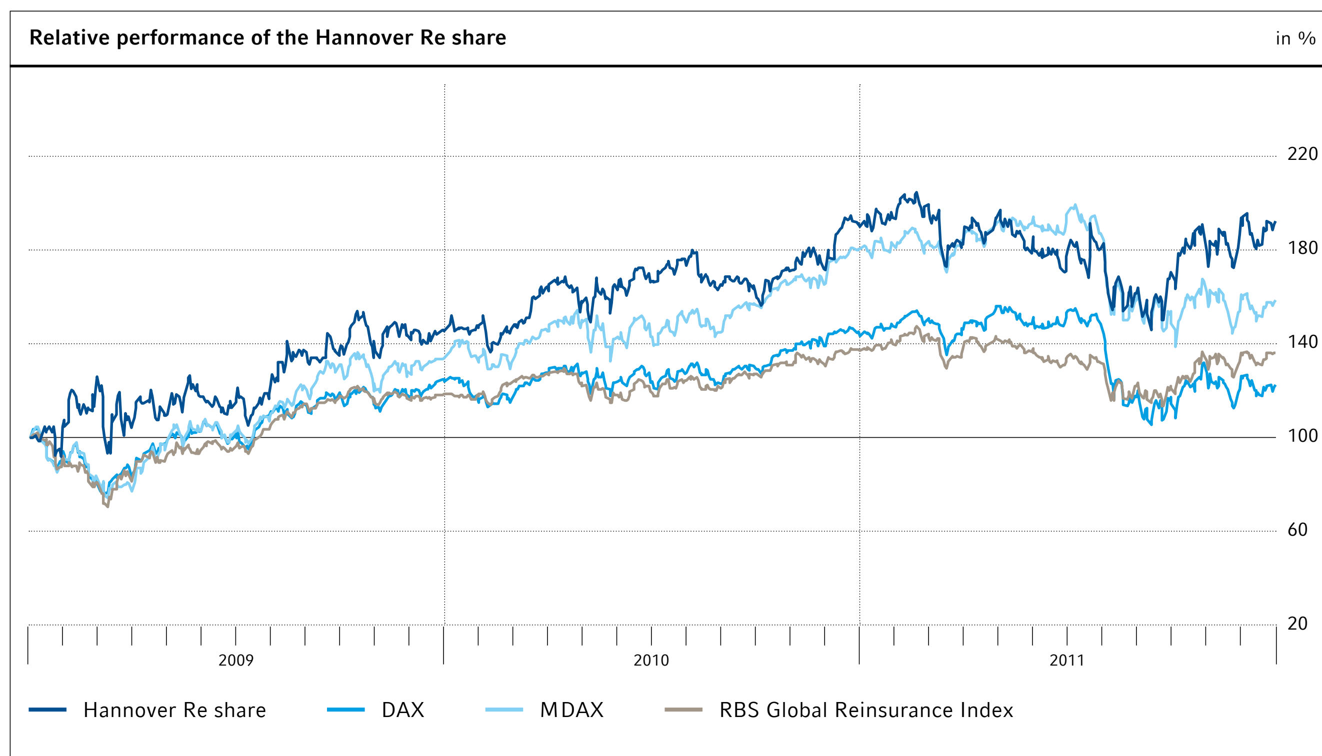
The stock market environment in 2011 was overshadowed in particular by the European sovereign debt crisis, which caused considerable volatility and uncertainty among market players. Concerns about the stability of the single currency and the ability of Greece, Portugal and Italy to refinance weighed especially heavily on financials and bank stocks, with in some cases substantial write-downs having to be taken on the affected government bonds. The development of the real economy was not, however, reflected on stock markets. Most strikingly, the German economy proved to be surprisingly resilient. In light of the expected corporate profits, analysts therefore anticipated an average increase to as much as 7,750 points on the German DAX share index at the beginning of the year.

It was indeed the case that the DAX began 2011 at 6,914 points and climbed to a three-and-a-half-year high of 7,600 in the subsequent months until May. Yet just a few months later, in September, this was followed by a plunge of more than 2,500 points to a low of 4,966. After a modest rally the DAX ended the year down by 14.7% at 5,898 points, coming in significantly below original expectations. The MDAX similarly posted an appreciable loss of 12.1% in the same period and closed the year at 8,898 points. Only the Japanese Nikkei index performed more poorly, declining by 17.3% year-on-year to a level of 8,455. The exception was the US Dow Jones index which, despite the prevailing economic difficulties in the United States, high unemployment and the loss of the "AAA" credit rating, moved 5.6% higher on the year to close at 12,218.

Volatile performance

The Hannover Re share began 2011 at a price of EUR 40.135. The prospect of pleasing renewals and the expectation of a successful 2011 financial year were reflected in a positive performance at the beginning of the year – irrespective of the heavy loss expenditure incurred from the flooding in Brisbane, Australia, and the earthquake in Christchurch, New Zealand. On 18 February the Hannover Re share climbed to its highest point of the year at EUR 43.29. However, the devastating earthquake off the coast of Japan and the tsunami with the subsequent nuclear disaster in the middle of March then took a toll on the share's performance. As the year progressed the Hannover Re share was unable to divorce itself from the marked price trend on international stock markets caused by concerns about the ability of some European countries to refinance and the stability of the single currency. On 12 September the share price ultimately fell to its lowest level of the year at EUR 29.31. Reporting on the likelihood of a gratifying 2012 renewal season and confirmation of the guidance for 2011 – in conjunction with the absence of any significant hurricane damage – prompted a substantial price rally in the fourth quarter.

Relative performance of the Hannover Re share in %



At the end of the financial year the Hannover Re share was listed 4.5% lower at EUR 38.325. It thus comfortably outperformed the German DAX (–14.7%) and MDAX (–12.1%), but lagged behind our international benchmark, the Royal Bank of Scotland (RBS) Global Reinsurance Index (–0.9%).

In a three-year comparison (see chart) the Hannover Re share including reinvested dividends delivered a performance of 92.2%. It thus again clearly surpassed the DAX (22.6%) and MDAX (58.8%) as well as the RBS Global Reinsurance Index (36.5%).

Based on the year-end closing price of EUR 38.325, the market capitalisation of the Hannover Re Group totalled EUR 4.6 billion at the end of the 2011 financial year. According to the rankings drawn up by Deutsche Börse AG, the company placed ninth in the MDAX at the end of December with a free float market capitalisation of EUR 2.3 billion. The Hannover Re Group thus continues to rank among the 40 largest listed companies in Germany. Measured by trading volume over the past twelve months, the share came in at number 13 in the MDAX with a volume of EUR 3.3 billion.

Attractive valuation over the course of the year

With a book value per share of EUR 41.22 the Hannover Re share showed a price-to-book (P/B) ratio of 0.9 as at year-end 2011; compared to the average MDAX P/B ratio of 1.7 as at year-end the share is thus very moderately valued. A comparison of the price-to-earnings (P/E) ratios reveals a similar picture.

The Executive Board and Supervisory Board intend to propose to the Annual General Meeting on 3 May 2012 that a dividend of EUR 2.10 per share be distributed. While the proposed dividend therefore does not match up to the previous year's amount of EUR 2.30 per share, the planned distribution of 41.8% nevertheless exceeds the payout ratio of 35% to 40% of Group net income after tax that has been targeted for a number of years now. Based on the year-end closing price of EUR 38.325, this produces a dividend yield of 5.5%.

Lively interest at the Annual General Meeting

The Annual General Meeting of Hannover Re was held on 3 May 2011 at the HCC – Hannover Congress Centrum. Altogether around 800 shareholders, shareholder and bank representatives as well as guests accepted the invitation of the Executive Board and Supervisory Board. This means that a good 76% of the share capital was represented. In his address to the meeting Chief Executive Officer Ulrich Wallin took the opportunity to look back once more on the record 2010 financial year, in which the company again outperformed the previous year with net income after tax of EUR 748.9 million (EUR 733.7 million), in part due to positive non-recurring effects. In the votes that were taken the Annual General Meeting adopted by a large majority the resolutions proposed by the Executive Board and Supervisory Board. Among other things, the meeting elected Dr. Andrea Pollak to succeed Mr. Karl Heinz Midunsky on the company's Supervisory Board for the remaining term of office.

The results of the voting and the attendance were published on the company's website following the Annual General Meeting.

Investor Relations activities expanded

Responding not least to the considerable need to discuss the natural catastrophe events, we further stepped up our Investor Relations efforts in 2011. Altogether, we took part in 14 capital market conferences (previous year: 9) and met with interested investors at 21 roadshows (previous year: 22). Our travel activities in 2011 were again focused on the financial centres of Frankfurt, London and New York, which we visited at least once a quarter. Along with Paris, Copenhagen, Stockholm, Oslo, Geneva and Zurich, our itinerary also included Toronto and Boston. Newly added financial marketplaces – or venues that we had not visited in a long time – included Vienna, Luxembourg, Amsterdam, Edinburgh and Dublin. Institutional investors and analysts had another opportunity to engage in dialogue with the Executive Board at our analysts' conferences, which we again held on the same day in Frankfurt and London. Our 14th Investors' Day, held as scheduled in Hannover in 2011, was very well received. In total, 36 analysts and institutional investors enjoyed an intensive exchange of views with the Executive Board. The discussions focused on the new corporate strategy as well as growth and development prospects going forward in non-life and life/health reinsurance.

In the year under review we also optimised the rendering of online offerings provided on our Investor Relations website for mobile end devices such as smartphones and tablet PCs. Our Investor Relations website was again selected as the best in the MDAX and the industry by the company NetFederation. We received thoroughly positive feedback from IR Global Rankings, which crowned our HTML Annual Report the second-best in the world on account of its extensive functionality.

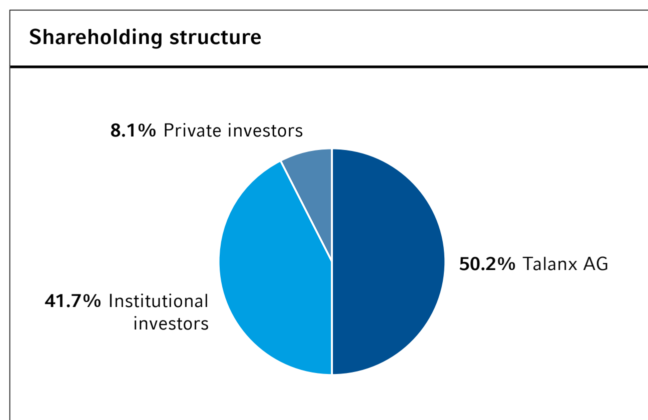
Other surveys also delivered a very positive assessment of Hannover Re's overall IR efforts. The company placed sixth within the MDAX category in the IR rankings published by the business magazine Capital, while it came in at number 7 in a survey conducted by Thomson Extel. In the European IR Perception Study carried out by Institutional Investor magazine we placed twelfth in the "insurers" category.

Stable shareholding structure

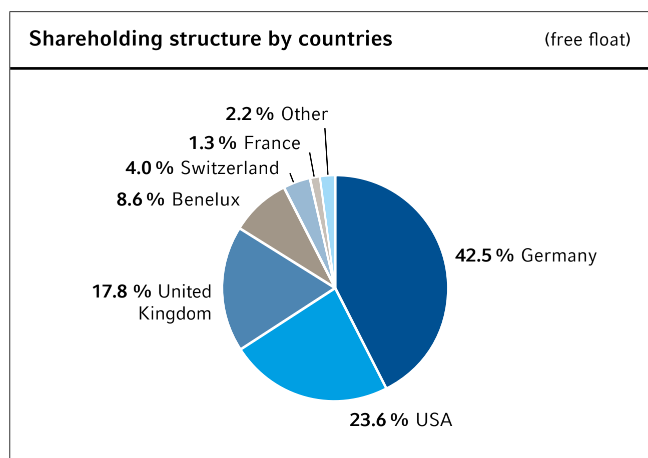
The shareholding structure of Hannover Re was stable in the year under review. The interest held by Talanx AG remained unchanged, while the stake held by private investors grew by 0.3 percentage points to 8.1%, causing the proportion in the hands of institutional investors to contract slightly to 41.7%.

Within our free float the proportionate holdings in Germany and the United States increased slightly in the year under review, rising by 1.9 percentage points in Germany to 42.5% and 1.1 percentage points in the US to 23.6%. A clear shift from Belgium to Luxembourg was observed within the Benelux countries. The percentage share attributable to these three countries nevertheless remained virtually unchanged at 8.6% (previous year: 8.7%). Proportionate holdings in the United Kingdom and France, on the other hand, recorded declines to stand at 17.8% (–2.1 percentage points) and 1.3% (–1.4 percentage points) respectively.

Shareholding structure



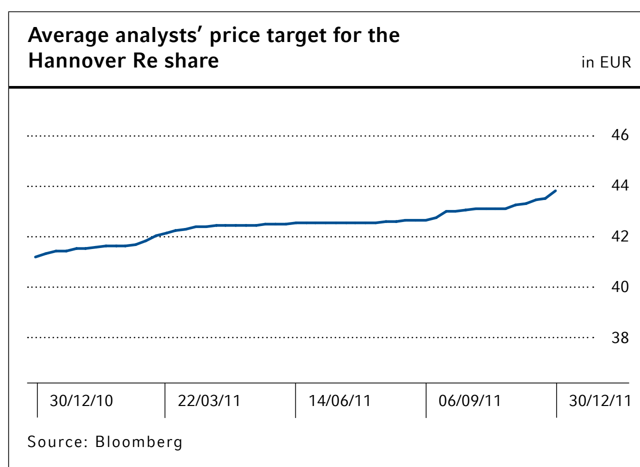
Shareholding structure by countries (free float)



Large quantity of analyst research

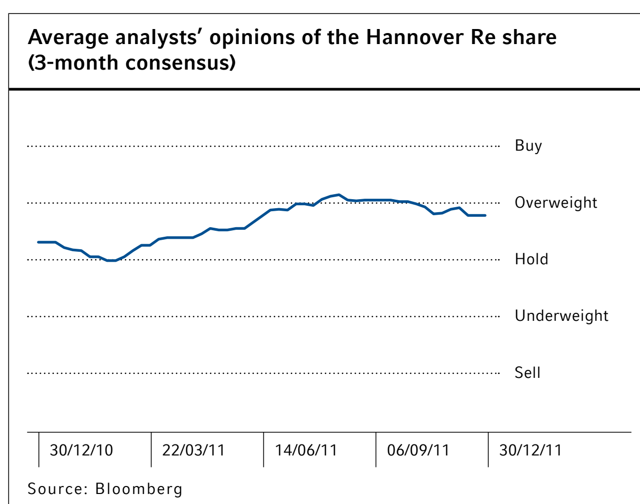
The substantial loss events of 2011 prompted an exceptionally large number of research reports. In the 2011 financial year more than 350 analyst recommendations were published for Hannover Re and the insurance industry, an increase of 50%. Based on the figures for the first nine months of 2011, 35 analysts handed down their opinion: sixteen analysts recommended the Hannover Re share as "buy" or "overweight"; altogether eighteen opinions were a "hold", making this the most common, while only one "underweight" or "sell" recommendation was issued. The analysts' average price target climbed steadily in the course of the year from EUR 41.43 at the start of the year to EUR 43.56 by year-end. Parallel to this trend, the average analysts' opinion also moved higher.

Average analysts' price target for the Hannover Re share in EUR



Source: Bloomberg

Average analysts' opinions of the Hannover Re share (3-month consensus)



Source: Bloomberg

Basic information	
Securities identification number:	840221
International Securities Identification Number (ISIN):	DE 000 840 221 5
Ticker symbols	
Bloomberg:	HNR1
Thomson Reuters:	HNRGn
ADR:	HVRRY
Exchange listings	
Germany:	Xetra, Frankfurt, Munich, Stuttgart, Hamburg, Berlin, Düsseldorf, Hannover (official trading: Xetra, Frankfurt and Hannover)
USA:	American Depositary Receipts (Level 1 ADR program; 2 ADR = 1 share)
Market segment:	Prime Standard
Index inclusion:	MDAX
First listed:	30 November 1994
Number of issued shares (as at 31 December 2011):	120,597,134
Common shares (as at 31 December 2011):	120,597,134.00 EUR
Share class:	No-par-value registered shares

Key figures in EUR	2011	2010	2009	2008	2007
Number of shares in million	120.6	120.6	120.6	120.6	120.6
Annual low[1]	29.31	30.61	20.64	15.70	30.30
Annual high[1]	43.29	41.38	34.65	35.79	37.50
Year-opening price[1]	40.135	32.71	22.50	31.55	35.08
Year-ending price[1]	38.325	40.135	32.71	22.50	31.55
Market capitalisation at year-end in EUR million	4,621.9	4,840.2	3,944.7	2,713.4	3,804.8
Equity attributable to shareholders of Hannover Re in EUR million	4,970.6	4,509.0	3,714.4	2,830.1	3,349.1
Book value per share	41.22	37.39	30.80	23.47	27.77
Earnings per share (basic and diluted)	5.02	6.21	6.08	(1.05)	5.98
Dividend per share	2.10[2]	2.30	2.10	–	2.30[3]
Cash flow per share	20.92	13.94	14.53	12.10	7.56
Return on equity (after tax)[4]	12.8%	18.2%	22.4%	(4.1%)	23.1%
Dividend yield (after tax)[5]	5.5%	5.7%	6.4%	–	7.3%
Price-to-book (P/B) ratio[6]	0.9	1.1	1.1	1.0	1.1
Price-to-earnings (P/E) ratio[7]	7.6	6.5	5.4	–	5.3
Price-to-cash flow (P/CF) ratio[8]	1.8	2.9	2.3	1.9	4.2

1 Xetra daily closing prices from Bloomberg
2 Proposed dividend
3 EUR 1.80 + EUR 0.50 bonus
4 Earnings per share/average of book value per share at start and end of year
5 Dividend per share/year-end closing price
6 Year-end closing price/book value per share
7 Year-end closing price/earnings per share
8 Year-end closing price/cash flow (from operating activities) per share

Our strategy

We seek to strengthen and further expand our position as a leading, globally operating reinsurance group, delivering profitability that is above the average for the sector. We are passionate about reinsurance and chart our own course. Quick, flexible and independent, we strive for excellence in our actions. We aspire to be the best option for our business partners when it comes to choosing a reinsurance provider. Our mission: Growing Hannover Re profitably.

01

Our business model

- Optimise risk diversification across all lines and countries
- Generate an exceptionally high return on equity by reducing the required capital
- Expand primary insurance business in selected niche markets as a complement to our reinsurance activities
- E+S Rück: Rank among the top 2 reinsurers in Germany
- E+S Rück: Maintain or enlarge the number of minority shareholders and cultivate trusting cooperation
- E+S Rück: Expand lead mandates in Life and Non-Life

02

We have ambitious profit and growth targets

- Achieve triple-10 target
- Grow premium volume (by more than the market average)
- Generate profit clearly in excess of the cost of capital
- Generate an IFRS return on equity of at least 750 basis points above the risk-free interest rate
- Outperform RBS Global Reinsurance Index over a three-year period
- Consistently pay an attractive dividend

03

We manage risks actively

- Ensure protection of capital through quantitative and qualitative risk management
- Maximise risk-adjusted profits

04

We are a preferred business partner

- Enhance our clients' commercial success through our services
- Respond undogmatically, flexibly and quickly to the needs of our clients
- Offer standard products as well as specially tailored customer solutions that add value for both contracting parties
- Foster customer relationships to both parties' mutual benefit irrespective of the size of the account
- Safeguard our financial capability
- Systematically seek and explore new business opportunities
- Cooperate across business groups
- Generate additional business opportunities on the basis of Solvency II

For many years now we have reviewed our corporate strategy in a three-year cycle. The present strategy is the product of the review conducted in 2011.

05

We aim for successful employees

- Promote and require a goal-oriented working approach among our staff
- Foster the qualifications, experience and commitment of our staff
- Ensure the greatest possible delegation of tasks, responsibilities and authority
- Offer attractive workplaces
- Manage staff according to our management principles

06

We maintain an adequate level of capitalisation

Ensure that requirements for equity resources (economic capital model, solvency regulations, etc.) are met

Optimise composition of the available capital

Our employees contributed to the strategy revision. The high degree of familiarity and insight thereby created is a guarantor of successful execution.

07

We strive for stable investment income

Take into account the maturities of our liabilities and the liquidity requirements of our business

Ensure currency matching

Ensure stability of the return to be generated

Achieve target return – risk-free interest rate plus the cost of capital

08

We ensure a lean organisation

Ensure a lower administrative expense ratio than our competitors

Information and communication systems assure optimal support for business processes in light of cost/benefit considerations

Achieve efficient processes through excellent process management

Maintain lean structure and organisation

09

We are committed to sustained compliance

Ensure conformity with all legal requirements

Encourage sustainable actions with respect to all stakeholder groups

Support considered and pragmatic principles of corporate governance and recognise their central role in guiding our activities

10

We strive for Performance Excellence

Ensure rigorous derivation of strategic objectives across all areas of the company

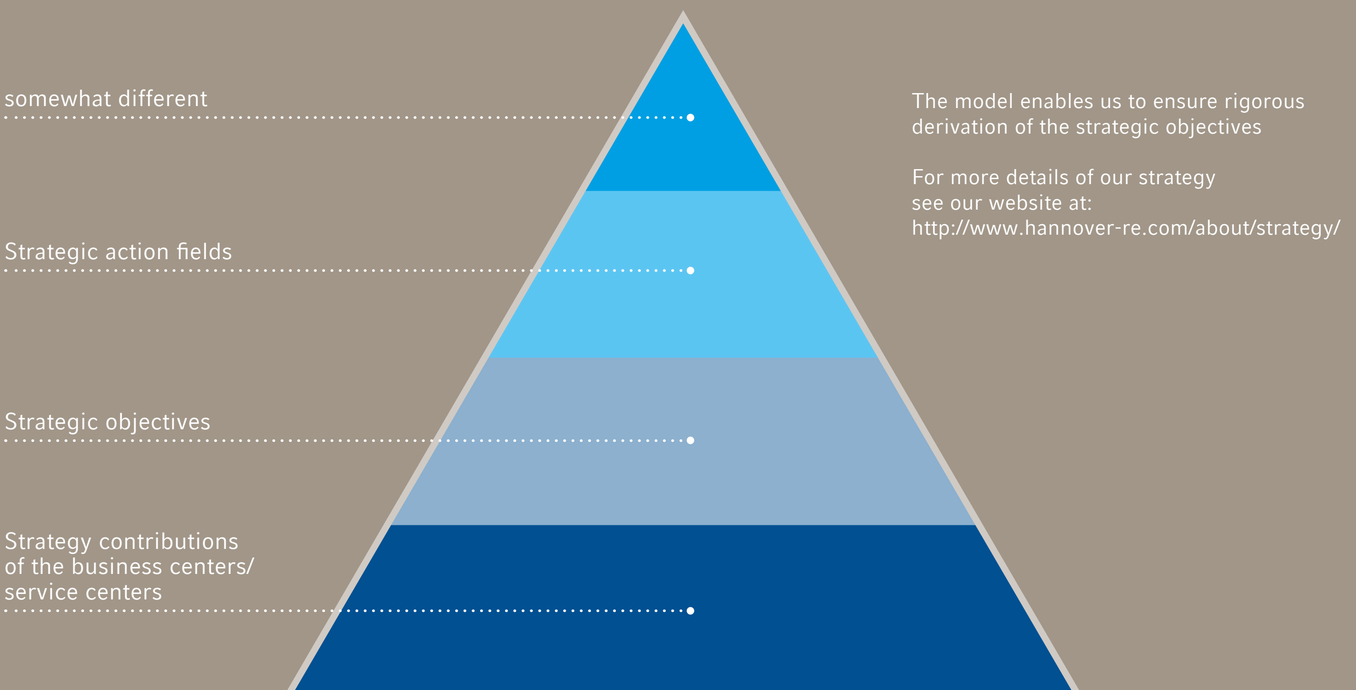
Our strategy in practice

Our strategy encompasses ten strategic principles for ensuring the accomplishment of our mission “Growing Hannover Re profitably” across business units. The orientation of the business groups is guided by these principles, hence enabling them to contribute directly to attainment of the overarching objectives. Implementation takes the form of each organisational unit defining its contribution to goal attainment and aligning its activities and measures accordingly.

This systematic approach is of crucial importance to the execution of our strategy in daily actions. In the context of our holistic management system Performance Excellence 2.0 we align all our activities such that they advance our strategic objectives with a view to successfully implementing our strategy. All organisational units determine substantial strategy contributions to the strategic objectives of the Hannover Re Group. This also includes defining performance criteria and indicators that can be used to establish fulfilment of the relevant strategy contributions.

We have developed a Strategy Cockpit for implementation of the strategy and systematic steering of the target contributions. This Web-based management portal assists managers with the development and implementation of strategy-related measures. We thereby ensure a high degree of transparency within the organisation with an eye to execution of the strategy.

Strategy cascade of Hannover Re



Management report of the Hannover Re Group

For the reinsurance industry the 2011 financial year was most notable for extraordinarily heavy strains from natural disasters. Only in 2005 were the insured catastrophe losses even higher. For Hannover Re, too, the year under review was the second most expensive in its history with net major loss expenditure of EUR 981 million. As a further factor, the capital market environment again proved challenging in 2011. With this in mind, it is highly gratifying to have generated Group net income of EUR 606 million.

Not only that, the value of the company and financial strength of Hannover Re were also boosted: shareholders' equity and the book value per share rose by 10 percent. Particularly thanks to the increased shareholders' equity, it is possible to pay a dividend in excess of the strategic dividend target. The Supervisory Board and Executive Board will therefore propose to the Annual General Meeting that a dividend of EUR 2.10 per share should be distributed.

Macroeconomic climate

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

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

USA

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

Europe

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

Germany

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

Asia

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

Capital markets

The European sovereign debt crisis became a renewed focus of concern for investors from August 2011 onwards. Overall, the 2011 financial year was again characterised by an expansionary monetary policy in our main currency areas. In the Eurozone the first steps towards a more restrictive monetary policy were undone in the second half of the year, causing the key interest rate for the euro area to slip back to the level at the end of 2010. The yield on 10-year German government

bonds fell to 1.7% for a time. This level was assisted not only by a monetary policy that remained committed to a strong supply of liquidity but also by a preference among investors for government bonds of the highest quality. Government bonds issued by a number of other European countries came under increasing pressure on account of inadequate actions to bring about fiscal consolidation; this was reflected accordingly in the spreads on bond markets. The European Central Bank sought to stabilise the capital market by buying up government bonds. US treasury bonds also fell to record lows with yields of less than 2%. Despite the move by Standard & Poor´s to downgrade the credit rating of the United States to "AA+", the US profited from the dollar's status as the global reserve currency and the perception of US treasuries as a safe haven investment.

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

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

Industry-specific environment

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

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

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

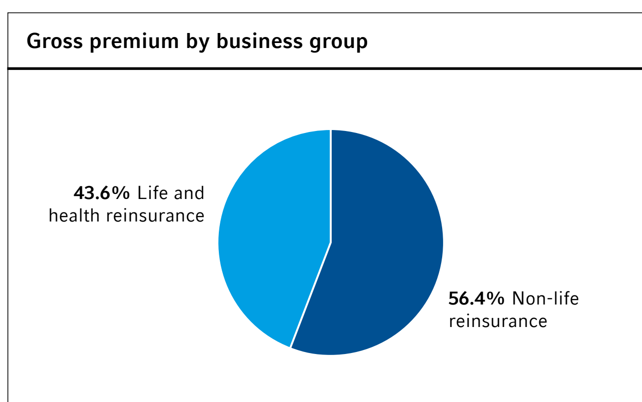
In Germany demand for insurance protection was stable. Investments, the profitability of the industry and employment in the insurance sector also remained largely unchanged. The industry has hitherto coped well with the challenges of the recent financial and economic crisis. The German Insurance Association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

Business development

Very heavy major loss expenditure and a challenging capital market climate were the hallmarks of the 2011 financial year. Yet for our company, as a financially strong reinsurer, the opportunities offered by the market for profitable growth were good – in both non-life and life/health reinsurance. We were therefore able to enlarge our premium volume in the year under review. Gross premium in total business grew by 5.8% to EUR 12.1 billion (EUR 11.4 billion). At constant exchange rates – especially against the US dollar – the increase would have been 7.5%; this is within the range of our growth forecast of 7% to 8%. The level of retained premium nudged slightly higher to 91.2% (90.1%). Net premium earned grew by 7.0% to EUR 10.8 billion (EUR 10.0 billion).

Non-life reinsurance markets developed more favourably in the year under review than initially expected: in the treaty renewals as at 1 January 2011 prices and conditions essentially remained stable. The severe natural disasters that occurred in the first quarter ushered in a trend reversal. The earthquakes in Japan and New Zealand as well as the flooding in Australia led to significant rate increases – at least in the regions that were impacted by losses. Whilst it is true that the enormous strains imposed by these major losses curtailed our profit in non-life reinsurance, they did not diminish our business prospects. Quite the contrary, since demand for reinsurance covers has since increased. The equity requirements arising out of "Solvency II" will also cause our clients to attach even greater importance to the tool of reinsurance. For further details of developments in our non-life reinsurance business group please see page 24 et seq.

Gross premium by business group



Our second business group, life and health reinsurance, did not grow quite as rapidly as in previous years. It now contributes 43.6% of the total premium volume. Given the lower volatility of results, we have set ourselves premium growth targets here – unlike in non-life reinsurance. In the year under review we again succeeded in enlarging our premium volume. Growth came in at 3.5%, or 5.2% at constant exchange rates.

With a view to strengthening our traditional US life insurance business – and following on the heels of a large transaction in 2009 – we assumed another portfolio in the United States that covers the mortality risk under term and endowment policies. We were also able to conclude a further block assumption transaction for longevity risks in the United Kingdom. For detailed comments on the development of business in life and health reinsurance please see page 38 et seq.

We are thoroughly satisfied with the development of our investments. Thanks to positive cash inflows from the technical account and improvements in fair values, our portfolio of assets under own management grew appreciably to EUR 28.3 billion (EUR 25.4 billion). Despite the overall decline in interest rate levels, ordinary income consequently surpassed the comparable figure for the previous year at EUR 966.2 million (EUR 880.5 million). Income on funds withheld and contract deposits climbed to EUR 338.5 million (EUR 316.4 million).

In March we sold our portfolio of listed equities with virtually no gain or loss on disposal. We decided to take this step because of the uncertain extended implications for capital and reinsurance markets of the still ongoing Fukushima nuclear disaster. The decision had become necessary in the context of our systematic approach to risk management. Since then we have only retained a minimal holding of listed equities as part of strategic participations. In the area of bonds our policy continues to be geared towards maintaining a well-diversified portfolio. The regional spread of our government bonds was largely unchanged in the reporting period. It remains the case that our exposure to countries on the Eurozone periphery (Ireland, Italy, Portugal and Spain) is relatively low at 1.3% of the total investment portfolio. Our portfolio does not contain any bonds of Greek issuers.

The hedging effect of the inflation swaps taken out in 2010 to hedge part of the inflation risks associated with the loss

reserves in our technical account diminishes over time owing to their fixed maturity. In order to restore the original protective effect we therefore took out further inflation swaps to the extent necessary in the first quarter of the year under review.

In the context of portfolio reallocations from government to corporate bonds Hannover Re generated profits that accounted for a significant portion of the total net realised gains. The inflows from the operating cash flow were invested primarily in corporate bonds, asset-backed securities and real estate. The balance of net realised gains improved by 10.8% to EUR 179.6 million (EUR 162.0 million).

We were again able to boost our net investment income from assets under management relative to the previous year: it totalled EUR 1,045.5 million (EUR 942.5 million) in the year under review. Net investment income including income on funds withheld and contract deposits amounted to EUR 1.4 billion (EUR 1.3 billion).

Although the operating profit (EBIT) booked by Hannover Re fell short of the previous year's result owing to the heavy burden of major losses, it still gave grounds for satisfaction. It amounted to EUR 841.4 million (EUR 1,177.9 million) as at 31 December 2011.

In the aftermath of the severe natural disasters in the first quarter we reduced our profit estimate in March from around EUR 650 million to roughly EUR 500 million. Despite further heavy loss expenditure incurred in the course of the year under review we maintained this guidance. The fact that we were able to generate Group net income of EUR 606.0 million (EUR 748.9 million) despite a burden of major losses totalling EUR 980.7 million – the second-highest strain of all time for our company – can be attributed both to the quality of the underlying business and the very healthy investment income. The result additionally profited from the refund of excess taxes paid and interest paid thereon in an amount of EUR 128.0 million. Run-off profits on loss reserves established in prior years were also booked – a reflection of the fact that the development of paid and reported claims from prior years was more favourable than anticipated. The run-off profits did not give rise to a reduction in the confidence level of our loss reserves. The result was curtailed by effects in life and health reinsurance. Earnings per share stood at EUR 5.02 (EUR 6.21).

Despite the enormous strains from major losses our shareholders' equity attributable to shareholders of Hannover Re developed very favourably, rising in the year under review from EUR 4.5 billion to EUR 5.0 billion. The policyholders' surplus increased to EUR 7.3 billion (EUR 7.0 billion). The return on equity came in at 12.8% (18.2%).

We use retrocession, i.e. the passing on of portions of our covered risks to other reinsurers, as a means of risk reduction. In the course of the year the reinsurance recoverables on unpaid claims – i.e. receivables due to us from our retrocessionaires – climbed to EUR 1.6 billion (EUR 1.0 billion) owing to the heavy major loss expenditure incurred in 2011. We continue to attach considerable importance to the quality of our retrocessionaires: 90.9% of the companies with which we maintain such business relations have an investment grade rating of "BBB" or better from Standard & Poor's.

After Hannover Re had reached agreement on the sale of the operational companies of its US subsidiary Clarendon Insurance Group, Inc. in December 2010, the transaction received the customary regulatory approvals and closed in July 2011.

A special mark of distinction was bestowed upon Hannover Re in April 2011. Readers of the highly regarded international trade magazine "Reactions" crowned us "Reinsurance Company of the Year" on the occasion of the London Market Awards.

Our business groups

In the following sections we discuss the development of the financial year in our two strategic business groups, namely non-life reinsurance and life/health reinsurance. Supplementary to the information provided here, the segmental report contained in the annual financial statement shows the key balance sheet items and profit components broken down into the individual business groups.

Our business model continues to offer us the best outlook going forward.

Our business is driven by two segments of virtually equal size: Non-Life and Life. By spreading our risks across these two business groups we achieve optimal diversification for our company and our stakeholders – and enjoy a promising outlook.

Non-life reinsurance

Accounting for 56.4% of our premium volume, non-life reinsurance is Hannover Re's largest business group. We do not pursue any growth targets here, but instead practise active cycle management according to which we expand our business if the rate situation is favourable and scale back our portfolio if prices are inadequate.

The situation on the international reinsurance markets was broadly favourable in the year under review. The renewals in non-life reinsurance as at 1 January 2011 – the date when around 67% of our treaties in traditional reinsurance were renegotiated – passed off better than initially expected by some market players. Even though market conditions were tending to soften, we had sufficient opportunities to write profitable business. Prices and conditions essentially remained stable. All in all, we boosted our premium volume by around 2% in the 1 January treaty renewals.

Rate increases were recorded in the treaty renewals during the year, especially in reinsurance lines exposed to natural catastrophes. The price rises were driven by the enormous major losses incurred in the first quarter of 2011. Yet even under loss-free reinsurance programmes from regions that were spared major claims, rate increases were in some cases obtained.

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

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

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

All in all, the available market opportunities in non-life reinsurance were highly satisfactory, enabling us to grow profitably in the year under review and expand our market share. The focus of our activities was on the markets of China, Central and Eastern Europe as well as facultative reinsurance and agricultural risks.

Details of developments in the individual markets are provided on the following pages.

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

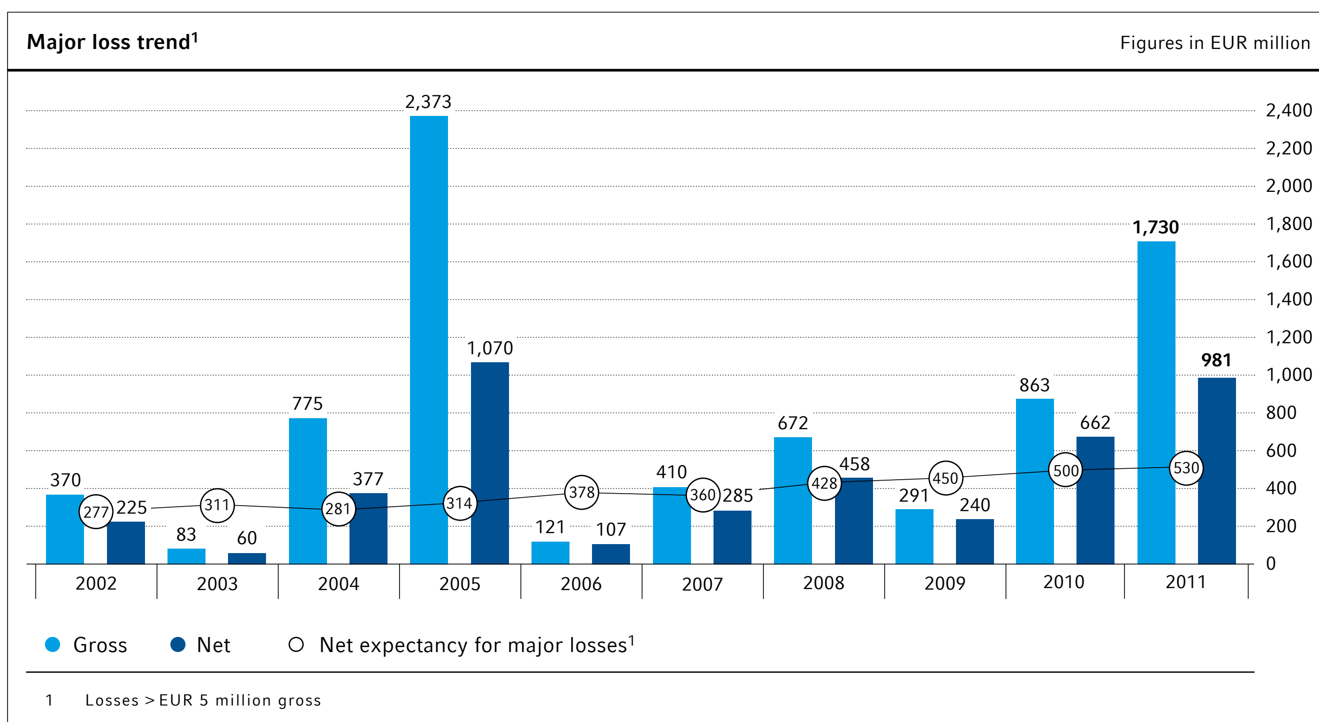
Key figures for non-life reinsurance							Figures in EUR million
	2011	+/- previous year	2010	2009	2008	2007
Gross written premium	6,825.5	+7.7%	6,339.3	5,746.6	4,987.8	5,189.5
Net premium earned	5,960.8	+10.5%	5,393.9	5,229.5	4,276.7	4,497.6
Underwriting result	(268.7)		82.4	143.5	184.7	(26.7)
Net investment income	845.4	+17.2%	721.2	563.2	11.1	783.3
Operating result (EBIT)	599.3	–31.9%	879.6	731.4	2.3	656.7
Group net income	455.6	–21.6%	581.0	472.6	(160.9)	549.5
Earnings per share in EUR	3.78	–21.6%	4.82	3.92	(1.33)	4.56
Retention	91.3%		88.9%	94.1%	88.9%	82.5%
Combined ratio[1]	104.3%		98.2%	96.6%	95.4%	99.7%

1 Including expenses on funds withheld and contract deposits

The gross premium volume for our non-life reinsurance business group increased by 7.7% in the year under review to EUR 6.8 billion (EUR 6.3 billion). At constant exchange rates, especially against the US dollar, growth would have come in at 9.4%. The level of retained premium climbed from 88.9% to 91.3%. Net premium earned grew by 10.5% to EUR 6.0 billion (EUR 5.4 billion); growth would have been 12.1% at constant exchange rates. The increase was thus stronger than anticipated; at the beginning of the year the forecast for 2011 had been in the range of 0% to 3% at unchanged exchange rates.

Even though the hurricane season in North and Central America again passed off thoroughly moderately, the (re)insurance industry was nevertheless faced with extraordinarily heavy burdens in the year under review. The largest loss event for the insurance industry was the earthquake in Japan and the resulting tsunami. This event produced a net strain for our company of EUR 228.7 million. Yet the flooding in Thailand and the earthquake in New Zealand also resulted in a heavy major loss incidence. The associated expenditures incurred by Hannover Re amounted to EUR 195.7 million and EUR 121.4 million respectively. These and other major losses produced a net burden of catastrophe losses and major claims totalling EUR 980.7 million for the year under review (EUR 661.9 million). Not only did this figure surpass the already unusually high volume of the previous year, it also far exceeded the expected level of around EUR 530 million. The combined ratio consequently rose from 98.2% to 104.3%.

Major loss trend[1] Figures in EUR million

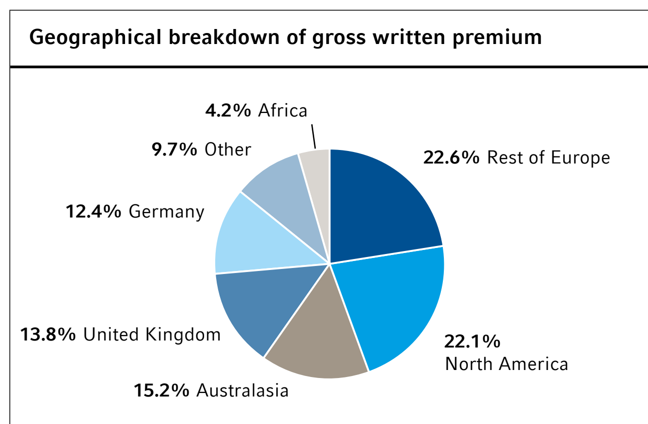


1 Losses > EUR 5 million gross

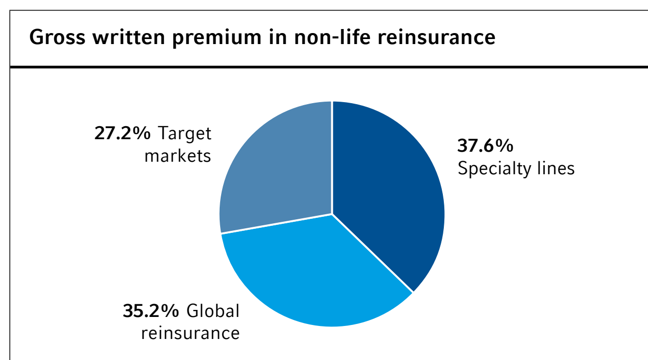
Management report

The underwriting result deteriorated to –EUR 268.7 million (EUR 82.4 million). Net investment income climbed by a very pleasing 17.2% to EUR 845.4 million (EUR 721.2 million). The operating profit (EBIT) for non-life reinsurance contracted to EUR 599.3 million (EUR 879.6 million) as at 31 December 2011 on account of the heavy major loss expenditure. Group net income closed at EUR 455.6 million, following EUR 581.0 million in the comparable period. The business result was favourably influenced by a tax refund of EUR 128.0 million deriving from a decision of the Federal Fiscal Court (BFH). Earnings per share stood at EUR 3.78 (EUR 4.82).

Geographical breakdown of gross written premium



Gross written premium in non-life reinsurance

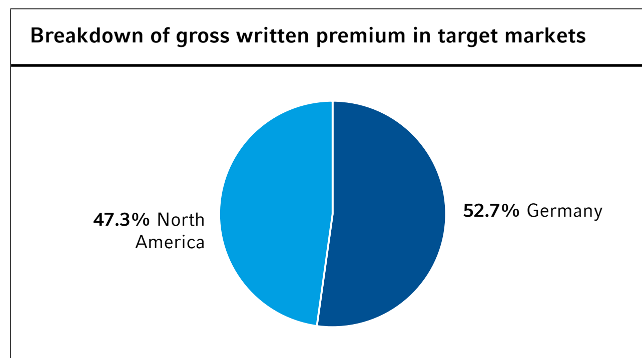


In the following pages we report in detail on our non-life reinsurance business group, which is split into three segments according to the areas of responsibility on the Executive Board: target markets, specialty lines and global reinsurance.

Target markets

Our business fared better than expected in the year under review in our target markets of Germany and North America: the premium volume grew to EUR 1,857.6 million (EUR 1,754.0 million). The combined ratio stood at 106.1%, after 97.4% in the previous year. The operating profit (EBIT) for the target markets totalled EUR 184.0 million (EUR 300.6 million).

Breakdown of gross written premium in target markets



Germany

Within the Hannover Re Group the German market is served by our subsidiary E+S Rück. As the dedicated "reinsurer for Germany", the company has been a sought-after partner for decades thanks to its good rating, pronounced customer orientation and the continuity of its business relations. E+S Rück is very well positioned in our domestic market and continues to rank as the number two in Germany – the world's second-largest non-life reinsurance market. It even ranks first in the reinsurance of motor business.

The state of the German market was favourably influenced in the year under review by an increased gross domestic product, although it was also adversely impacted by after-effects of the financial and economic crisis. The historically low level of interest rates again led to sharply reduced interest income, which constitutes a major component of the pricing in long-tail lines such as motor liability and general liability.

In motor primary insurance the year under review ushered in the anticipated trend reversal in premium income. Both in motor liability insurance and in own damage business premiums climbed by 3.5%. The premium gain was not, however, sufficient to bring about a return to underwriting profitability. The claims situation in own damage business continues to give cause for concern; in motor liability, on the other hand, it is possible to discern the re-emergence of a long-term downward trend in claims frequencies. Although the improved

terms and conditions in the primary sector had positive implications for our motor portfolio, profit margins came under strain overall from the low level of interest rates. As a further factor, the difficult situation in motor own damage business was significantly impacted by hail events in August and September.

Industrial property and liability insurance was again fiercely competitive in the year under review. We responded by writing our business highly selectively. In retail property insurance, on the other hand, primary insurers booked rising premiums against a backdrop of falling loss ratios; this was also true to some extent of homeowners' insurance.

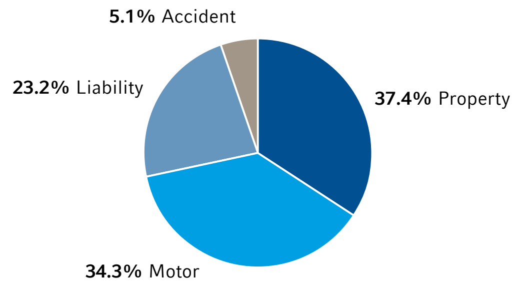
We are again thoroughly satisfied with the development of accident insurance. In this area we offer our cedants not only reinsurance covers, but also services such as training programmes and an Internet-based version of our accident manual – thereby enabling clients to extensively finalise the processing of applications at the workplace or even at point of sale.

The claims situation in the engineering insurance lines was satisfactory in the 2011 financial year. Despite its highly international orientation overall, this line is exhibiting growing potential domestically too – especially in the field of renewable energies: we work together with our partners on solutions that safeguard the insurability of energy-efficient technologies. A concept for the insurance of energy-saving warranties, which we had already launched on the US market, has now been adapted for the German market. By means of this insurance product we are also seeking to create incentives for greater investment in energy-saving technologies.

Not only that, through our cooperation with a primary insurer we have brought to market covers against weather-related losses of revenue and profit. In this case, too, we are drawing on our expertise from collaboration with a US partner. Target customers for these products include the construction sector, regional energy suppliers and the automobile industry. Given the changing energy policy in Germany, the (re)insurance of wind farms will also play an ever greater role; this is especially true of highly complex offshore wind farms.

In the year under review we cemented our position as one of the leading reinsurers in the profitable German market. Gross premium volume climbed 6.5%, leaving us satisfied overall with developments on our domestic market in the face of conditions that were by no means easy.

Breakdown of gross written premium in Germany by line of business



The major loss situation in Germany was notable for hail events in August and September, which altogether were responsible for around 6% of the loss ratio in own damage insurance for the market as a whole and caused a combined net strain of EUR 14.2 million for our company. Along with an increase in basic losses, mention should also be made of two major loss events in industrial fire insurance which – with a combined market loss of almost EUR 350 million – played a crucial part in the substantial deficit recorded in this line. The combined ratio for our German business deteriorated to 101.9% (94.0%).

North America

The North American (re)insurance market is the largest single market both worldwide and for Hannover Re.

In the primary sector premium income grew appreciably for the first time since 2006. Such a trend reversal was also sorely needed by many clients, since it was only possible to generate below-average returns on equity owing to both the claims experience and the reduced investment income booked on account of low interest rates. The rate increases were most marked in industrial property business and workers' compensation insurance. Yet positive tendencies could also be discerned in the year under review in segments that had performed particularly unsatisfactorily in recent years, such as general liability and directors & officers (D&O) covers.

Nevertheless, the rate rises did not suffice to bring about an adequate level of profitability in the short term. Consequently, 2012 will again need to see further rate increases across the board before the situation can be described as adequate. It is, however, important not to overlook the fact that casualty prices in original business were still on a significantly higher level in 2011 than in the soft market years from 1998 to 2000.

On the reinsurance side, too, the premium volume in North America grew appreciably in the year under review. This can be attributed inter alia to a substantial number of major losses as well as the updating of the RMS loss simulation model.

Against this backdrop Hannover Re – which in North America writes its business through brokers – boosted its premium income in the original currency by 6% in the year under review; our expectation last year had been just 1%.

In view of our excellent credit rating and our standing in the market we are a valued partner among our clients, who therefore attach considerable importance to the fact that almost all their casualty placements are submitted to our company. At the same time, our clients also appreciate our broad product range and our willingness to participate in all lines as long as the price is adequate.

With a view to further diversifying our portfolio we again scaled back the share attributable to larger cedants in the year to review, while at the same time expanding our business relationships with mid-sized regional players. This business segment already accounts for significantly more than 20% of our total portfolio in North America.

We consciously did not enlarge our market share in the year under review because the price level – especially in the casualty sector – was still not sufficiently appealing. Nevertheless, thanks to our positioning we are able to increase our shares at any time if prices and conditions move towards a hard market phase.

As in the preceding years, the hurricane season passed off moderately in 2011. Only hurricane "Irene" caused appreciable loss expenditure, costing our company around EUR 26 million. The series of tornadoes in April led to a strain of some EUR 15 million for our account. In May a tornado destroyed virtually the entire town of Joplin, with a death toll of more than 100. The resulting major loss for our company amounted to roughly EUR 41 million. Along with these catastrophic events, a number of sizeable individual property claims – including for example damage to an oil production facility in Canada – were recorded.

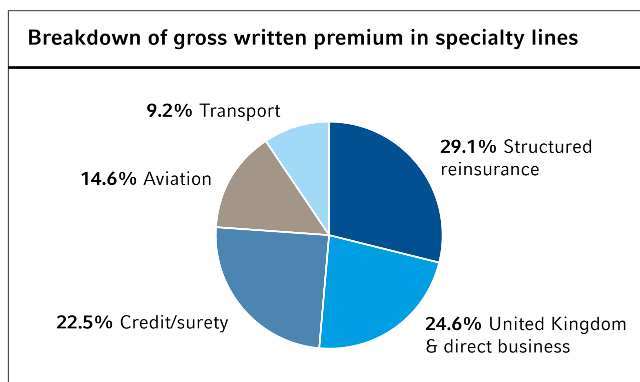
The major loss expenditure for our business in North America was higher than in the previous year, causing the underwriting result to deteriorate. The combined ratio amounted to 110.8% after 101.0% in 2010.

Specialty lines

The development of our specialty lines was thoroughly satisfactory. This segment of non-life reinsurance includes marine and aviation business, credit/surety, structured reinsurance products, ILS (Insurance-Linked Securities), the London Market and direct business.

The premium volume climbed from EUR 2,371.9 million to EUR 2,569.2 million in the year under review. The combined ratio increased from 91.4% to 95.0%. The operating profit (EBIT) for the specialty lines was slightly below that of the previous year at EUR 327.9 million (EUR 369.6 million).

Breakdown of gross written premium in specialty lines



Marine

Hannover Re ranks among the market leaders in international marine reinsurance.

The general business environment in this segment in the year under review was to some extent still influenced by the financial and economic crisis of 2008. While turnover volumes in 2011 were again higher than in the previous year, in many areas they still fell short of pre-crisis levels. Insurance premiums consequently also failed to entirely climb back to the levels seen before the crisis. On the reinsurance side demand in the marine line was essentially stable.

The explosion of the "Deepwater Horizon" drilling rig last year also continued to have reverberations for business written in the year under review. The insurance industry had expected a far-reaching reform of the Oil Pollution Act to usher in changes to the general framework for underwriting such offshore energy risks; this did not, however, come about.

A primary objective of our underwriting policy in 2011 was to push through improved conditions in the offshore energy segment. We were largely successful in achieving this goal. We nevertheless wrote such risks very prudently and tended to

reduce our limits of liability in order to keep the volatility of results as low as possible. Most notably, we maintained our exposure in the Gulf of Mexico on a low level. On the other hand, we expanded the rest of our marine portfolio for reasons of improved diversification. Gross premium contracted in the year under review.

On the claims side the year under review was characterised by a high frequency of smaller and mid-sized losses. The largest single event involved the damaging and putting out of operation of a large Danish FPSO (floating production, storage and offloading) unit, causing a market loss of some USD 1 billion. For Hannover Re this gave rise to a major loss with net expenditure in the order of EUR 16 million.

The combined ratio improved from 89.5% to 73.6%.

Aviation

In international aviation reinsurance we similarly rank among the market leaders.

Despite the difficult economic climate in Europe and North America, the situation facing airlines stabilised in the year under review. Passenger numbers picked up slightly, which also benefited the (re)insurance industry. With deliveries of the Airbus A380 "super jumbo" on the rise and the entry into service of the Boeing 787 Dreamliner, more and more policies are seeing increases in the indemnity limits purchased by airlines. Primary insurers further raised their retentions on the back of improved capital resources. Although the year under review was notable for a series of basic losses, these did not have any major implications for reinsurers since for the most part they remained within the retentions carried by the insurers. For this reason, and on account of further expansion in reinsurance capacities, the pressure on prices intensified in the course of the year under review.

With this in mind, our goal was to largely preserve the existing market shares and prices. We are a market leader for non-proportional treaties in the airline market, whereas in the proportional sector we write our business opportunistically and concentrate primarily on niche segments. We maintained our involvement in non-proportional reinsurance on a stable level. Gross premium in the aviation line contracted slightly in the year under review.

After the average loss expenditure recorded in the previous year, the major loss experience in the year under review proved to be even better than expected. The largest single loss was an accident during an air show in the United States, resulting in a net strain of around EUR 7 million for our account.

The combined ratio was virtually unchanged at 78.7% (75.3%).

Credit and surety

In worldwide credit and surety reinsurance Hannover Re ranks among the market leaders. As in previous years, we concentrated exclusively on the core business of the credit and surety lines. We do not write financial guarantees or credit default swaps.

The framework conditions varied widely from market to market in the year under review. Major emerging markets and national economies with strong export sectors such as Germany enjoyed a marked upswing in the first half-year. The second half of the year was overshadowed in particular by the worsening debt crisis and crisis of confidence in Europe and the United States. It was, however, countries with a high debt ratio such as Greece, Italy and Spain that came under the greatest pressure.

The moves towards consolidation made by insurers and reinsurers in the years 2009/2010 had broadly positive effects and claims rates in credit insurance in the year under review remained below the pre-crisis level of 2008. Results in surety business and in the area of political risks were similarly scarcely impacted.

Surplus capacities prevailed on the reinsurance side owing to the appreciable improvement in claims rates in the original business. Having scaled back their participation in the challenging years of 2009 and 2010, all the established reinsurers enlarged their portfolios again. Not only that, a number of new players entered the market.

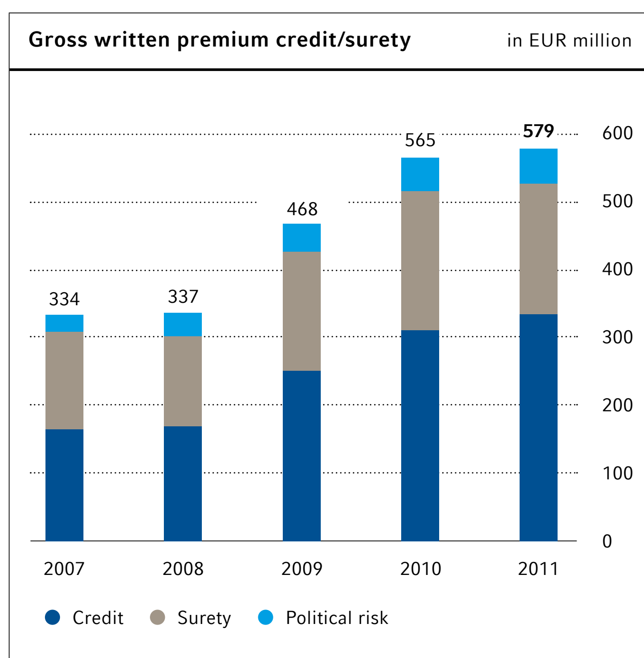
Following significant expansion in the two previous years Hannover Re stabilised its portfolio in the year under review. We are currently not interested in increasing our market share. Our business development in the year under review was thoroughly satisfactory. The credit line profited from a sharp reduction in claims rates as the economy rebounded. The surety line and political risks business also performed satisfactorily on the back of stable claims rates.

In view of the very good claims rates in the credit line rates in original business experienced a moderate decline; this trend had, however, softened by the end of the year. Commissions

The customer is the measure of the best solution.

Specially tailored solutions generate value-added for both contracting parties. Mutual benefit fosters the necessary trust and shapes the customer relationship over the long term.

rose under proportional reinsurance covers. Rates for the reinsurance of surety business and political risks remained largely stable in the year under review. All in all, our premium volume in the 2011 financial year was a par with the previous year.



Overall, we are highly satisfied with the development of credit and surety reinsurance. Once again, we did not incur any major losses in the year under review. In non-proportional business our portfolio was virtually spared any claims, as a consequence of which we enjoyed very healthy profitability. The combined ratio improved in the year under review to 87.7%, after 97.8% in the previous year.

Structured reinsurance

Hannover Re is one of the two largest providers of structured reinsurance solutions in the world. Thanks to our many years of experience and our actuarial, balance sheet, accounting and underwriting expertise, our clients are able to profit from reinsurance solutions that are optimally tailored to their needs and can access a comprehensive range of services. Our product range is geared to reducing and optimising the cost of capital for our ceding companies.

Demand for structured reinsurance was very brisk in the year under review, enabling us to expand our customer base. The premium volume showed vigorous growth.

We successfully pursued our strategy of regional diversification in 2011. Due to the implementation of risk-based capital models and the associated more exacting solvency requirements, additional business opportunities are opening up for our company outside Europe too. In the year under review we concluded our first-ever transaction predicated on the Solvency II framework. In view of attractive prices in UK motor business, we made the most of the available market opportunities and wrote considerably more new business.

Insurance-Linked Securities

Demand for ILS products on the capital market and among investors from the traditional reinsurance and primary insurance market was undiminished despite the losses that were recorded in the year under review. Thus, for example, we were able to increase our "K" quota share – a securitisation consisting of non-proportional reinsurance treaties in the property catastrophe, aviation and marine (including offshore) lines that we have placed on the ILS market for almost 20 years – by around USD 20 million for 2012 to USD 350 million. The capital losses incurred by investors in the extremely costly 2011 financial year were offset by funds reinvested by existing investors as well as shares taken out by new investors.

In addition to protecting our own property catastrophe risks, we use the capital market to structure and package risks for our cedants. We also take the role of investor ourselves by investing in catastrophe bonds. In contrast to prices for traditional reinsurance, catastrophe bonds did not see any comparable price rises – hence boosting the competitiveness of these instruments. Still, these effects have not yet led to any significant increase in new issues of catastrophe bonds.

The year under review brought a strong inflow of cash into the ILS market. Investors find this market interesting because it has no correlation to the other risks associated with the traditional capital market, such as interest rate risks, and it therefore promotes diversification of asset portfolios. Nor did the heavy losses incurred by investors in the year under review, most notably in Japan, curtail investment activity. The available funds comfortably exceeded the opportunities for new investments in catastrophe bonds. This prompted investors to search for further investment possibilities in the reinsurance sector, for example by way of Industry Loss Warranties and so-called Collateralised Reinsurance Programmes. In the latter case the investor assumes reinsurance risks that are normally collateralised in the amount of the limit of liability.

With its product range Hannover Re enables investors to enjoy optimised and customised access to, inter alia, non-life reinsurance risks through collateralised reinsurance. We con-

tinued to expand this segment in the year under review. In addition, we are working on concepts for the transfer of life reinsurance risks to the capital market.

Following the expiry of our FacPool Re transaction, under which we transferred facultative risks to the capital market in 2009, our premium volume in the area of insurance-linked securities contracted in the year under review. The result fell short of the previous year on account of the worldwide claims situation.

United Kingdom, London market and direct business

Traditional reinsurance

We are broadly satisfied with the business that we write in the United Kingdom and on the London market. Despite challenging conditions, we succeeded in preserving the rate level for our treaty portfolio. Even though prices in motor business climbed in the year under review, they are still not yet commensurate with the risks in some areas. In light of this, we maintained our premium volume in the United Kingdom on a stable level.

Direct business

Through two of our subsidiaries, International Insurance Company of Hannover Ltd. (Inter Hannover) in the United Kingdom and the South African company Compass Insurance Ltd., a subsidiary of Hannover Re Africa, we write direct business that complements our principal business activity as a reinsurer. This essentially involves acceptances concentrated on tightly defined portfolios of niche or other non-standard business.

The tense state of the economy in the UK caused the premium income booked by leading insurers to contract in the year under review. Particularly hard-hit were covers for risks in the construction industry. Overall, competition was fierce – especially in the professional indemnity lines. Market conditions for individual occupations varied widely, however. Rate increases were obtained, for example, under policies for the legal professions.

Following on from marked rate rises in the previous year, premiums in motor business surged again in the year under review – prompting us to enlarge our premium volume. In industrial property business our involvement is concentrated on mid-sized clients, since in these cases we are better able to play a part in structuring the programmes. Neither the frost damage nor the civil unrest witnessed in London and some other major English cities had any significant effect on our results.

Our second company writing specialty business, Compass Insurance Ltd., a subsidiary of Hannover Re Africa, is one of the leading players in this segment in South Africa. In the year under review the company again pursued its strategic objective of expanding profitable business with underwriting agencies. Despite a competitive environment we successfully accomplished this aim – thanks not least to our market position. This business, which encompasses virtually all areas, is reinsured in large measure by Hannover Re Africa.

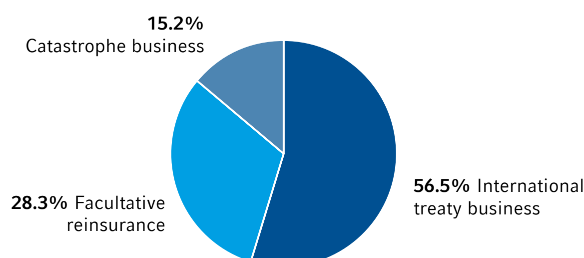
We were able to substantially enlarge our premium volume from direct business in the year under review. Our increased involvement in the UK motor sector was a contributory factor in this regard. Yet the premium volume that we write in South Africa also showed further growth in the year under review. Not only were we able to extend our activities in direct business regionally, we also moved forward with establishing our new products in the market – for example the insurance of energy-saving warranties in the United States.

Global reinsurance

We combine all markets worldwide under global reinsurance, with the exception of our target markets of Germany and North America and the specialty lines. This segment also encompasses worldwide catastrophe business, facultative reinsurance, the reinsurance of agricultural risks and Sharia-compliant retakaful business.

The premium volume grew by 8.4% to EUR 2,398.7 million (EUR 2,213.4 million). As already explained, the 2011 financial year was overshadowed by an extraordinarily heavy major loss incidence in global reinsurance. Against this backdrop, the combined ratio climbed to 112.3% (106.1%). The operating profit (EBIT) consequently contracted from EUR 111.9 million to EUR 19.2 million.

Breakdown of gross written premium in global reinsurance



Western and Southern Europe

France

In the face of sustained competition with more than sufficient reinsurance capacities, we continued to practice our selective underwriting policy in France. As before, our strategy remains geared to preserving the profitability of our portfolio. We were largely successful in accomplishing this goal.

Our underwriting policy is concentrated on the casualty sector; medical malpractice, for example, is becoming increasingly important. In builder's risk insurance we are one of the leading players in France. The accident line is another focus of our activities.

No significant loss events were recorded in the year under review.

We slightly scaled back our premium volume in France.

Netherlands

The more exacting equity requirements anticipated under Solvency II and the considerable costs associated with meeting reporting obligations prompted further mergers among primary insurers in 2011. Particularly in the segment of smaller mutual insurance societies, the number of clients is shrinking. This contrasts with an additional demand stimulus triggered by the European Solvency II Directive for a risk-based solvency system. The accompanying more rigorous requirements placed on risk management are giving rise to stronger demand for natural catastrophe covers.

We moderately enlarged our portfolio in the Dutch market in the year under review; casualty business was a particularly important contributory factor here.

The year under review was notable for significant local hail events in motor own damage insurance, some substantial fire losses in property insurance and also for a number of sizeable casualty claims. The loss ratio consequently rose sharply.

Northern Europe

The markets of Northern Europe are served by our branch in Stockholm. Based on the reinsurance capacities that we are able to offer as well as a very good rating, we are one of the key providers of reinsurance coverage in this region.

The year under review was overshadowed by several natural disasters: the second most expensive loss event in the history of Denmark was the severe rainfall in July, which left large parts of Copenhagen under water. The total insured loss is in the order of EUR 650 million. At EUR 7.8 million, the loss expenditure for Hannover Re's account was rather moderate.

In the face of unfavourable conditions we slightly scaled back our business in 2011.

Central and Eastern Europe

Compared with the primary insurance markets of Western Europe, growth rates in the countries of Central and Eastern Europe continue to be above average. There was, however, no easing in the intense competition, as a consequence of which prices in the primary sector came under pressure in the year under review. On the reinsurance side, by contrast, rates and conditions were by and large stable.

We have identified the countries of Central and Eastern Europe as strategic growth markets and intend to continue expanding our business here disproportionately strongly over the coming years. In these countries we rank among the three largest providers of reinsurance protection and we write our business in all lines and markets. Our underwriting policy is opportunistic, i.e. it is guided by the healthy profitability of the business written. In the case of loyal clients, we are also willing to extend our margin requirements over a longer period of time.

We are thoroughly satisfied with the development of our business in Central and Eastern European markets. In the year under review we were again able to obtain adequate rates that satisfied our profitability requirements. No major losses were incurred, and the loss ratio consequently improved on the previous year.

As forecast, we again substantially enlarged our premium volume in the year under review.

Latin America

Latin American markets have enjoyed very vigorous growth in recent years. A key factor here, among others, was the increased need for raw materials – especially in emerging markets. In light of surging economic growth, demand for (re) insurance covers has continued to rise.

Hannover Re is well-positioned in Latin America and a market leader in some countries. The most important markets for our company are Brazil, Mexico, Argentina, Colombia, Venezuela and Ecuador.

Given the appeal of motor and casualty business we continued to expand our portfolio in these lines. Overall, prices in Latin America were stable or moved slightly higher.

In Brazil, where we have maintained a representative office since 2008, we operate as an "admitted reinsurer". Competition is intensifying as further players enter the market. Reinsurers with excellent financial standing, such as Hannover Re, are nevertheless a highly valued partner – especially for casualty covers – and attractive business opportunities consequently opened up to us.

New supervisory regulations introduced in Argentina in the year under review placed limitations on the business opportunities available to foreign reinsurers that do not have a local branch. This means that from 2012 onwards companies such as Hannover Re are only able to assume retrocessions, in other words coverages for local reinsurers.

In most markets we again accomplished our goal of boosting our premium income from Latin America in the 2011 financial year. The premium volume for our total portfolio in Latin America increased. In contrast to the previous year, we did not incur any major losses and the loss ratio therefore improved appreciably. All in all, we are thoroughly satisfied with the development of our business in Latin America.

Japan

In the year under review the Japanese market was dominated by the devastating earthquake in March as well as the subsequent tsunami which led to a nuclear disaster in Fukushima. Along with this human tragedy, the repercussions for the country's economy and of course also for the insurance industry were immense.

In view of the accumulation of natural perils, the Japanese reinsurance market is crucially driven by demand for covers for earthquake, windstorm and flood risks.

With an estimated market loss of USD 35 billion, the Great Tohoku Earthquake is the most expensive loss event to date in the country's history. Faced with this enormous burden of losses, insurers were forced to re-evaluate earthquake risks with an eye to the potential exposures from tsunamis as well as contingent business interruption (CBI). The event caused original rates for earthquake covers to rise by an average of 30%. On the reinsurance side price increases for loss-impacted programmes ranged from 30% to 100%, while rates for other business with natural catastrophe exposure also improved by an average of 5% to 20%. Not only that, primary insurers were faced with tighter conditions in the form of increased retentions and/or reduced limits of liability.

For Hannover Re Japan is a very important market – and one in which business relationships are traditionally geared towards the long term. Through our service company in Tokyo we are closely familiar with our clients' requirements and can draw on very good market know-how. We enjoy the status of "core reinsurer" with most primary insurers. Thanks to the commitment that we showed to our clients in the aftermath of the earthquake, we were able to further consolidate our relations with ceding companies.

Along with catastrophe covers (see also the section on "Global catastrophe business" on page 35 et seq.) we transact business across all lines of property and casualty insurance; in particular, we enjoy a leading position in the casualty sector and personal accident insurance.

After years of moderate loss expenditure, the result for the 2011 financial year was adversely impacted by the severe earthquake. With a net loss burden in the order of EUR 229 million, this natural catastrophe was the largest single loss for our company in the year under review.

Southeast Asia

Hannover Re's main markets in Southeast Asia are Malaysia, Thailand, the Philippines and Indonesia. Our portfolio here consists predominantly of property business. The accident, crop and livestock insurance lines as well as structured reinsurance products were further expanded in the year under review. We also continued to engage in the field of micro-insurance, which enables even low-income individuals to purchase insurance protection.

Given the greater importance attached to risk-based models not only in Malaysia but also in Thailand, we observed a surge in demand in proportional motor business. We are supporting our clients here with an eye to the increased capital requirements. It remains the case that rates in the primary insurance sector are scarcely adequate in Southeast Asian markets, although reinsurance conditions held stable in the year under review.

In terms of major losses, the region again came under strain in 2011. The flooding in Thailand, which even left parts of the capital city Bangkok under water for several weeks, was particularly devastating. The total market loss is estimated to be in excess of USD 11 billion, making it the largest insurance

loss to date in Southeast Asia. The net burden of losses for Hannover Re amounted to EUR 196 million.

The result deteriorated appreciably owing to the exceptionally heavy loss expenditure recorded in this market.

China

The pace of the Chinese economy's growth slowed somewhat in the year under review. Nevertheless, at around 16% (33%) the growth rates recorded by the reinsurance industry were still unusually high. In view of the relatively low insurance density as well as more stringent requirements governing the equity resources of insurance companies, we anticipate further significant growth here in the years ahead. With this in mind, all major reinsurers consider this country to be a target market.

The dominant line in China is motor insurance. Now that government-sponsored subsidy programmes have been discontinued, sales of locally made automobiles have fallen – as a consequence of which (re)insurance premiums did not grow quite as vigorously as in the previous year. The development of business in this segment was thoroughly satisfactory: conditions remained stable and the major loss experience was unremarkable, hence enabling us to generate a good underwriting result.

In the other lines the environment was again intensely competitive, and expanding our market share was therefore not a central concern for our company.

As anticipated, our business prospects enjoyed a further boost from the establishment of our branch in Shanghai in 2010. Now that we have the status of local reinsurer, we are also able to write insurance business in the domestic currency.

On the whole, we are satisfied with the development of our portfolio from the Chinese market. Our premium volume was enlarged in the year under review.

Australia/New Zealand

Hannover Re is still the number three in the Australian and New Zealand non-life reinsurance market. We write the entire spectrum of reinsurance in this region. Our offerings in Australia are complemented by a primary insurance license held by our subsidiary Inter Hannover.

For Australia, and even more so for New Zealand, 2011 was a year of extremely heavy losses. Following the severe earthquake already suffered by New Zealand in 2010, the Christchurch area was impacted by another severe quake in February 2011. Further tremors were again felt in June. The losses for Hannover Re from these two events amounted to EUR 121 million and EUR 30 million respectively.

In Australia it was the flooding in Brisbane that caused particularly severe devastation. The resulting net loss for our company was in the order of EUR 54 million. Cyclone Yasi slammed into the country's northeastern coast, although the insured losses remained moderate on account of the low insurance density. The associated strain for Hannover Re's account was around EUR 17 million.

The immense major loss expenditure as well as reduced investment income stepped up the pressure on insurers to restore their underwriting results to profitability. What is more, some reinsurers withdrew from the market following these losses, while established players at best held stable or otherwise reduced their capacities in Australia and New Zealand. This led to increased pricing pressure and brought the anticipated significant rate hikes and improved conditions for catastrophe-exposed business. For further information in this regard please see the section "Global catastrophe business" on page 35 et seq.

With a view to optimising our diversification, we enlarged the share of our portfolio stemming from the casualty sector at the expense of the dominant catastrophe business. Prices here remained broadly stable or increased slightly.

Our premium volume grew overall in the year under review. Owing to the enormous burden of losses, the loss ratio moved significantly higher and we were therefore unable to achieve our profit targets in 2011.

Global catastrophe business

The bulk of Hannover Re's catastrophe business is written out of Bermuda, which is considered the centre of competence for this line worldwide. Along with the expertise of our local team, our financial strength and an excellent rating have made us a particularly highly sought-after partner for ceding companies and brokers for quite some years now.

Following on from the abundance of natural disasters witnessed in 2010 – we need only recall the earthquakes in Chile and New Zealand – even heavier losses were incurred in the

year under review. The devastating earthquake and subsequent tsunami in Japan, a fresh earthquake in New Zealand and flooding in Australia not only caused immense human suffering in the first quarter, they also inflicted extraordinarily high loss expenditure on the (re)insurance industry. Price increases within the year for catastrophe covers in the affected regions were correspondingly marked. Japanese earthquake covers saw prices surge by 25% to 50%. Up to 50% higher premiums were payable for catastrophe programmes in Australia, while in New Zealand prices rocketed by as much as 150% to 500%; this was also due in part to new regulatory requirements, under which insurers are required to maintain coverage for up to a 500-year event. At the same time, given the scale of the events, the decline in prices for catastrophe risks in other markets was halted. In China and Korea prices held stable, while in the United Kingdom, Latin America and the Caribbean they climbed by around 5% on average. In the United States, too, a high frequency of natural catastrophe events and above all the model adjustments made by the provider RMS led to rate increases averaging 10%.

Our strategy for underwriting catastrophe business remained largely unchanged in the year to review. Always giving due consideration to our customer relationships, we made the most of the available capacity to write profitable business. Bearing in mind the accumulation of severe natural disasters in certain regions, we redistributed our capacities in order to reduce the risk of profit erosion.

Our gross premium volume from global catastrophe business increased by 19.2% in the year under review to EUR 364 million (EUR 305 million).

The most expensive single loss for the (re)insurance industry in the year under review was the severe earthquake and tsunami in Japan, the cost of which is put at around USD 35.5 billion. This event gave rise to a burden of losses for Hannover Re's net account of EUR 228.7 million. The February earthquake in Christchurch, New Zealand, resulted in a loss of EUR 121.4 million for our company. The hurricane season, on the other hand, again passed off relatively unremarkably in 2011; only Hurricane Irene caused comparatively moderate expenditure of around EUR 25.9 million. A list of all catastrophe losses and major claims in 2011 is provided on page 70.

Owing to the substantial loss burdens, the result fell short of the previous year. The combined ratio for global catastrophe business came in at 119.4% and thus improved slightly on 2010 (121.3%).

Agricultural risks

The insurance of agricultural land and livestock is consistently growing in importance, especially in emerging markets – where above all government subsidies for multi-risk covers are ensuring a rising premium volume for primary insurers. Demand for reinsurance protection consequently further increased in the year under review. This trend is also evident from our portfolio; we substantially boosted our premium volume relative to the previous year.

Our underwriting policy in 2011 was driven by the goal of further optimising our portfolio. We therefore expanded profitable business relationships while at the same time scaling back shares in instances where we no longer considered the rates to be commensurate with the risks.

We also continued to work on the regional spread of our portfolio in the year under review, stepping up our involvement in emerging markets such as India and China. Yet we by no means lost sight of traditional markets such as the United States or Western Europe. Following the market regulation introduced for reinsurers in Argentina with effect from 1 September 2011 our business opportunities there have been limited. It is our hope that these entry barriers will be dismantled and fair competition – which also benefits local clients – will once again be possible.

The performance of our business with agricultural risks was adversely affected in the year under review by frost damage in Mexico. The associated net strain for our account was in the order of EUR 50 million. This loss event pushed prices for reinsurance covers higher, causing them to triple.

Retakaful business

We write retakaful business – that is to say, insurance transacted in accordance with Islamic law – in both Southeast Asia and on the Arabian Peninsula. We maintain a dedicated subsidiary for this business in Bahrain (Hannover ReTakaful) as well as a branch that bears responsibility for writing traditional reinsurance in the Arab world. Political uncertainties in Arab countries and the slowdown in economic development were reflected in a lower gross national product in the year under review. This had a dampening effect on the (re)insurance industry. New market players further exacerbated the competition, prompting rates in primary business to fall. With this in mind, a prudent selective underwriting policy was called for across all business segments. The largest single market for our company is Saudi Arabia.

Our goal was to continue to generate profitable growth and to strengthen our position as market leader. Particularly in the construction sector and in the casualty lines we were able to expand our business, above all in Saudi Arabia. The fact that we succeeded in growing in the year under review despite an oversupply of reinsurance capacity can be attributed first and foremost to our excellent financial standing and our very good client relationships.

The largest single loss event in 2011 was flooding in the region around Jeddah in Saudi Arabia, which resulted in an estimated strain of less than EUR 5 million for our account; we also recorded a number of fire losses. The loss ratio consequently moved slightly higher.

In recognition of its market leadership Hannover ReTakaful was awarded the title of "Best International Retakaful Operator of the Year" in the year under review, the second year in succession that it has received this distinction. Mahomed Akoob, Managing Director of the company, was awarded the prize of "Retakaful Leader of the Year" for his achievements in the development of the international takaful and retakaful markets.

Facultative reinsurance

In contrast to obligatory reinsurance, which covers an insurer's entire portfolio, a reinsurer underwrites primarily individual risks in facultative business. The general environment for both types of reinsurance in the various markets is, however, for the most part comparable.

Here, too, our strategy is to grow only in those areas that offer adequate profitability. In the year under review we therefore further optimised our portfolio structure and withdrew from business areas that did not meet these criteria. The latter include, among others, risky liability business such as medical malpractice in certain developed countries.

In view of the favourable general environment we further stepped up our involvement in Latin America and the Middle East in the year under review. With energy prices on the rise and the increasing shift towards green energy sources, we are keeping a close eye on the development of insurance solutions.

We took a more active interest in risks from the engineering and global energy sectors. Our company also wrote an increasing number of covers for the construction of wind farms.

As was also the case in the traditional reinsurance market, rate increases in the facultative sector were attainable in those areas that had seen heavy losses in the year under review. Special mention should be made here of Japan, Australia and New Zealand. In other markets rates remained broadly stable. In energy business – and especially in the mining industry – appreciable price increases were obtained.

The severe natural disasters recorded in the year under review also adversely impacted our facultative portfolio, although our shares in this regard were very moderate.

The premium volume from facultative business decreased slightly in the year under review.

Life and health reinsurance

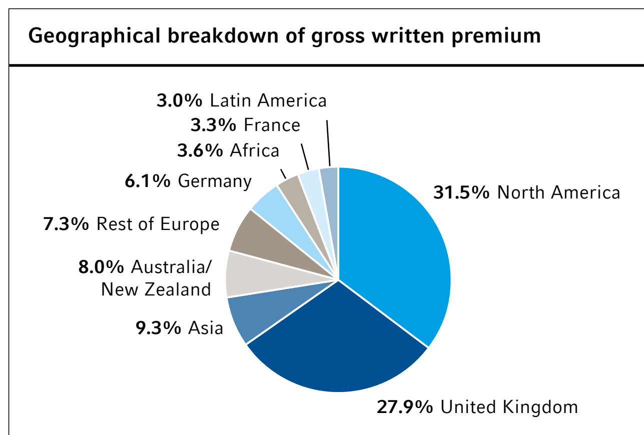
Business development

The protracted volatility on international financial markets and the sovereign debt crisis in Europe have triggered uncertainty among private investors and the business community worldwide. Along with the banking sector, the insurance industry was increasingly impacted by these developments. In some cases, as a financially strong contracting partner, this opened up new business potential for us since we were able to offer those of our clients who had been adversely affected by the crisis the security that they were seeking. Despite the unfavourable market conditions, therefore, we were able to generate a broadly satisfactory result for our life and health reinsurance business.

Among life insurers the marked fluctuations on money markets, considerable volatility on stock exchanges and sustained low level of interest rates also prompted stronger demand for reinsurance protection. The interest shown by primary insurers in bespoke reinsurance solutions increased, in part with a view to keeping their own cost of capital on a moderate level and also in order to satisfy the required solvency standards.

Our established markets of the United States, United Kingdom, Germany, France and Scandinavia continue to play a pivotal role for our company. In addition, we appreciably stepped up our involvement in the emerging markets of Eastern Europe as well as in China, India and in retakaful business.

Geographical breakdown of gross written premium



In the United States we had already successfully completed the acquisition of the ING portfolio in 2009. We further reinforced our market position in conventional US mortality business with another portfolio acquisition in 2011; the addition of these portfolios ideally complements our organic growth. Within the past four years we have tripled our market share of organic new business in the US and thereby boosted our new business by double-digit percentages annually – all of this despite the fact that the total US reinsurance market contracted during the observation period. We consider ourselves to be very well positioned in the market segment of conventional US mortality business and we are targeting a double-digit market share of new business in the years ahead. Alongside our activities in the mortality sector, our focus on our central divisions of Financial Solutions and Senior Markets remains unchanged. In these areas our clients profit from our innovative and customised reinsurance solutions, into which we are able to incorporate our international expertise.

In the United Kingdom we are one of the leading reinsurers for longevity covers and a preferred business partner for private annuities taken out by individuals with a reduced life expectancy – so-called "enhanced annuities". We also assume pension payment commitments from large pension funds under portfolio acquisitions which are normally limited to the part on which benefits are already being paid. These frequently take the form of so-called longevity swaps. In this context, the reinsurer takes over the actual pension payments and hence the biometric risk in exchange for an agreed fixed premium.

Although the market for longevity swaps is still in its infancy in many countries, we have already received enquiries from clients in Germany, Norway and Denmark as well as Latin America and Canada. We are confident of being able to expand our business in these markets too in the near future.

In major emerging markets we were already able to generate pleasing growth in our business volume in the year under review.

We have grown exceptionally vigorously in Eastern European markets – especially in Russia, where we significantly improved our market position. Strict rules governing local reinsurers have prompted some players to scale back their portfolio or withdraw entirely from the Russian market. Our strategic decision to service this market centrally with our underwriting team in Hannover has proven correct in light of

this development and – thanks to changes in the general business environment – has opened up fresh business potential for our company.

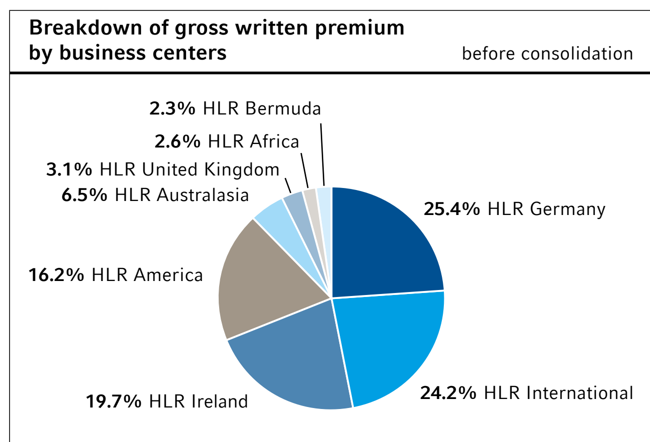
In South Africa we continue to be the leading reinsurer in the field of individual life business and we offer our clients here a comprehensive service that also extends to direct sales of insurance products.

In the Indian market we substantially improved our market penetration through our cooperation with the local company GIC Re.

We have substantially expanded our local presence in Asian markets in recent years. Our premium volume here was appreciably boosted in the year under review; particularly in Greater China (China, Hong Kong and Taiwan) we were again able to record unusually strong growth.

In the year under review we also enlarged our business in predominantly Islamic countries such as Bahrain, Saudi Arabia and the United Arab Emirates. We write our business here in accordance with Islamic law (retakaful) through our subsidiary Hannover ReTakaful in Manama/Bahrain.

Breakdown of gross written premium by business centers before consolidation



We are one of the few professional life and health reinsurers operating worldwide and are a top player in the international rankings. For our company, however, playing an active part in shaping and growing the global life insurance market in a dialogue with our clients is more important than this leading position.

The business model

The international activities of the Hannover Re Group in the life and health reinsurance business group are conducted under the Hannover Life Re brand name. We offer individual reinsurance solutions worldwide in the areas of life, annuity and health insurance, having consciously chosen to concentrate on assumption of the biometric risks of mortality, longevity and morbidity. We also write the accident line to the extent that it is transacted by life insurers as well as retakaful business, which is geared specially to insurance products that are in conformity with Islamic law.

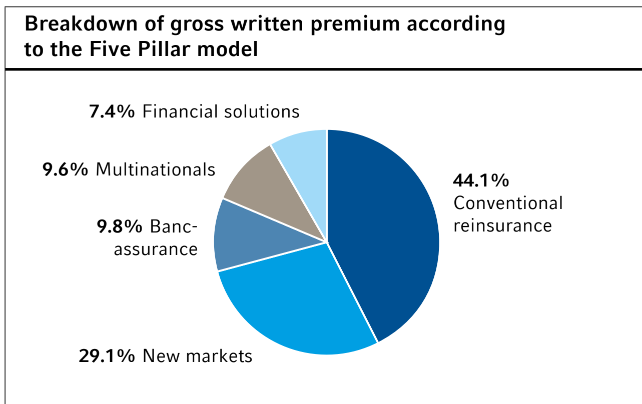
Our business model is integrated into the strategy of the Hannover Re Group and promotes outstanding diversification of the portfolio. Our core business policy is based on the tried and trusted Five Pillar model: conventional reinsurance, new markets, multinationals, bancassurance and financial solutions. Each pillar is distinguished by special technical expertise, has its own individual marketing approach and is geared to different customer requirements and products. In the conventional reinsurance segment we participate selectively in attractive traditional life and health reinsurance. By way of the other four pillars we are able to offer individual, innovative and needs-oriented insurance solutions.

Conventional reinsurance traditionally accounts for the lion's share of our portfolio. Nevertheless, particularly as a consequence of our activities in the UK private annuity market (enhanced annuities), we have been able to substantially enlarge our business volume in the area of new markets; the contribution made by this pillar to our total volume is therefore steadily growing.

The proportion of business delivered by the two leading pillars – new markets and conventional reinsurance – continued to increase in the year under review, while the shares of the other three segments decreased slightly. We nevertheless achieved a balanced mix of conventional reinsurance – with around 44% of our portfolio – and the four other pillars – accounting for roughly 56%.

Another key feature of our business model is its decentralised structure: with 23 units in 19 countries we operate on all continents in close proximity to our clients. Our international network enables us to deliver direct service tailored to the specific needs and requirements of our customers. The various locations see themselves as parts of a network that support each other and facilitate the rapid transfer of relevant information.

Breakdown of gross written premium according to the Five Pillar model



Along with our local presence, we attach great importance to maintaining and expanding long-term business partnerships with our ceding companies. In this regard we draw on our Customer Relationship Management (CRM), an approach that has proven itself over the years and is practised by our company worldwide. A core component of our activities is therefore our individual customer orientation, as part of which we devote particularly close attention to positive profit and growth opportunities for both sides.

Our business model is geared primarily to organic growth. Yet we remain open to acquisitions of suitable portfolios in order to gain access to new business segments and with a view to cementing our market position and achieving our medium-term growth target. Of overriding importance, however, is our striving to safeguard the profitability and quality of the business written and our desire to cultivate and preserve our long-term client relationships.

Development of premium income

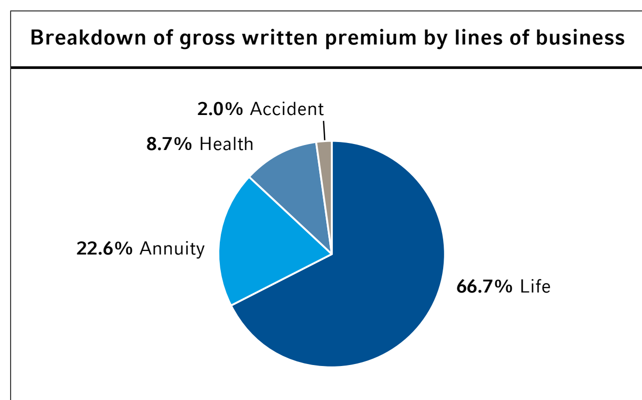
The gross premium income booked in the year under review totalled EUR 5.3 billion, an increase of 3.5% relative to the previous year's premium volume of EUR 5.1 billion. At constant exchange rates growth would have come in at 5.2%. With net premium earned standing at EUR 4.8 billion (EUR 4.7 billion), our net retention retreated slightly to 91.0% (91.7%).

In geographical terms, we sustained our overall premium level year-on-year in the United States and the United Kingdom, while in Australia and Africa we generated pleasing increases. Premium growth in emerging markets is also extremely positive; special mention should be made here of China, Korea, Latin America and Islamic markets.

We generally concentrate on the life and annuity lines, i.e. the assumption of mortality and longevity risks. We generated 89.3% of our total premium income in these segments in the year under review.

The various covers associated with the biometric risk segment of morbidity accounted for 8.7% of our written premium worldwide in the year under review. Accident business contributed the most modest share of our premium income, amounting to 2.0%.

Breakdown of gross written premium by lines of business



Development of results

A number of different components promote risk diversification: our market leadership in the area of enhanced annuities, substantial growth in acceptances of the longevity risk associated with senior citizens' and long-term care insurance products, growth in Latin America, Asia and Africa as well as the mortality risk from business written in the United States.

Our business model and the associated diversity of our portfolio give rise to a broad spectrum of factors that can influence our operating result (EBIT). Essentially, these are:

- Development of the biometric risks of mortality, longevity and morbidity
- Client-related counterparty risk in relation to financing arrangements
- Structural risk associated with the persistency of the business in force in the area of financial solutions
- Investment risk 1: investment performance of the assets under own management that cover the shareholders' equity and our non-deposited reserves
- Investment risk 2: Investment performance of the deposits with ceding companies
- Developments on international capital markets, especially fluctuations in exchange rates between our balance sheet currency (EUR) and the most relevant foreign currencies (USD, GBP, AUD and ZAR)
- Development of our own administrative expenses

The experience of the three biometric risks of mortality, longevity and morbidity, which is a key influencing factor on profitability, was very mixed in the year under review.

The mortality risk within the US portfolio recorded an extremely patchy experience in the year under review. While a large block of business newly acquired in the first quarter of 2011 surpassed our expectations, other areas of the business fell short of the anticipated profitability (among other things on account of temporarily elevated suicide rates).

Australian disability annuity business again failed to match up to our expectations in the year under review, necessitating the establishment of additional reserves running into the mid-double-digit million euros.

Elsewhere, however, our claims experiences in the United Kingdom, Germany, Scandinavia and France continued to be exceptionally pleasing. Our profit expectations were met and in some cases surpassed. Claims experiences in the emerging markets of Asia, Africa and Latin America similarly remained favourable.

The capital market was heavily influenced by the opinions of the rating agencies in the year under review. The credit rating of certain countries, even including the United States, was downgraded, while others saw their outlook revised to negative – meaning that a downgrade is a distinct possibility.

With this in mind it is gratifying to note that our clients consistently have excellent ratings. This implies sound creditworthiness and a secure financial position, as a consequence of which our client-related counterparty risk – which we carry primarily in the financial solutions segment – was unremarkable in the year under review. The risk associated with the persistency of the business in force was similarly inconspicuous in the year under review and remained within the bounds of our expectations.

When it comes to investing our portfolio of assets under own management we pay close attention to the requirements of appropriate currency and duration matching as well as asset/liability management; we also attach considerable importance to quality and diversification. Despite our conservative investment policy the turmoil on financial markets did not leave our investment performance unscathed. In the US reinsurance market we are exposed to the investment risk associated with securities deposited with ceding companies to cover the benefit reserves on account of the prescribed "mark-to-market" measurement, cf. here Section 7.1 "Derivative financial instruments", page 191. This can give rise to sometimes sharp annual fluctuations in the reserves. The widening of credit spreads for securities is directly reflected in our income statement under the item "unrealised gains/losses on investments". A valuation loss in the mid-double-digit million euro range was incurred here in the year under review. These valuation losses will be entirely made good if the securities perform as

Key figures for life and health reinsurance — Figures in EUR million

	2011	+/- previous year	2010	2009	2008	2007
Gross written premium	5,270.1	+3.5%	5,090.1	4,529.3	3,134.4	3,082.9
Premium deposits	1,704.4	+5.3%	1,617.9	2,331.8	2,181.2	854.5
Gross premium incl. premium deposits	6,974.6	+4.0%	6,708.0	6,861.0	5,315.6	3,937.4
Net premium earned	4,788.9	+2.9%	4,653.9	4,078.7	2,784.9	2,795.3
Premium deposits	1,619.7	+14.5%	1,414.7	2,125.9	2,126.9	783.6
Net premium incl. premium deposits	6,408.6	+5.6%	6,068.6	6,204.5	4,911.8	3,579.0
Investment income	512.6	+0.9%	508.2	520.1	245.5	293.9
Claims expenses	3,328.6	+6.1%	3,135.8	2,743.0	1,674.7	1,672.2
Change in benefit reserves	619.7	–5.2%	653.5	563.7	421.3	397.9
Commissions	985.8	–3.6%	1,022.8	926.2	743.4	780.5
Own administrative expenses	130.6	+10.0%	118.7	98.3	70.1	61.2
Other income/expenses	(19.2)		53.0	107.1	(0.2)	52.7
Operating result (EBIT)	217.6	–23.5%	284.4	374.7	120.7	229.8
Net income after tax	182.3	–17.0%	219.6	298.1	78.3	187.7
Earnings per share in EUR	1.51	–17.0%	1.82	2.47	0.65	1.57
Retention	91.0%		91.7%	90.7%	89.3%	90.8%
EBIT margin[1]	4.5%		6.1%	9.2%	4.3%	8.2%

1 Operating result (EBIT)/net premium earned

planned until maturity – provided there are no defaults among the debtors that issued the securities.

The securities deposited with our ceding companies outside the United States, on the other hand, generally do not entail an investment risk because a fixed rate of interest income is normally contractually agreed for the reinsurer under such contracts – and guaranteed to us by the primary insurer – irrespective of the actual movement in market interest rates.

The currency risk is of major significance to our company as an internationally operating life and health insurer. For the most part we write our treaties with primary insurers in the local currency and also constitute the necessary reserves in the particular currencies. Since matching cover is not entirely possible for every item, fluctuations in exchange rates influence the profit and loss account. In the year under review the devaluation of the US dollar had particularly negative implications for our result.

Altogether, we booked total investment income of EUR 512.6 million (EUR 508.2 million); of this amount, EUR 188.3 million (EUR 204.1 million) derived from assets under own management and EUR 324.3 million (EUR 304.2 million) was attributable to deposits with ceding companies.

We traditionally devote special attention to the efficiency of our business model. Our administrative expenses amounted to EUR 130.6 million (EUR 118.7 million) for the year under review, corresponding to 2.5% of our gross written premium. This administrative expense ratio – which is extraordinarily low compared to our main competitors – is made possible by our lean processes, the delegation of responsibilities on all levels and our concentration on relevant customer groups in the context of our Customer Relationship Management strategy.

The operating profit (EBIT) totalled EUR 217.6 million (EUR 284.4 million) in the year under review. The EBIT margin of 4.5% fell somewhat short of our expectations.

The financial solutions and bancassurance segments again delivered excellent returns. The multinationals pillar also favourably influenced our total result in the year under review with a healthy EBIT margin, whereas the profitability of new markets was impaired by a highly conservative reserving policy for the longevity risk. Going forward, however, we expect this strategic pillar to make a significant contribution to our net income.

Despite the positive overall underwriting experience, the performance of life and health reinsurance in the year under review came in slightly below our expectations on account of the difficult situation on the international capital markets. With an average tax ratio of 14.1% and after allowance for minority interests, net income after tax in life and health reinsurance amounted to EUR 182.3 million (EUR 219.6 million). This was equivalent to earnings of EUR 1.51 (EUR 1.82) per share.

Germany

The situation on the German life insurance market was again highly challenging in the year under review. In view of the continued low level of interest rates, the uncertainty prevailing throughout the entire European Economic Area with respect to a renewed financial and currency crisis as well as the impending implementation of Solvency II, the insurance industry also came under increasing strain.

The reduction of the actuarial interest rate from the current level of 2.25% to 1.75% as proposed by the Federal Financial Supervisory Authority (BaFin) was approved and enters into force for all new contracts at the beginning of 2012. The interest rate applicable upon contract formation continues to be valid for current business, meaning – for example – that a return of 4% is still contractually guaranteed for life insurance policies taken out between 1995 and 2000. At the end of 2011, with a view to securing these obligations, life insurers for the first time implemented premium reserve increases in order to take lower interest income into account at an early stage (Zinszusatzreserven). From the reinsurance perspective, this may open up new business potential going forward for the prefinancing of such additional reserves.

The trend in new business towards single-premium products with shorter policy periods, which was still evident in 2010, declined sharply in the year under review. Policyholders displayed renewed interest in traditional, long-term life insurance products such as annuity and disability covers.

Long-term care insurance also recorded premium gains, which can be attributed to the ageing of the population. We have long been prepared for this demographic trend and are working closely together with selected primary insurers in this area so as to offer attractive new (re)insurance solutions specially designed for the seniors' market.

Within the Hannover Re Group the German primary insurance market is traditionally served directly from Hannover by our subsidiary E+S Rückversicherung AG. Our focus here is on life and annuity insurance. We enjoy a stable customer portfolio and – with more than 40 ceding companies – can point to a good level of market penetration. Despite fierce competition in the German market, we were able to enlarge our business – especially in niche segments – and consider ourselves well positioned for the future.

We generated gross premium of EUR 304.1 million (EUR 343.0 million) in the year under review. The volume contraction can be attributed inter alia to the planned scaling back of some expiring large contracts. A favourable risk experience in mortality and annuity business helped us to show an exceptionally satisfactory result again this year.

United Kingdom

We have been active on Europe's largest life reinsurance market for more than 15 years through our subsidiary Hannover Life Reassurance UK (HLR UK). Based in Virginia Water/London, our local team supports the conventional reinsurance market from the initial customer contact through underwriting to claims management. This is complemented by an extensive range of services. The reinsurance of longevity risks from the assumption of pension funds as well as private annuities for individuals with a reduced life expectancy (enhanced annuities) are written directly from Hannover.

In the area of mortality and disability covers the UK life reinsurance market is notable for a multitude of providers. This results in an extremely competitive market environment, which is why HLR UK has continued its prudent and conservative underwriting policy. Targets for premium growth have consciously not been set.

The gross premium booked by HLR UK totalled EUR 194.4 million (EUR 197.6 million). The operating profit (EBIT) of EUR 25.7 million for the year under review fell only marginally short of the previous year's level of EUR 26.7 million; relative to the net premium earned we generated a highly gratifying EBIT margin of 17.9%. Net income after tax was also extremely favourable at EUR 19.5 million.

In the area of enhanced annuities, which is handled from Hannover, we have built up considerable expertise over the past two decades and continue to operate as one of the market leaders in this segment. For some years now we have also been working together with a number of specialist insurers and banks to reinsure UK pension funds. We are able to draw upon our know-how from enhanced annuities business in order to appropriately analyse the longevity risk associated with the pension funds and to adequately structure the reinsurance protection.

Both enhanced annuities and the pension business are rapidly growing segments. In the year under review the premium volume surpassed EUR 1 billion for the first time to reach EUR 1,053.0 million (EUR 944.3 million), corresponding to growth of 11.5% for the two segments combined.

Ireland

For twelve years now our subsidiary Hannover Life Reassurance Ireland (HLR Ireland) has been writing reinsurance business in the international arena with primary insurers and reinsurers. Reinsurance solutions individually tailored to the needs of our clients constitute the basis for this long-standing success story.

The pivotal role played by this unit was further strengthened in the year under review. The assumption by a way of a retrocession from the United States of a mortality-exposed US portfolio that we acquired from Scottish Re in January 2011 was a major factor here. The biometric risk associated with this new block of business fared better than expected, while the profitability of the ING portfolio acquired in 2009 was below average. As we were unable to offset these adverse developments with the new block of business, our underwriting result fell significantly short of that reported in the previous year.

On the investment side we were also compelled to take substantial fair value reductions on our securities deposited with ceding companies owing to the protracted financial crisis. On the other hand, the financial solutions business retroceded from the United States developed in line with our assumptions and our expectations for the assumed UK business were actually exceeded. The business result reported by HLR Ireland was thus shaped by very mixed developments in the year under review.

With a premium volume of EUR 1,230.9 million (EUR 1,267.2 million), HLR Ireland generated a large part of the total premium income booked by Hannover Life Re. Of this, the subsidiary retained 92.7% (EUR 1,141.1 million) for own account.

Owing to losses from the fair value measurement of investments as well as adverse movements in exchange rates, the operating profit (EBIT) declined sharply to EUR 36.2 million (EUR 96.7 million). This produced an EBIT margin of 3.2%. Net income after tax of EUR 31.7 million was reported.

France, Maghreb and Arab countries

With the exception of Sharia-compliant reinsurance, responsibility for this market area rests with our life branch in Paris. Business developed in line with our expectations, enabling us to report another thoroughly gratifying result.

After the decline in single-premium business in 2010, we are well on track to bounce back to our accustomed premium level thanks to the favourable development of certain treaties this year. We generated gross premium of EUR 473.2 million (EUR 452.0 million) in the year under review. Our EBIT was boosted by 26.0% to EUR 65.6 million (EUR 52.1 million); with net premium standing at EUR 454.8 million, this corresponds to an above-average EBIT margin of 14.4%.

Sharia-compliant reinsurance is written by our subsidiary Hannover ReTakaful. Since its establishment in 2006 we have built up an excellent client base and we continued to expand activities in the reporting period. Exceptional growth is still the hallmark of the overall Islamic reinsurance market. Our local presence enables us to serve this increased demand for life reinsurance coverage.

By stepping up our underwriting activities we were able to boost our premium volume, more than doubling it in the year under review to EUR 29.3 million (EUR 12.6 million). This growth was similarly reflected in a comparable increase in profitability.

Italy, Spain and Southeastern Europe

Our clients in these markets are supported by service offices in Madrid and Milan, although risk assessment and underwriting are handled from Hannover. The focus of our underwriting is on traditional reinsurance products with financing elements.

Premium income fell slightly in the year under review, retreating to EUR 72.3 million (EUR 82.6 million). The result recorded for this market region was satisfactory despite this decline.

Scandinavia, Eastern Europe, Turkey and Israel

Our Stockholm branch is responsible for reinsurance business in Scandinavia and the Baltic states as well as Turkey and Israel. Eastern European markets are served centrally by an underwriting team based in Hannover.

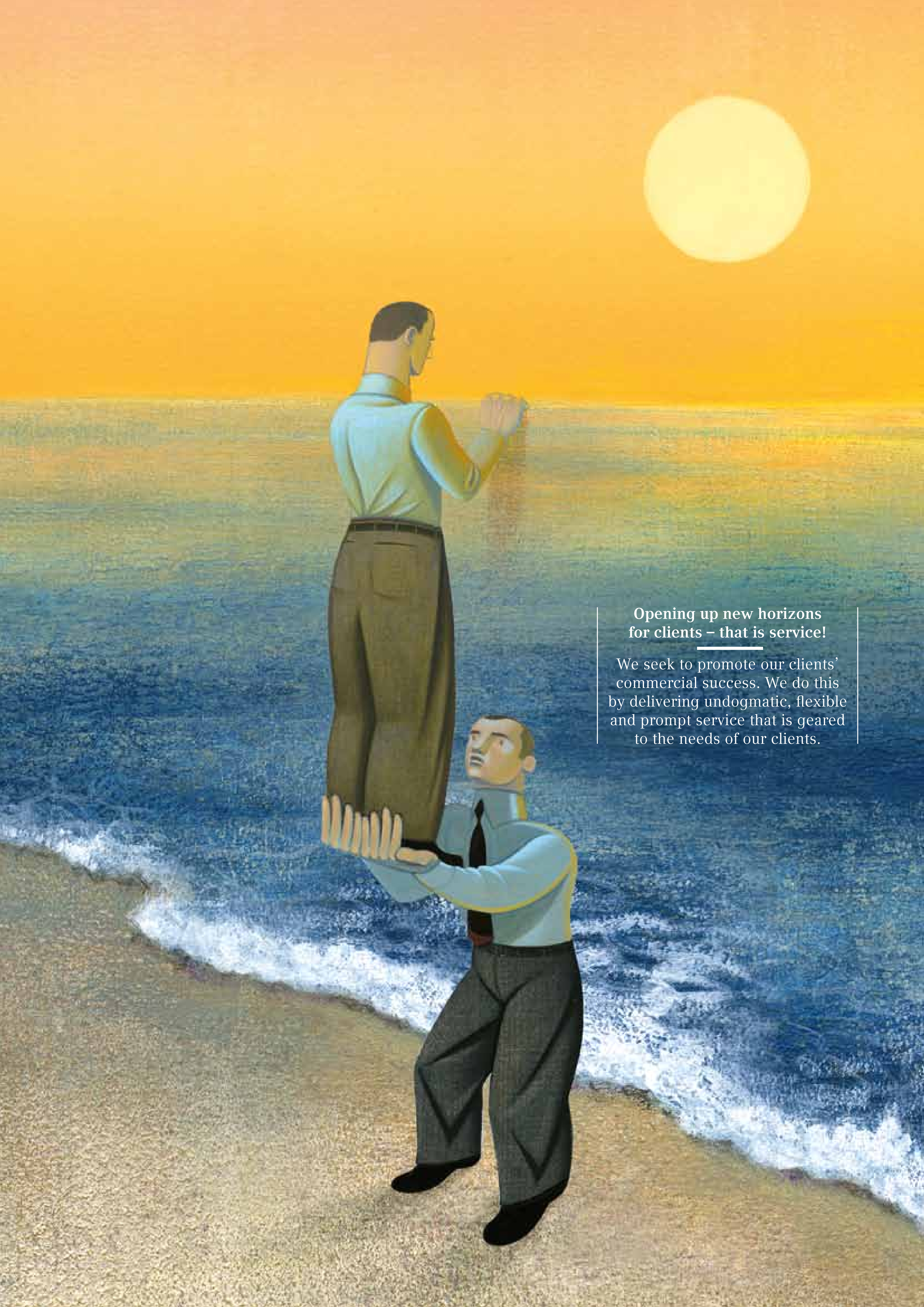
In Sweden and Norway we have ranked among the market-leading reinsurers for more than ten years now. We maintain long-term relationships with our clients and cooperate closely on developing tailored reinsurance solutions for conventional covers of the biometric risks of mortality and morbidity. We are also active in the area of financing arrangements and the bancassurance sector.

The premium income booked by our life branch in Stockholm amounted to EUR 81.5 million (EUR 78.0 million) in the year under review, almost all of which was retained for own account. Business continued to develop favourably, enabling us to again boost profitability and report pleasing results.

Since 2009 we have also served Central and Eastern European markets directly from Hannover, with a focus on Poland and Hungary as well as certain CIS states. In addition to sound reinsurance expertise our actuaries and underwriters can draw on superb familiarity with the specific languages and cultures thanks to their own background; this enables them to provide support geared to our clients' needs with an appropriate level of market intimacy.

Our concentration in these markets is on bancassurance and unit-linked insurance. The success of these products can be attributed in part to the use of the bank counter as an additional sales channel as well as to access to existing customer relationships. As a reinsurer, we provide our business partners with crucial support for the implementation of point-of-sale systems.

We vigorously enlarged our premium volume in this region in the year under review, posting decisive gains not only in Russia and Kazakhstan but also in Poland and Hungary. Our premium volume in the year under review totalled EUR 11.0 million (EUR 5.2 million), thereby surpassing the 10 million euro mark for the first time. The result recorded for this region was very positive.



Opening up new horizons for clients – that is service!

We seek to promote our clients' commercial success. We do this by delivering undogmatic, flexible and prompt service that is geared to the needs of our clients.

North America incl. Bermuda

With its headquarters in Orlando/Florida and three local offices in Denver/Colorado, Charlotte/North Carolina and Long Island/New York, our subsidiary Hannover Life Reassurance Company of America (HLR America) has a structure which is unique within our Group. Each office is equipped with particular know-how in specific business segments. As a total unit, HLR America is responsible for US life and health reinsurance business in the segments of mortality solutions, financial solutions and senior and special markets.

HLR America was able to further extend its market position in the mortality solutions segment through the acquisition of a large US portfolio in the first quarter of 2011. This block of business consists of term life policies written between 2000 and 2003 and therefore ideally complements the previously acquired portfolio of US individual life policies. While the risk experience of this new block of business was pleasing, the claims experience of the ING business acquired in 2009 fell short of expectations.

We also pressed ahead with our activities to acquire new business and again succeeded in enlarging our market share and new business volume, despite the fact that the US life reinsurance market as a whole has contracted. We believe that we are on the right track towards accomplishing our medium-term goal of securing a market share in new business in the range of 10% to 15%.

The tense state of the economy and considerable uncertainty on financial markets heavily impacted both the economic position and risk-carrying capacity of life insurers in the primary sector, hence boosting demand for financial reinsurance products. In the financial solutions segment we therefore booked pleasing increases in premium income, which will be favourably reflected in our operating result in the years ahead. In the area of senior markets we are currently tending towards a cautious approach on account of the existing uncertainties surrounding healthcare reform in the United States.

The premium income in the year under review totalled EUR 1,007.7 million (EUR 1,090.7 million), of which EUR 236.9 million was retained by HLR America after retrocessions. Owing to temporary valuation losses arising out of the fair value measurement of investments deposited with ceding companies as required by the relevant accounting rules, the operating result recognised by our subsidiary in the year under review decreased to EUR 9.0 million (EUR 13.0 million). We were therefore only able to report a profit of EUR 2.5 million (EUR 5.8 million) after tax.

We are active worldwide with our subsidiary Hannover Life Reassurance Bermuda, offering our cedants tailored reinsurance coverage in North America in the financial solutions segment as well as in the emerging markets of Africa and Asia. When it comes to designing products, we make the most of the favourable insurance environment offered by Bermuda in order to provide our clients with optimal coverage structures.

The gross written premium amounted to EUR 141.6 million (EUR 155.8 million), of which EUR 143.0 million (EUR 146.8 million) could be recognised as net premium earned for the financial year (the net amount exceeds the gross premiums in the reporting period due to relatively high unearned premiums). The operating profit was substantially boosted to EUR 23.8 million in comparison with the previous year's figure of EUR 15.5 million. The EBIT margin stood at 16.6%. The company's net income after tax corresponds to the operating profit.

Other international markets

Africa

In Africa we have been represented by our subsidiary Hannover Life Reassurance Africa (HLR Africa) for more than 20 years. From our location in Johannesburg we traditionally write predominantly individual term life reinsurance business in South Africa and most English-speaking countries south of the Sahara.

In general terms, the market is enjoying strong growth and becoming visibly more competitive. Nevertheless, we were pleased to be able to further enlarge our market share in the financial solutions segment in the year under review. Thanks to our long-standing expertise and our service, we continue to be a sought-after business partner. For the first quarter of 2012 we are already expecting to close an initial new business financing arrangement and we see further good growth prospects in this segment for the full year.

Given Africa's heavily rural character and the scope for improvement in its infrastructure, we are also working together with a number of primary insurers to promote direct and online sales of insurance products with the aid of automated underwriting systems. This involvement is intended to open up access for a broad sector of the population to appropriate life and health insurance protection.

HLR Africa generated gratifying gross premium income of EUR 163.5 million (EUR 149.5 million) in the year under review, of which EUR 129.6 million was retained for own account. This produced an operating profit (EBIT) of EUR 8.8 million (EUR 11.9 million), corresponding to an EBIT margin of 6.8%.

Central and South America

The markets in this region are supported directly by our local service office in Mexico City as well as by our team in Hannover, which also bears responsibility for risk assessment and underwriting. We successfully make up for this geographical distance to our clients through regular on-the-spot visits.

The business volume was boosted to EUR 156.4 million, an increase of 19.0% relative to the previous year's figure of EUR 131.4 million. Of this amount, a premium volume of EUR 31.5 million stemmed from the markets of Central America (including Mexico). The remaining EUR 124.9 million was generated in South American markets (including Brazil). Profitability in this region continues to be satisfactory.

Asia

Asia represents a promising growth market for our company and is served directly by local branches and service offices. Our life branches in Kuala Lumpur and Hong Kong operate as regional centres with overarching coordination and service functions.

Hannover Rückversicherung AG Malaysian Branch bears market responsibility for the ASEAN countries as well as South Asia. In the Indian market we continued our strategic corporation with GIC Re. Support for this region and the cooperation with GIC Re are handled by our service office in Mumbai.

We have achieved a high degree of market penetration in the Indian reinsurance market and have written treaties with the major primary insurance players. Not only that, we are known among our clients for innovative product solutions and we rank among the leading providers in the field of online and direct sales.

The premium volume in these markets amounted to EUR 25.9 million (EUR 21.4 million). Profitability was again pleasing in the year under review.

Our branch in Hong Kong coordinates the entire East Asian region, although direct business responsibility is limited to Hong Kong, Macau and Taiwan. Reinsurance business in China and Korea is written by our branches in Shanghai and Seoul respectively. In Japan we are locally represented by our service office in Tokyo.

Along with sizeable growth throughout the entire region, China is particularly notable on account of exceptionally strong demand for reinsurance protection in the financial solutions segment. We successfully concluded a number of new transactions in the year under review and anticipate rising demand over the coming years.

Total premium income in the East Asian region amounted to EUR 308.6 million (EUR 201.6 million). The rapid pace of growth in these markets was undiminished in the year under review at 53%.

Looked at from a holistic perspective, the performance of Asian markets (excluding the Middle East) is crucially driven by the East Asian region. Here, too, we booked premium growth of around 50%, equivalent to a volume of EUR 334.4 million (EUR 223.0 million). The result for the year under review was extremely favourable.

Australia and New Zealand

We have been doing business in Australia and New Zealand for almost 20 years now through our Sydney-based subsidiary Hannover Life Re of Australasia (HLR Australasia). In these markets we write predominantly traditional risk-oriented business in the life and critical illness sectors, and we also participate in various types of disability covers.

HLR Australasia holds an insurance license and – in cooperation with an Australian direct sales organisation – offers a range of risk-oriented product solutions in the primary sector. In this segment our involvement is for the most part concentrated on occupational retirement provision, where we assume the biometric risks of mortality and morbidity. These activities deliver a growing contribution to the total business volume and are a key factor in our healthy risk diversification.

HLR Australasia further enlarged its business volume in the year under review, with occupational retirement provision on a group basis (in the form of superannuation funds) as well as individual primary insurance business serving as the main drivers of growth.

Gross premium increased by 25.7% to EUR 407.9 million (EUR 324.4 million). Owing to a poor biometric risk experience, the operating profit (EBIT) fell sharply to EUR 8.7 million (EUR 23.7 million), corresponding to an EBIT margin of 4.4%. The underwriting losses were offset by a non-recurring tax credit, as a result of which net income after tax showed a gratifying profit of EUR 25.3 million.

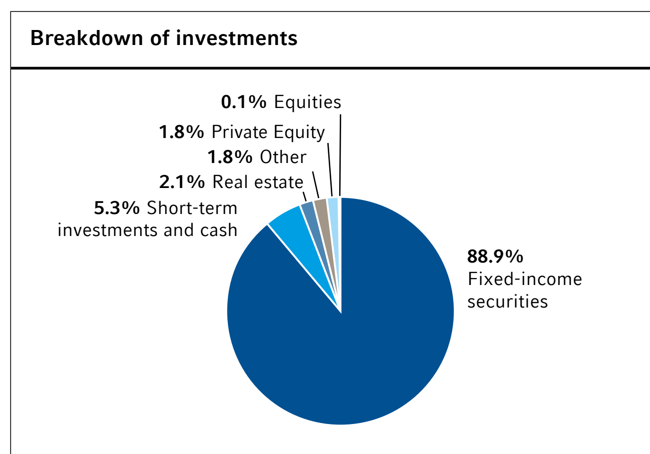
Investments

Market development

Capital markets in 2011 were heavily overshadowed by the global debt crisis and the responses of the various central banks. In the area of fixed-income securities risk premiums on corporate bonds increased for the most part in both US and European markets as the year progressed. The resulting negative fair value effects for our portfolio were, however, more than offset by the yield declines during the year on German government bonds and US treasuries across virtually all maturity segments. Movements in fair values for debt securities issued by semi-governmental entities were also very gratifying in wide areas. Bonds issued by countries on the Eurozone periphery, by contrast, recorded sometimes substantial risk premiums. The performance of a portfolio of fixed-income securities was therefore heavily dependent on its exposure to corporate bonds and countries on the Eurozone periphery. Overall, the fair values of our fixed-income portfolio developed very favourably, hence causing unrealised gains to rise sharply. The US Federal Reserve left key interest rates unchanged at 0% to 0.25% during the year under review. The European Central Bank, on the other hand, reduced key interest rates to 1% in the second half of the year after making initial rate hikes and supported the European bond market by buying up government bonds.

The return on ten-year German government bonds declined from 3.0% to 1.8% in the course of the year. A comparable trend was also observed for US treasury bonds, with a marginally more marked decrease from 3.3% to 1.9%. Bonds issued by some European countries carried substantial risk premiums, especially in the second half of the year, leading to a patchy and volatile yield environment in Europe.

Breakdown of investments



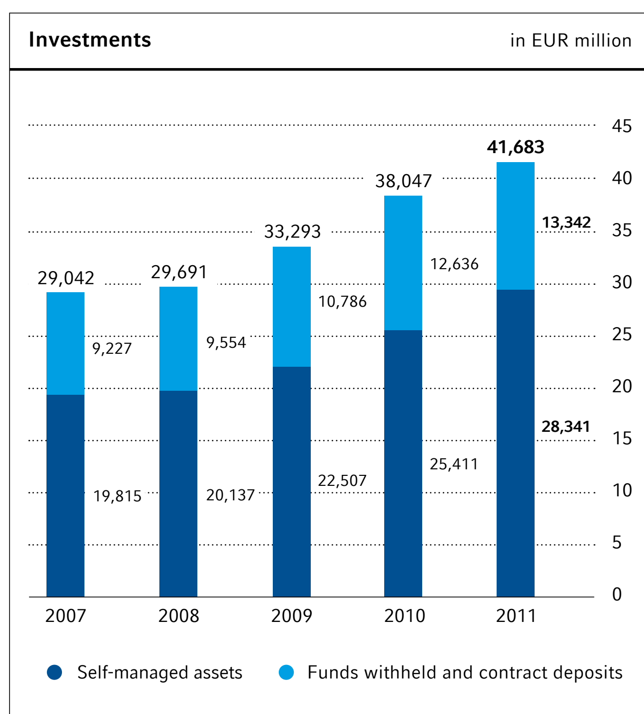
The picture on equity markets was a mixed one. The losses seen in March in response to the nuclear disaster in Japan were initially made good. In the second half of the year, however, a more depressed sentiment took hold again. Whereas the DAX recorded a loss of 15% for 2011, the US Dow Jones Index put on 5%.

After showing strength at the beginning of 2011, the euro remained virtually unchanged year-on-year against the US dollar, pound sterling and Canadian and Australian dollar.

Investment policy

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

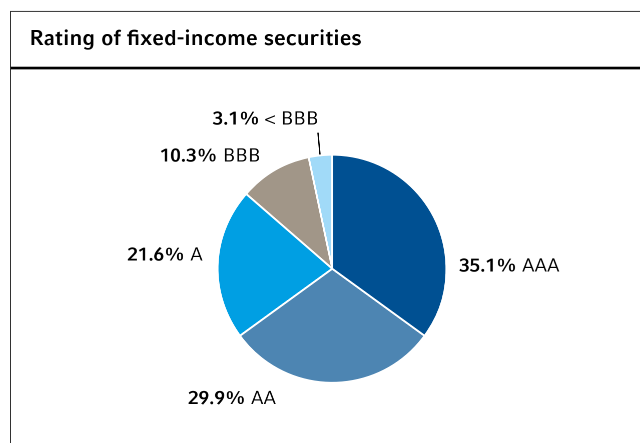
- generation of stable and risk-commensurate returns while at the same time maintaining the high quality standard of the portfolio;
- ensuring the liquidity and solvency of Hannover Re at all times;
- high diversification of risks;
- limitation of currency exposures and maturity risks in accordance with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



With these goals in mind we engage in active risk management on the basis of balanced risk/return analyses. In this context we observe centrally implemented investment guidelines and are guided by the insights of dynamic financial analysis.

These measures are intended to safeguard the generation of an appropriate level of return while at the same time staying within a clearly defined risk appetite. In so doing, it must be ensured that we are able to meet our payment obligations at all times.

Thanks to a positive cash flow from the technical account and the investments, and assisted by the development of our fixed-income investments, our portfolio of assets under own management grew to EUR 28.3 billion (EUR 25.4 billion).



Investment performance

Ordinary investment income surpassed the previous year at EUR 966.2 million (EUR 880.5 million) even though interest rates were lower overall. This was due principally to the sharp growth in assets under own management to EUR 28.3 billion (EUR 25.4 billion), which was attributable to both positive cash flows from the technical account and the development of fair values in the fixed-income portfolio.

In the context of portfolio reallocations from government to corporate bonds Hannover Re generated profits that accounted for a significant portion of the total net realised gains. The inflows from the operating cash flow were invested primarily in corporate bonds, asset-backed securities and real estate. The balance of net realised gains improved by 10.8% to EUR 179.6 million (EUR 162.0 million).

The impairments taken on investments were slightly higher than in the previous year at EUR 22.0 million (EUR 16.6 million). A volume of EUR 14.0 million (EUR 7.7 million) was attributable to alternative investments – principally private equity funds. They decreased to EUR 5.4 million (EUR 7.9 million) on fixed-income assets. Impairments of EUR 1.6 million (EUR 0.2 million) were taken on real estate funds. Thanks to increased fair values, these write-downs contrasted

with write-ups of EUR 16.9 million (EUR 24.1 million) on fixed-income securities that had been written down in prior periods, EUR 17.3 million (EUR 3.0 million) on alternative investments and EUR 2.5 million (EUR 0.1 million) on real estate funds. Write-downs of a mere EUR 0.9 million (EUR 0.6 million) were taken on equities, only a minimal portfolio of which is still held in the context of strategic participations.

Unrealised losses on our asset holdings measured at fair value through profit or loss amounted to EUR 38.8 million, after EUR 39.9 million in the previous year. The bulk of this amount (EUR 55.4 million) stemmed from derivatives that we recognise for the credit risk of special life reinsurance treaties (ModCo) under which securities deposits are held by ceding companies on our behalf. The inflation swaps taken out in 2010 to hedge a portion of the inflation risks associated with the loss reserves in our technical account gave rise to unrealised gains of EUR 11.6 million, as against unrealised losses of EUR 31.2 million in the previous year. The hedging effect of the inflation swaps diminishes slightly over time owing to their fixed maturity. In order to restore the original protective effect we therefore took out further inflation swaps in the first quarter of the year under review. The changes in the fair values of the inflation swaps are recognised in income as a derivative pursuant to IAS 39.

The balance of our deposit interest and expenses was again higher at EUR 338.5 million (EUR 316.4 million).

We were thus able to boost our net investment income by 9.9% to EUR 1,384.0 million (EUR 1,258.9 million) – first and foremost thanks to the increased current investment income but also due to higher income from funds withheld and realised gains.

The portfolio of fixed-income securities excluding short-term investments climbed again to EUR 25.2 billion (EUR 21.4 billion). New investments were made predominantly in corporate bonds and public-sector covered bonds (Pfandbriefe) as well as asset-backed securities. Hidden reserves for available-for-sale fixed-income securities recognised in shareholders' equity totalled EUR 416.1 million (EUR 268.4 million). The spread of asset classes shifted as planned towards corporate bonds, while the share of government and semi-government bonds was reduced. As to the quality of the bonds – measured in terms of rating categories –, the downgrade of the United States' credit status was reflected in a shift between the rating categories of "AAA" and "AA". Nevertheless, the proportion of securities rated "A" or better remained stable on a high level as at year-end at 86.7% (91.0%).

Net investment income — Figures in EUR million

	2011	+/- previous year	2010	2009	2008	2007
Ordinary investment income[1]	966.2	+9.7%	880.5	810.5	829.8	859.0
Result from participations in associated companies	3.1	–20.0%	3.9	(5.0)	4.2	11.0
Realised gains/losses	179.6	+10.8%	162.0	113.0	(113.6)	174.3
Appreciation	36.8	+35.1%	27.2	20.1	–	–
Impairments on investments[2]	31.0	+30.3%	23.8	142.5	480.4	72.0
Unrealised gains/losses[3]	(38.8)	–2.8%	(39.9)	100.6	(119.7)	(18.8)
Investment expenses	70.3	+4.3%	67.4	53.1	41.4	52.0
Net investment income from assets under own management	1,045.5	+10.9%	942.5	843.6	78.9	901.6
Net investment income from funds withheld	338.5	+7.0%	316.4	276.8	199.6	220.1
Total investment income	1,384.0	+9.9%	1,258.9	1,120.4	278.5	1,121.7

1 Excluding expenses on funds withheld and contract deposits
2 Including depreciation/impairments on real estate
3 Portfolio at fair value through profit or loss and trading

In March we sold our portfolio of listed equities with virtually no gain or loss on disposal. We decided to take this step because of the uncertain extended implications for capital and reinsurance markets of the still ongoing Fukushima nuclear disaster. The decision had become necessary in the context of our systematic approach to risk management. Since that time we have only retained a minimal portfolio of listed equities in the context of strategic participations.

Holdings of alternative investments remained on a broadly stable level. As at 31 December 2011 an amount of EUR 485.7 million (EUR 469.3 million) was invested in private equity funds, a further EUR 348.2 million (EUR 316.4 million) in high-return bond funds and loans and altogether EUR 162.4 million (EUR 149.7 million) in structured real estate investments. The uncalled capital with respect to the aforementioned alternative investments totalled EUR 451.9 million (EUR 272.6 million).

In the year under review we consistently pursued our strategy of investing more heavily in real estate. To this end, various properties were acquired in Germany and the United States, and further projects are under review; the real estate allocation will therefore keep rising steadily as planned, and currently stands at 2.1% (1.9%).

We held a total amount of EUR 1.5 billion (EUR 2.0 billion) in short-term investments and cash at the end of the year under review. Funds withheld amounted to EUR 13.3 billion (EUR 12.6 billion).

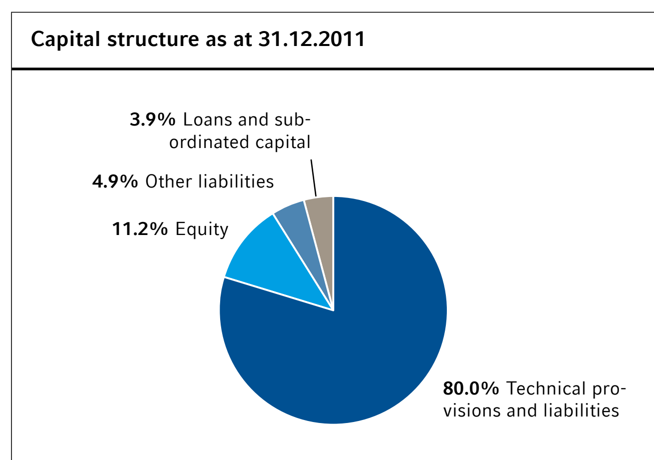
Hannover Re reclassified fixed-income securities at fair values of altogether EUR 1.3 billion from the available-for-sale to the held-to-maturity portfolio. The securities gave rise to cumulative hidden reserves of EUR 46.5 million, which as a consequence of reclassification are to be amortised in the statement of income across the maturities of the instruments. These securities are permanently available to the relevant companies of the Hannover Re Group in light of cash flow projections. The intention and the ability to hold them until maturity enable the companies to reduce balance sheet volatility.

Financial position

Analysis of our capital structure

The overall capital structure and composition of Hannover Re's liabilities are essentially shaped by our activity as a reinsurer. By far the largest share is attributable to technical provisions and liabilities. Further elements are equity and equity substitutes, which help to substantially strengthen our financial base and optimise our cost of capital. The following chart shows our capital structure as at 31 December 2011, split into equity, loans and subordinated capital, technical provisions and other liabilities, in each case as a percentage of the balance sheet total.

Capital structure as at 31.12.2011



The technical provisions and liabilities shown above, which include funds withheld/contract deposits and reinsurance payable, make up 80.0% (76.5%) of the balance sheet total and are more than covered by our investments, (assets-side) funds withheld/contract deposits, accounts receivable and reinsurance recoverables.

The equity including non-controlling interests at 11.2% (10.9%) of the balance sheet total as well as the loans and – especially – subordinated capital at 3.9% (4.4%) of the balance sheet total represent our most important sources of funds.

We ensure that our business is sufficiently capitalised at all times through continuous monitoring and by taking appropriate steering actions as necessary. For further information please see the section "Management of policyholders' surplus" on page 52.

Asset/liability management

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 – at 4.2 years (3.5 years) – is geared largely to the average maturity of the technical liabilities. We thereby adjust the maturity pattern of the fixed-income securities to the expected payment patterns of our liabilities and reduce the economic exposure to the interest rate risk. In addition, through active and regular management of the currency spread in our fixed-income portfolio we bring about extensive matching of currencies on the assets and liabilities sides of the balance sheet, as a consequence of which fluctuations in exchange rates have no significant influence on our result. At year-end 2011 we held 39.9% (44.6%) of our investments in euro, 37.4% (35.4%) in US dollars and 7.6% (6.8%) in pound sterling.

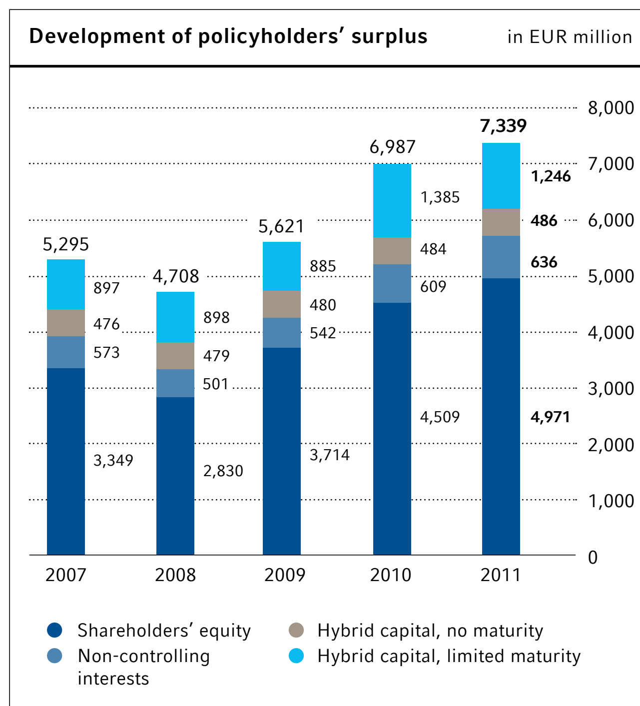
Management of policyholders' surplus

The preservation of its capital is a key strategic objective for Hannover Re. In recent years hybrid capital was issued as an equity substitute in order to keep the cost of capital on a low level. The policyholders' surplus is a key management ratio in the context of Hannover Re's comprehensive capital management. The policyholders' surplus is defined as the sum total of:

- shareholders' equity excluding non-controlling interests, composed of the common shares, additional paid-in capital, other comprehensive income and retained earnings,
- non-controlling interests and
- hybrid capital used as an equity substitute, which encompasses our subordinated debt.

The policyholders' surplus totalled EUR 7,338.2 million (EUR 6,987.0 million) as at the balance sheet date, an increase of 5.0% in the year under review.

Hannover Re uses "Intrinsic Value Creation" (IVC) as its central value-based management tool. With the aid of this tool we apply the principles of economic allocation of equity and efficient use of debt as an equity substitute in order to achieve the lowest possible weighted cost of capital. This concept as well as the objectives and principles in accordance with which we conduct our enterprise management and capital management are described in greater detail in our remarks on value-based management on page 80 et seq. of this report.



Hannover Re is guided in its capital management by the requirements and expectations of the rating agencies that assess the Group with an eye to its targeted rating. Furthermore, while making appropriate allowance for business policy considerations and factors that influence market presence, the allocation of capital to the Group's operational companies is based upon the economic risk content of the business group in question. Some Group companies are subject to additional national capital and solvency requirements. All Group companies met the applicable local minimum capital requirements in the year under review. Adherence to these capital requirements is continuously monitored by the responsible organisational units at the parent company on the basis of the latest actual figures as well as the corresponding planned and forecast figures. If, despite the capital allocation mechanisms described above, a scenario occurs in which there is a danger of minimum capital requirements being undershot, suitable options are immediately discussed and measures set in motion to counteract such an eventuality. From the Group perspective we manage Hannover Re's solvency using our internal capital model, which is described in greater detail on page 65 et seq. of the opportunity and risk report.

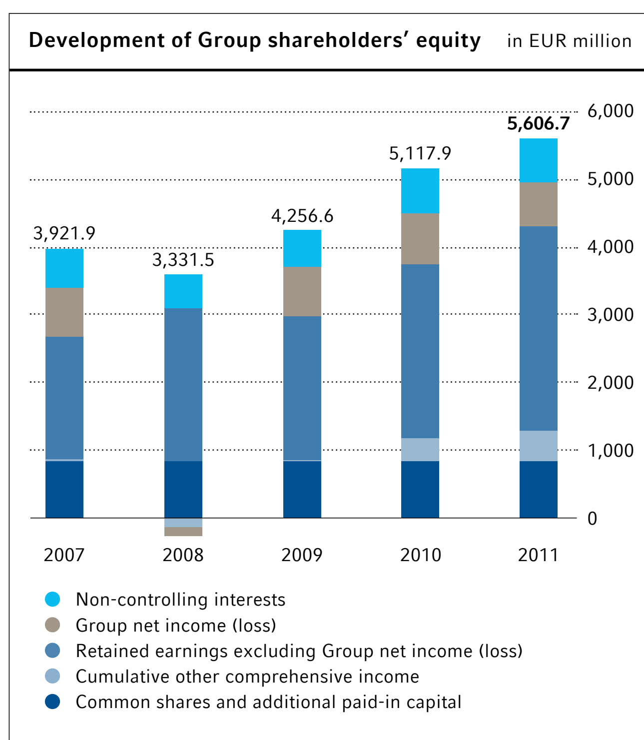
Group shareholders' equity

In view of the favourable result, the development of the shareholders' equity of the Hannover Re Group was pleasing. Compared to the position as at 31 December 2010, it increased by EUR 488.8 million in the year under review to EUR 5.6 billion. After adjustment for non-controlling interests, it increased by

EUR 461.7 million to EUR 5.0 billion. The book value per share increased accordingly by 10.2% to EUR 41.22. The changes in shareholders' equity were shaped chiefly by the following movements:

Net unrealised gains on investments recognised in the other reserves reached EUR 453.1 million, a figure EUR 81.0 million higher than at the beginning of the year under review. This rise derived in particular from the decline in yields on bonds of various European countries such as Germany, France and the United Kingdom as well as on bonds issued by semi-governmental entities. The reduced level of interest rates more than offset the generally increased credit spreads that were observed as the year progressed; this was similarly applicable to our corporate bond holdings.

The reserve for currency translation adjustment improved appreciably by EUR 64.6 million from –EUR 53.0 million to EUR 11.6 million as a consequence of exchange rate fluctuations of foreign currencies against the euro in the year under review. The rise in the reserve for currency translation adjustment resulted above all from the deconsolidation of the operational companies of our US subgroup Clarendon Insurance Group as well as from the marked appreciation of the Australian dollar (AUD).



Non-controlling interests in Group shareholders' equity grew by EUR 27.1 million to EUR 636.0 million as at 31 December 2011. This increase was attributable primarily to the non-controlling interests in E+S Rück in an amount of EUR 24.1 million as well as to those in Hannover Re Real Estate Holding (EUR 1.4 million).

The Group net income for 2011 attributable to the shareholders of the Hannover Re Group contracted to EUR 606.0 million (EUR 748.9 million). The non-controlling interest in the profit generated in the year under review totalled EUR 70.8 million (EUR 82.0 million).

Financing and Group debt

In addition to the financing effect of the changes in shareholders' equity described above, debt financing on the capital market is a key component of Hannover Re's financing. It was essentially composed of subordinated bonds issued to ensure lasting protection of our capital base – in part also in observance of rating requirements. The total volume of debt and subordinated capital stood at EUR 1,934.4 million (EUR 2,056.8 million) as at the balance sheet date.

Our subordinated loans and bonds supplement our equity with the aim of reducing the cost of capital and also help to ensure liquidity at all times. As at the balance sheet date three subordinated bonds had been placed on the European capital market through Hannover Finance (Luxembourg) S.A. The subordinated debt that had also been issued through Hannover Finance (Luxembourg) S.A. in 2001 had a first call option as at 14 March 2011. The outstanding bond volume of EUR 138.1 million was called by the issuer at the specified date and repaid in full.

The table on the following page summarises the carrying amounts of our subordinated bonds.

In addition, collateral in the form of letters of credit have been furnished by a number of financial institutions as collateral for our technical liabilities; bilateral agreements exist with various financial institutions. Furthermore, two unsecured syndicated guarantee facilities, one of which had a remaining volume after partial cancellations and was terminated in its entirety at the beginning of January 2012, existed as at the balance sheet date. For detailed information on existing contingent liabilities please see the notes, Section 5.12 "Debt and subordinated capital", page 178 et seq. and 7.7 "Contingent liabilities and commitments", page 201.

Subordinated bonds in EUR million	Issue date	Coupon in %	2011	2010
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 350 million; 2001/2031[1,2]	14.03.2001	6.25	–	138.1
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 750 million; 2004/2024	26.02.2004	5.75	748.0	746.9
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 500 million; 2005/undated	01.06.2005	5.00	485.7	484.1
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 500 million; 2010/2040	14.09.2010	5.75	497.9	500.0
Total			**1,731.6**	**1,869.1**

1 This bond was exchanged in an amount of EUR 211.9 million in 2005
2 The outstanding volume of this debt in an amount of EUR 138.1 million was repaid on 14 March 2011

Several Group companies have also taken up long-term debt – principally in the form of mortgage loans – amounting to EUR 202.8 million (EUR 187.6 million).

For further explanatory information please see our remarks in the notes to this report, Section 5.12 "Debt and subordinated capital", page 178 et seq. and 5.13 "Shareholders' equity, non-controlling interests and treasury shares", page 181.

Analysis of the consolidated cash flow statement

Liquidity

We generate liquidity from our operational reinsurance business, investments and financing measures. Regular liquidity planning and a liquid investment structure ensure that Hannover Re is able to make the necessary payments at all times. Hannover Re's cash flow is shown in the consolidated cash flow statement on page 119 et seq.

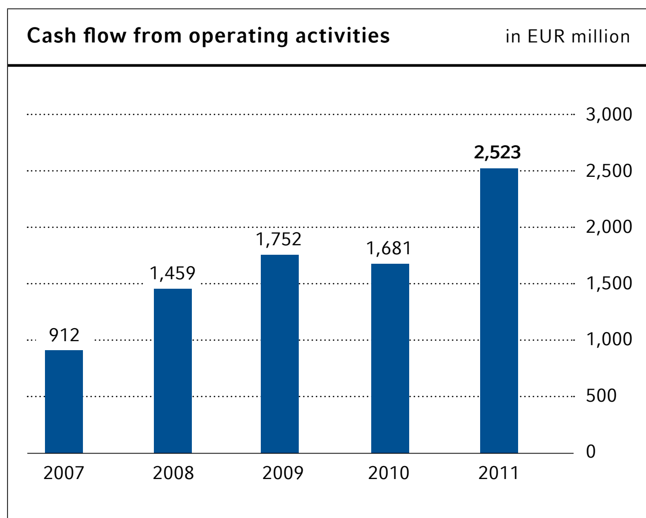
Hannover Re does not conduct any automated internal cash pooling within the Group. Liquidity surpluses are managed and invested by the Group companies. Various loan relationships exist within the Hannover Re Group for the optimal structuring and flexible management of the short- or long-term allocation of liquidity and capital.

Consolidated cash flow statement in EUR million	2011	2010
Cash flow from operating activities	2,522.9	1,681.3
Cash flow from investing activities	(2,041.3)	(1,993.7)
Cash flow from financing activities	(449.9)	283.3
Exchange rate differences on cash	0.0	46.9
Change in cash and cash equivalents	31.7	17.8
Cash and cash equivalents at the beginning of the period	475.2	457.4
Change in cash and cash equivalents according to cash flow statement	31.7	17.8
Cash and cash equivalents at the end of the period[1]	**507.0**	**475.2**

1 Thereof attributable to disposal groups: EUR 0.0 million (previous year: EUR 27.5 million)

Cash flow from operating activities

The cash flow from operating activities, which also includes inflows from interest received and dividend receipts, amounted to EUR 2.5 billion in the year under review as opposed to EUR 1.7 billion in the previous year. The principal factor in the sharply higher net inflow year-on-year – along with the improved investment income of EUR 85.6 million and claim payments of EUR 40.3 million, a figure slightly lower than in the previous year – was the acquisition of a reinsurance portfolio in an amount of EUR 419.8 million within traditional life business in the United States in the second quarter of the year under review. The acquired portfolio covers the mortality risk under term life and endowment policies that were reinsured in the underwriting years 2000 to 2003. The tax refunds including interest of EUR 172.5 million received as a consequence of the decision by the Federal Fiscal Court in the previous year also played a part here.



Cash flow from investing activities

The net cash outflows from investing activities amounted to altogether EUR 2.0 billion in 2011 and were thus on a par with the previous year. Along with the further enlargement of the real estate portfolio, above all in the United States and Germany, the funds were used primarily to expand corporate bond holdings of an attractive quality, while holdings of government bonds and structured financial products were in some cases reduced in view of favourable market opportunities.

Regarding the development of the investment portfolio please see also our remarks in the "Investments" section of the management report on page 48 et seq.

Cash flow from financing activities

Compared to the previous year, the cash flow from financing activities was reduced by EUR 733.2 million from EUR 283.3 million to –EUR 449.9 million. The change was influenced first and foremost by the inflow of funds from placement of the subordinated debt 2010/2040 in an amount of EUR 500.0 million in the previous year. The cash outflow in the year under review was due principally to the dividend of EUR 277.4 million paid by the parent company Hannover Re as well as repayment of the remaining volume of the subordinated debt 2001/2031 in an amount of EUR 138.1 million.

Overall, the cash and cash equivalents thus increased by EUR 31.7 million year-on-year to EUR 507.0 million.

For further information on our liquidity management please see page 79 et seq. of the risk report.

Financial strength ratings

A.M. Best and Standard & Poor's, the rating agencies of particular relevance to the insurance industry, assess the financial strength of Hannover Re on the basis of an interactive rating process and have awarded it very good ratings. The rating agencies highlight in particular the strength of the Hannover Re Group's competitive position, its capitalisation and its risk management.

Financial strength ratings of the Hannover Re Group

	Standard & Poor's	A.M. Best
Rating	AA– (very strong)	A (excellent)
Outlook	stable	positive

Financial strength ratings of subsidiaries

	Standard & Poor's	A.M. Best
E+S Rückversicherung AG	AA–	A
Hannover Life Reassurance Africa Ltd.	A	–
Hannover Life Reassurance Bermuda Ltd.	AA–	A
Hannover Life Reassurance Company of America	AA–	A
Hannover Life Reassurance (Ireland) Ltd.	AA–	A
Hannover Life Reassurance (UK) Ltd.	AA–	A
Hannover Life Re of Australasia Ltd.	AA–	–
Hannover Reinsurance Africa Ltd.	A	–
Hannover Re (Bermuda) Ltd.	AA–	A
Hannover Reinsurance (Ireland) Ltd.	AA–	A
Hannover ReTakaful B.S.C. (c)	A	–
International Insurance Company of Hannover Ltd.	AA–	A

Issue ratings of issued debt

As part of the process of rating Hannover Re the rating agencies also assess the debt issued by the Hannover Re Group.

All of our bonds issued by Hannover Finance (Luxembourg) S.A. are rated "a" by A.M. Best and "A" by Standard & Poor's.

Just to make doubly sure.

Two umbrellas provide better protection than one – that is something on which insurers (first umbrella) and reinsurers (second umbrella) have long been in agreement. And policyholders are twice as happy about the proven partnership between Hannover Re and the primary insurer.

Information pursuant to § 315 Para. 4 German Commercial Code (HGB)

The common shares (share capital) of Hannover Re amount to EUR 120,597,134.00. They are 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 (AktG). Amendment of the Articles of Association is governed by §§ 179 et seq. Stock Corporation Act (AktG) in conjunction with § 16 Para. 2 of the Articles of Association of Hannover Re.

The powers of the Executive Board with respect to the issue and repurchase of shares are defined in Hannover Re's Articles of Association as well as in §§ 71 et seq. Stock Corporation Act (AktG). 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 (AktG) to acquire treasury shares on certain conditions for a period of five years, ending on 3 May 2015.

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. The 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. For details of the letter of credit lines please see our explanatory remarks on other financial facilities in the notes, Section 5.12 "Debt and subordinated capital", page 178 et seq.

In addition, 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.

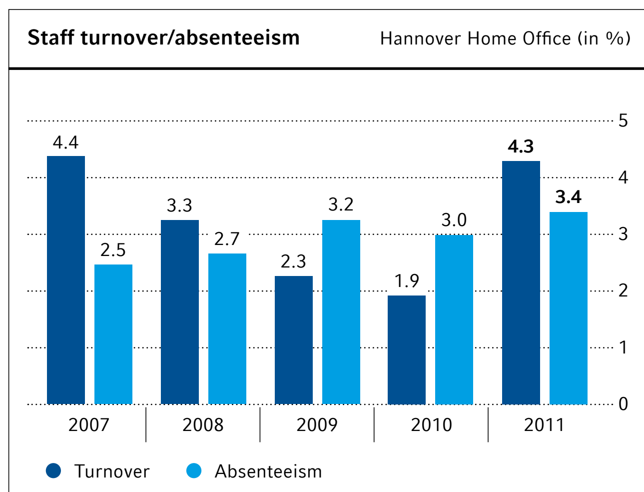
Human resources

Our staff

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

Key personnel ratios

The Hannover Re Group employed 2,217 (2,192) staff as at 31 December 2011. The turnover ratio at Home Office in Hannover of 4.3% was appreciably higher than in the previous year (1.9%). The rate of absenteeism – at 3.4% – was slightly higher than in the previous year (3.0%). The turnover ratio and rate of absenteeism thus continued to be below the industry average.



Management feedback more strategically focused

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

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

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

Breakdown of employees by country	2011	2010
Germany	1,110	1,089
United States	279	340
South Africa	177	171
United Kingdom	162	143
Sweden	85	80
Australia	70	65
China	55	43
France	49	49
Ireland	46	41
Bermuda	36	35
Malaysia	34	33
Bahrain	30	27
Columbia	21	17
Italy	13	13
Korea	9	7
India	9	7
Japan	8	8
Spain	7	7
Canada	5	5
Taiwan	4	6
Mexico	4	4
Brazil	4	2
Total	**2,217**	**2,192**

New remuneration model for executive staff

In order to satisfy the requirements of the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (VersVergV), which entered into force on 13 October 2010, a consistent worldwide remuneration system has been in effect since 1 January 2012 for all managers of the Hannover Re Group; it satisfies the special requirements of § 4 VersVergV in its principles and parameters and is applied in an appropriate form according to the particular level of management. For further information please see the section "Remuneration report" from page 87 onwards.

Blended learning successfully implemented

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

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

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

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

Applicant targeting and Talentpool upgraded

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

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

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

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

Word of thanks to our staff

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

Sustainability at Hannover Re

The sustainability strategy of the Hannover Re Group

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

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

Governance and dialogue

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

As a company based in Germany, the formal framework that shapes our corporate governance is determined by German law. With one exception Hannover Re fulfils all the recommendations of the German Corporate Governance Code (DCGK). Further details in this regard are provided in the section “Enterprise management” on page 84. What is more, our Code of Conduct – which we adopted Group-wide in 2003 – serves as a further guide for our day-to-day activities.

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

Product responsibility

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

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

Successful staff

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

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

Procurement and environmental protection

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

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

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

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

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

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

Social commitment

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

Sponsorship

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

Research and learning

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

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

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

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

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

Music and art

E+S Rück, our subsidiary with responsibility for the German market, organises so-called examination concerts in cooperation with the University of Music, Drama and Media Hannover. Since the first concert was held back in 1998, we have assisted three or four of the university's "master students" each year as they seek to embark on their career as soloists, while at the same time offering our clients a musical highlight.

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

Foundation

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

Donations

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

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

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

Opportunity and risk report

Risk report

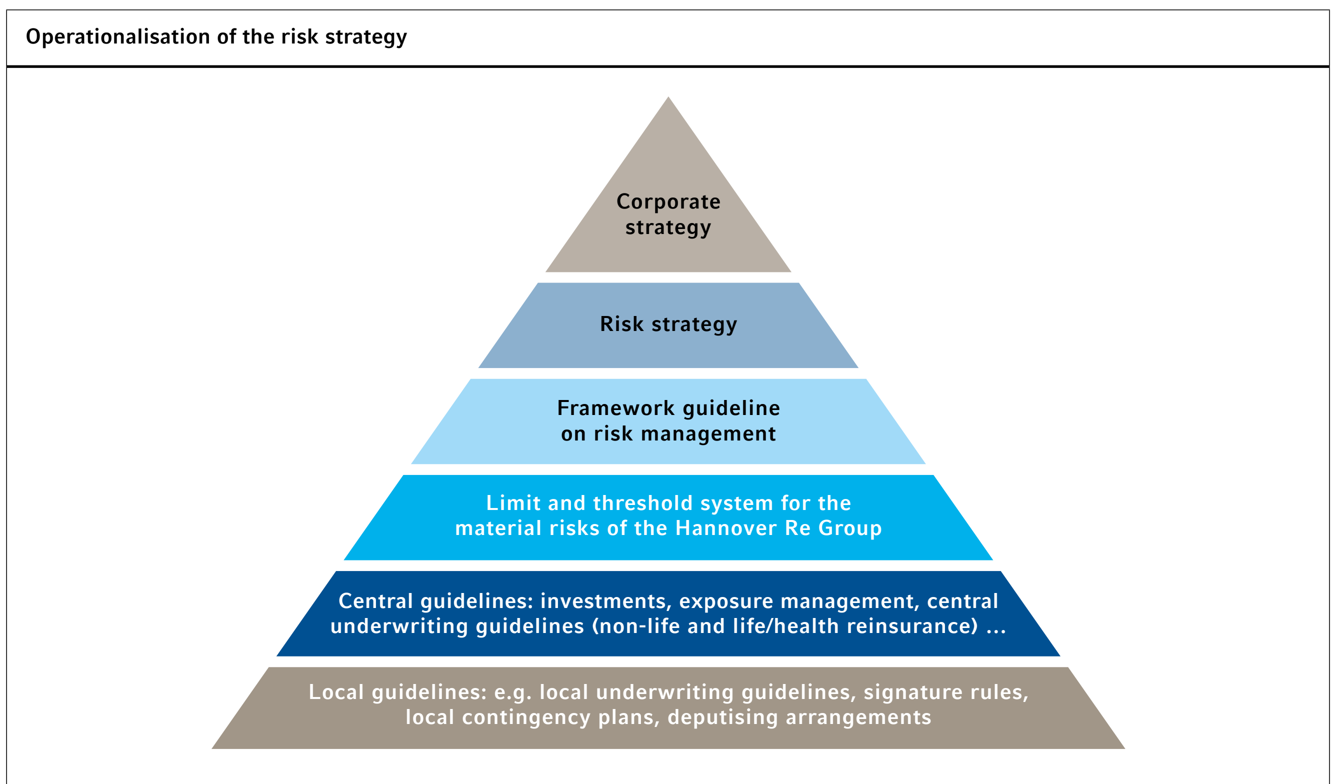
Principles for the handling of opportunities and risks

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

We manage our total risk such that we can expect to generate positive Group net income under IFRS with a probability of 90% and the likelihood of the complete loss of our economic equity and shareholders' equity does not exceed 0.03% p.a. These indicators are monitored using our internal capital model. The necessary equity resources are determined according to the requirements of our economic capital model, solvency regulations, the expectations of rating agencies with respect to our target rating and the expectations of our clients and shareholders. Above and beyond that, we maintain an equity buffer in order to be able to act on business opportunities at any time. We manage the level of our shareholders' equity in such a way that our targeted return of 750 basis points above the "risk-free" interest rate is not jeopardised. In order to optimise our cost of capital we use equity substitutes such as hybrid capital and the transfer of risk to capital and retrocession markets. Through the risk-appropriate allocation of the cost of capital to individual business areas we strive to maximise the risk-adjusted profit.

Opportunities for the Hannover Re Group are to be anticipated inter alia as a consequence of the impending adoption of risk-based solvency systems, such as Solvency II, in Europe. Solvency II is expected to be implemented on 1 January 2014, although the first regulations will enter into force in 2013. We

Operationalisation of the risk strategy



have long practised a risk-based and value-based management approach of the type which regulators will then require and we began to make our preparations for the requirements of Solvency II at an early stage. This includes participating in all Quantitative Impact Studies (QIS) and entering the pre-application phase for approval of an internal capital model. We see Solvency II as an opportunity for the convergence of international regulatory and internal corporate approaches and, all in all, we believe that we are well-equipped to provide the markets with tailored products. We see market opportunities in the area of structured reinsurance solutions designed to reduce solvency requirements, individual financing solutions and in the transfer of risks to the capital market. Thanks to our broad Group diversification, we enjoy the advantage of being able to offer our clients attractive solutions for improving their solvency margin. For Hannover Re itself, the capital requirements imposed under Solvency II are unlikely to present an obstacle, since our internal capitalisation targets (confidence level of 99.97%) go well beyond the regulatory requirements (confidence level of 99.5%).

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 various target markets. Furthermore, we anticipate rising demand for individual protection against biometric risks in major emerging markets such as China, India and Brazil. Business ideas and opportunities are systematically analysed by our Business Opportunity Management unit with the aim of generating new business and thereby enabling the Hannover Re Group 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.

In this connection we aspire to a rating from the rating agencies most relevant to our industry that opens up and secures access for our company to all attractive business worldwide. The current financial strength rating from Standard & Poor's is "AA–" ("Very strong", stable outlook) and the rating from A.M. Best is "A" ("Excellent", positive outlook). Hannover Re's risk management is assessed by Standard & Poor's as "strong", the second-best S&P rating. This evaluation testifies to the quality of our holistic approach to risk management. We would additionally refer the reader to our remarks on the financial strength ratings of our subsidiaries in section "Financial position" of the management report.

Functions within the risk management system

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

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 Group-wide 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 holistic risk monitoring across the Group as a whole and the business groups (systematic identification and assessment, control/monitoring and reporting) of all material risks from the Group perspective (technical risks in life/health and non-life reinsurance, market risks, credit risks, operational risks and other risks)
Group Risk Management	• Risk monitoring across the Group as a whole and the business groups of all material risks from the company perspective • Methodological expertise in the development of processes and methods for risk analysis, assessment and management as well as for risk limitation and reporting
Business units[1]	• Risk steering: primary responsibility for risk identification and assessment on the departmental level based on the guidelines of Group Risk Management • Setting up and monitoring of the department's internal control system (ICS)
Internal Auditing	• Process-independent and Group-wide supervision on behalf of the Executive Board

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

Available capital and required risk capital[1] in EUR million	2011	2010
Underwriting risks in non-life reinsurance	3,048.3	2,905.3
Underwriting risks in life and health reinsurance	2,029.1	1,961.8
Market risks	1,992.2	2,440.1
Credit risks	569.4	406.5
Operational risks	408.6	314.9
Diversification effect	(2,562.9)	(2,617.9)
Required risk capital of the Hannover Re Group	5,484.7	5,410.7
Available economic capital	8,758.7	8,381.7
Capitalisation ratio	159.7%	154.9%

1 The required risk capital is the Value at Risk for the confidence level of 99.97% of the potential change in value over a period of one year.

Quantitative risk management methods

For many years Hannover Re has managed and monitored its risks with the aid of quantitative methods. In this context, Hannover Re's internal capital model is one of the central tools. It constitutes a uniform mathematical framework for the evaluation of all risks affecting the company. In this way, the costs associated with a risk – the cost of capital – can be consistently broken down to all operational areas of the corporate group.

The internal capital model of Hannover Re is a stochastic enterprise model. It is able to determine the effect of a large number of scenarios on key performance indicators and balance sheet ratios. In this context, an economic valuation approach is practised that in many respects corresponds to the business valuation likely to be adopted in future under Solvency II. On the basis of methods used in actuarial science and financial mathematics, scenarios are generated for technical risks, market risks, credit risks and operational risks – making allowance for the dependencies between these risks. Last but not least, the model enables us to verify whether the level of available economic capital exceeds the capital required to operate the business at all times. Hannover Re calculates the required capital as the Value at Risk (VaR) of the economic change in value over a period of one year with a confidence level of 99.97%. This reflects the goal of not exceeding a one-year ruin probability of 0.03%. The internal target capitalisation is therefore significantly higher than the future requirements under Solvency II, where the confidence level is 99.5%.

The requirements placed on the existing risk capital rose slightly in the year under review from EUR 5,410.7 million to EUR 5,484.7 million. This increase reflects the enlarged business volume in the non-life and life/health reinsurance business groups. The increased credit risk is attributable inter alia to a rise in reinsurance recoverables due to the use of retrocession in the 2011 financial year. The market risks give rise to an effect that runs contrary to the increase in required risk capital for the non-life and life/health reinsurance groups. The required risk capital for market risks is lower because Hannover Re progressively reduced its equity allocation in the year under review.

The available economic capital increased in the observation period from EUR 8,381.7 million to EUR 8,758.7 million. This was principally due to the positive business result for 2011 despite the heavy burden of major losses. The change in the economic environment in 2011 – with sharply lower interest rates and higher credit spreads – led to an increase in the valuation reserves for investments and a reduction of the valuation adjustments for non-life reinsurance. The valuation reserves for life and health reinsurance climbed above all due to the positive development of new business.

Reconciliation (economic capital/shareholders' equity) in EUR million	2011	2010
Shareholders' equity	5,606.7	5,117.9
Value adjustments for non-life reinsurance	1,262.8	1,490.2
Value adjustments for life and health reinsurance	751.6	675.8
Value adjustments for assets under own management	368.8	232.5
Tax effects and other	(962.8)	(1,003.8)
Economic equity	7,027.1	6,512.6
Hybrid capital	1,731.6	1,869.1
Available economic capital	8,758.7	8,381.7

The increase in the available economic capital and the parallel merely modest rise in the required risk capital pushed the coverage ratio higher to 159.7%. The Hannover Re Group thus continues to be very well capitalised.

Hannover Re calculates the economic equity as the difference between the market-consistent value of the assets and the market-consistent value of the liabilities. While fair values are available for most investments, the market-consistent valuation of reinsurance treaties necessitates a suitable valuation model. We establish the market-consistent value of technical items as the present value of projected payments using actuarial methods adjusted by a risk loading that factors in the fluctuation in future payments. These fluctuations result from non-hedgeable risks such as technical risks. For the life reinsurance line we additionally use valuation principles similar to those set out by the Chief Financial Officer Forum for the calculation of the Market Consistent Embedded Value (MCEV). This valuation method discloses the capital reserves that are not revealed by the measurement rules under IFRS. The valuation reserves for investments show the difference between the fair values and book values of our assets under own management. Other valuation adjustments refer principally to deferred taxes in connection with the valuation adjustments.

The available economic capital, which is available as liable capital for policyholders, is comprised of the economic equity measured as described above and the hybrid capital.

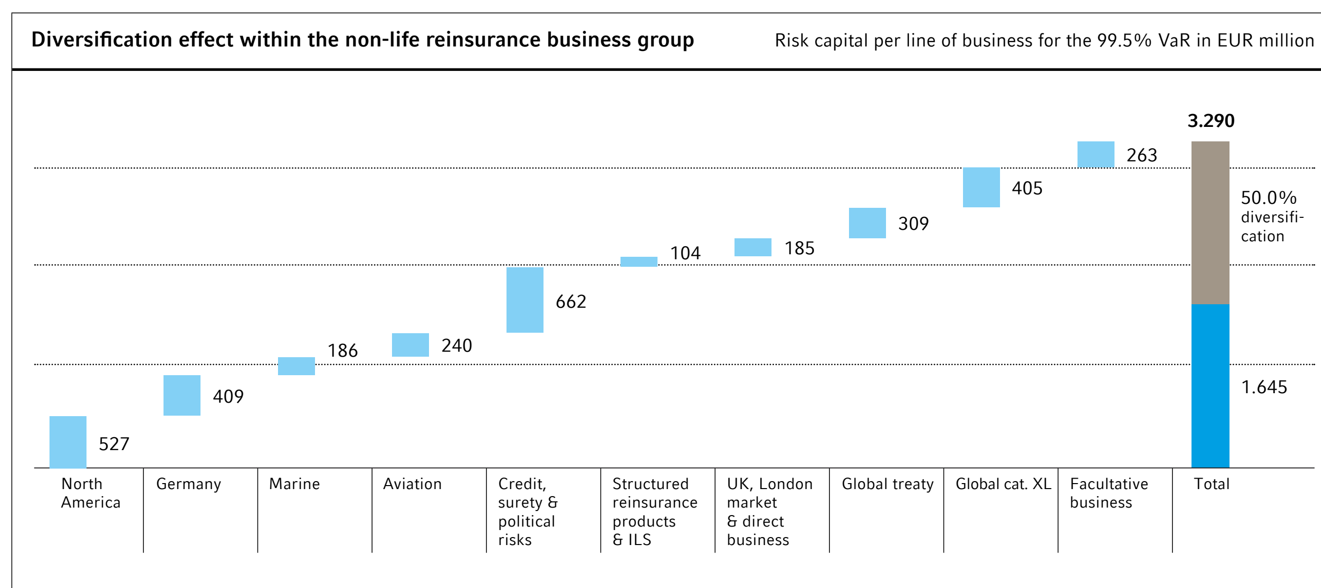
As already explained, the internal capital model of Hannover Re covers technical risks, market risks, credit risks and operational risks. These risks are carried over to Hannover Re's risk map and further broken down, e.g. into interest rate risks, catastrophe risks and reserving risks. Dependencies exist between these risks, which Hannover Re takes into account in order to adequately establish its target capitalisation. Dependencies arise, for example, as a consequence of market shocks such as the current financial crisis which simultaneously impact multiple market segments. What is more, several observation periods may be interrelated on account of market phenomena such as price cycles. In dealing with these dependencies, however, it is our assumption that not all extreme events occur at the same time. The absence of complete dependency is referred to as diversification.

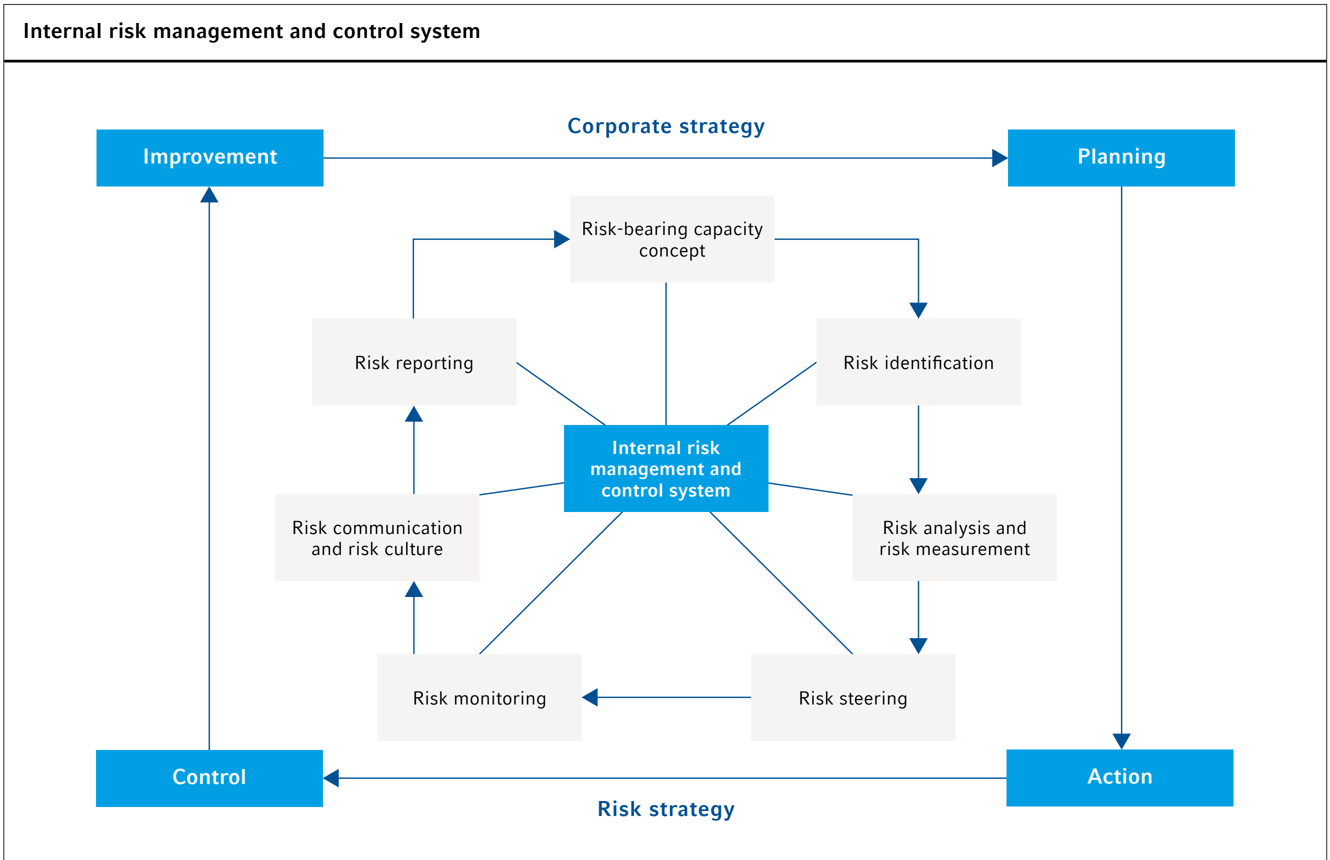
Hannover Re's business model is based inter alia on building up the most balanced possible portfolio so as to achieve the greatest possible diversification effects and in order to deploy capital efficiently. Diversification exists between individual reinsurance treaties, lines, business segments and risks. We define the cost of capital to be generated per business unit according to the capital required by our business segments and lines as well as their contribution to diversification.

Qualitative risk management methods

Qualitative methods and practices are a fundamental element of our internal risk management and control system as well as the future Own Risk and Solvency Assessment (ORSA) pursuant to Article 45 of the Solvency II Directive. Systematic risk identification, analysis, measurement, steering and monitoring as well as risk reporting are crucial to the effectiveness of risk management as a whole. Only by giving prompt consideration to risks can the continued existence of our Group 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.

Diversification effect within the non-life reinsurance business group Risk capital per line of business for the 99.5% VaR in EUR million





The Risk Management Framework Guideline of the Hannover Re Group describes the existing elements of the risk management system that has been put in place. It is intended to establish homogeneous Group 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 at short notice. The criteria for this reporting are also specified in the Risk Management Framework Guideline. Within the central system of limits and thresholds for the material risks of the Hannover Re Group, key ratios have been specified for steering and monitoring. Risk steering and monitoring is operationalised through the specification of suitable limits and thresholds for quantitatively measurable material risks. Material risks that cannot be quantified or are difficult to quantify (such as operational risks or reputational risks) are primarily steered using appropriate processes and practices and are monitored with the aid of qualitative measurement methods, such as expert assessments.

Internal control system

Another key element of the overall system is the Framework Guideline on the Internal Control System (ICS). The purpose of this set of rules is to systematically steer and monitor the execution of our corporate strategy. 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 of Hannover Re.

The Framework Guideline defines concepts, stipulates responsibilities and provides a guide for the description of controls. In addition, it forms the basis for the accomplishment of internal objectives and the fulfilment of external requirements imposed on Hannover Re. The ICS consists of systematically structured organisational and technical measures and controls within the enterprise. It serves, inter alia, to safeguard compliance with guidelines and to reduce risks in the interests of secure execution of corporate strategy. This includes, among other things:

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

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

Data for the preparation of the consolidated financial statement audited by independent auditors is delivered by the relevant entities using a Web-based IT application. The individual items of the balance sheet, statement of income, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and the relevant data for the segmental reporting, notes and consolidation are stored in a database; this data is uploaded via automatic interfaces to a consolidation system, where it can be edited. Depending upon the findings produced by reconciliation of internal transactions within the Group, these values are corrected as necessary. Provision is made for manual bookings in the case of extraordinary or unusual transactions. The control measures described above – among other checks – are performed in order to avoid false statements.

Risk landscape of Hannover Re

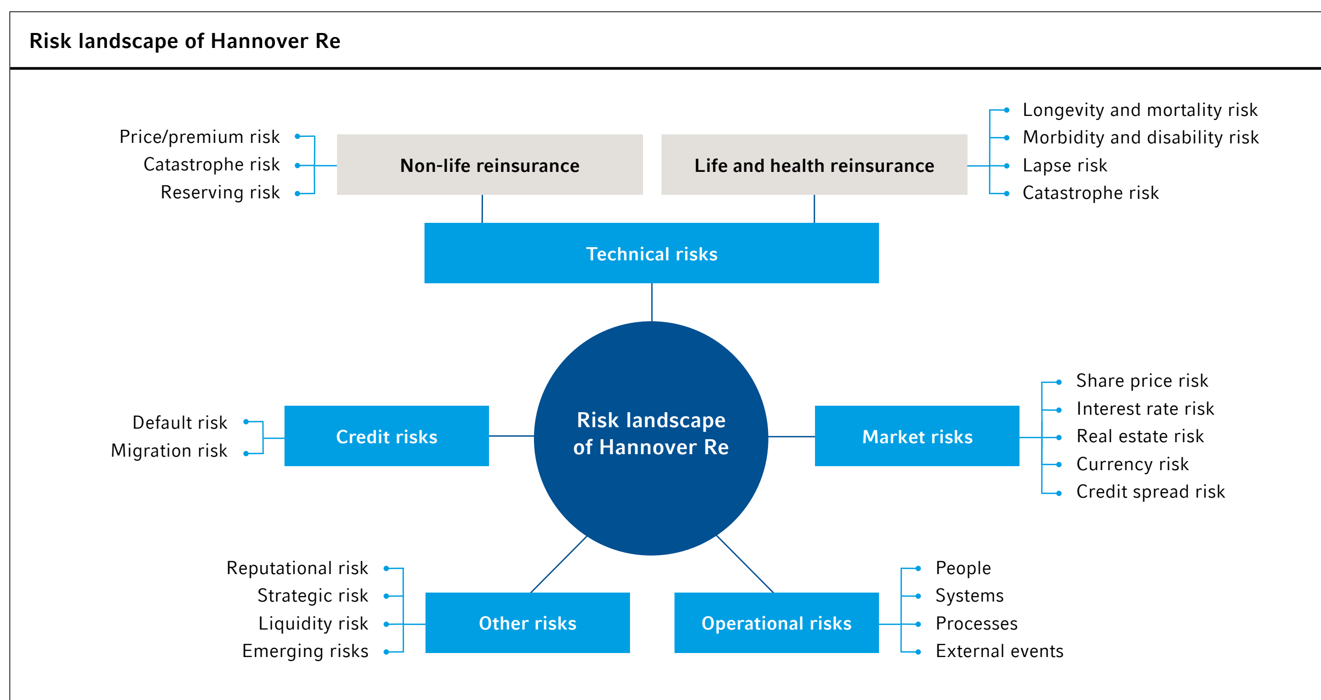
The risk landscape of Hannover Re encompasses technical risks in non-life and life/health reinsurance, market risks, credit risks, operational risks and other risks. The specific risk characteristics and the principal monitoring and management mechanisms are described in the following sections.

Technical risks in non-life reinsurance

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

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

Risk landscape of Hannover Re



Survival ratio in years and reserves for asbestos-related claims and pollution damage						in EUR million
	2011			2010		
	Individual loss reserves	IBNR reserves	Survival ratio in years	Individual loss reserves	IBNR reserves	Survival ratio in years
Asbestos-related claims/ pollution damage	28.4	194.0	25.9	29.1	182.5	22.8

Liability claims have a major influence on the IBNR reserve. The IBNR reserve is calculated on a differentiated basis according to risk categories and regions. The IBNR reserve established by the Hannover Re Group amounted to EUR 4,795.2 million in the year under review. Asbestos- and pollution-related claims involve complex calculation methods. The adequacy of these reserves can be estimated using the so-called "survival ratio". This ratio expresses how many years the reserves would cover if the average level of paid claims over the past three years were to continue.

The statistical run-off triangles used by our company are another monitoring tool. They show the changes in the reserve over time as a consequence of paid claims and in the recalculation of the reserves to be established as at each balance sheet date. Their adequacy is monitored using actuarial methods (cf. here Section 5.7 "Technical provisions" on page 167 et seq.). Our own actuarial calculations regarding the adequacy of the reserves are also subject to annual quality assurance reviews conducted by external actuaries and auditors.

Hannover Re has taken out inflation swaps (USD and EUR zero coupon swaps) to partially hedge inflation risks. Portions of the loss reserves are hedged against inflation risks by means of these derivative financial instruments. An inflation risk exists particularly inasmuch as the liabilities (e.g. loss reserves) could develop differently than assumed at the time when the reserve was constituted. Inflation protection was purchased for the first time in the second quarter of 2010 with terms of 4 and 5 years; it was increased in the first quarter of 2011 (term of 8 years).

Licensed scientific simulation models, supplemented by the expertise of our own specialist departments, are used to assess our material catastrophe risks from natural hazards (especially earthquake, windstorm and flood). Furthermore, we establish the risk to our portfolio from various scenarios in the form of probability distributions. The monitoring of the natural hazards exposure of the Hannover Re portfolio (accumulation control) is rounded out by realistic extreme loss scenarios. Within the scope of accumulation controlling, the Executive Board defines the risk appetite for natural perils once a year on the basis of the risk strategy by specifying the portion of the economic capital that is available to cover risks from natural perils.

This is a key basis for our underwriting approach in this segment.

For the purposes of risk limitation, maximum underwriting limits (capacities) are stipulated for various extreme loss scenarios and return periods in light of profitability criteria. Adherence to these limits is continuously verified by Group Risk Management. The Risk Committee, Executive Board and Non-Life Executive Committee are kept regularly updated on the degree of capacity utilisation. The limits and thresholds for the 100-year and 200-year aggregate loss as well as the utilisation thereof are set out in the following table.

The catastrophe losses and major claims shown on the next page were incurred by our company in the 2011 financial year.

Limits and thresholds for the 100- and 200-year aggregate annual loss as well as utilisation thereof			
Natural catastrophes and aggregate annual losses in EUR million	Limit 2011	Threshold 2011	Actual utilisation (July 2011)
All natural catastrophe risks, net exposure			
100-year aggregate annual loss	1,010	909	762
200-year aggregate annual loss	1,230	1,107	925

Catastrophe losses and major claims[1] 2011 in EUR million	Date	gross	net
Earthquake in Japan	11 March	410.7	228.7
Flood damage in northern and central Thailand	15 September – 1 November	234.5	195.7
Earthquake in Christchurch, New Zealand	22 February	480.9	121.4
11 fire claims		117.9	81.8
Flooding in Brisbane, Australia	10 – 31 Januar	64.7	53.9
Winter storm damage in Mexico	3 – 5 February	50.1	50.1
5 marine claims		91.4	47.1
Tornadoes in the Midwestern United States	20 – 25 May	45.1	40.5
4 aviation claims		58.1	34.4
Earthquake in Sumner, New Zealand	13 June	42.7	29.8
Hurricane Irene in the United States and Caribbean	20 – 29 August	33.8	25.9
Cyclone Yasi in Australia	2 – 3 Februar	23.1	16.7
Tornadoes in the southern United States	27 – 28 April	22.6	14.6
Thunderstorm in Germany	24 – 26 August	15.1	10.0
Cloudburst in Copenhagen, Denmark	2 July	11.5	7.8
Unrest in Tunisia	1 – 31 January	7.1	7.1
Forest fires in Alberta, Canada	15 May	9.6	6.8
Winter storm damage in the United States	31 January – 5 February	5.3	4.2
Thunderstorm in eastern and southern Germany	11 September	5.4	4.2
Total		**1,729.6**	**980.7**

1 Natural catastrophes and other major claims > EUR 5 million gross

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.

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.

The development of the combined ratio in non-life reinsurance is shown in the table on the following page.

Stress tests for natural catastrophes after retrocessions in EUR million	2011	2010
	Effect on forecast net income	
100-year loss European windstorm	(63.2)	(146.5)
100-year loss US windstorm	(296.8)	(259.8)
100-year loss Japanese windstorm	(255.5)	(189.4)
100-year loss Tokyo earthquake	(237.4)	(195.1)
100-year loss California earthquake	(224.8)	(233.1)
100-year loss Sydney earthquake	(89.6)	(72.5)

Combined and catastrophe loss ratio over the past ten years										in %
	2011	2010	2009	2008	2007	2006	2005[1]	2004[1,2]	2003[1,2]	2002[1,2]
Combined ratio (non-life reinsurance)	104.3	98.2	96.6	95.4	99.7	100.8	112.8	97.2	96.0	96.3
Thereof catastrophe losses[3]	16.5	12.3	4.6	10.7	6.3	2.3	26.3	8.3	1.5	5.2

1 Incl. financial reinsurance and specialty insurance
2 Based on US GAAP figures
3 Natural catastrophes and other man-made major losses > EUR 5 million gross for the share of the Hannover Re Group as a percentage of net premium earned

Technical risks in life and health reinsurance

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

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

By monitoring compliance with these underwriting guidelines we minimise the risk of an inability to pay or deterioration in the financial status of cedants. Regular reviews and holistic analyses (e.g. with an eye to lapse risks) are carried out with respect to new business activities 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. The table shows the MCEV 2010 and its sensitivities in comparison with the corresponding sensitivities of the MCEV 2009. For more detailed information please see the Market Consistent Embedded Value Report 2010, which in a departure from the system used here shows the figures after non-controlling interests.

Sensitivity analysis of the Market Consistent Embedded Value (MCEV)[1,2]		
Base values in EUR million	2010	2009
Base value	3,891.0	3,390.3
Interest rate curve +100 basis points	–0.5%	2.2%
Interest rate curve –100 basis points	0.3%	–2.2%
Costs –10%	1.3%	1.3%
Lapse +10%	–5.4%	–5.5%
Lapse –10%	3.0%	10.2%
Mortality +5%	–14.4%	–15.5%
Mortality –5%	19.2%	21.6%

1 More extensive information is provided in the MCEV reports published on our website. The presentation is based on the principles for publication of the MCEV defined by the CFO Forum. The CFO Forum is an international organisation of Chief Financial Officers from major insurance and reinsurance enterprises.
2 Before consolidation, excluding non-controlling interests

The change in the MCEV under the scenarios shown captures the low volatility in this area and reflects our portfolio's high degree of diversification. The consolidated MCEV before non-controlling interests amounted to EUR 2,711.9 million (2009: EUR 2,210.8 million) as at 31 December 2010. This represents an increase of 22.7% (33.8%). The operating MCEV earnings totalled EUR 299.5 million (EUR 178.5 million), while the value of new business stood at EUR 153.4 million (EUR 83.9 million). We shall publish the MCEV for the 2011 financial year on our Internet website at the same time as the quarterly report for the first quarter of 2012.

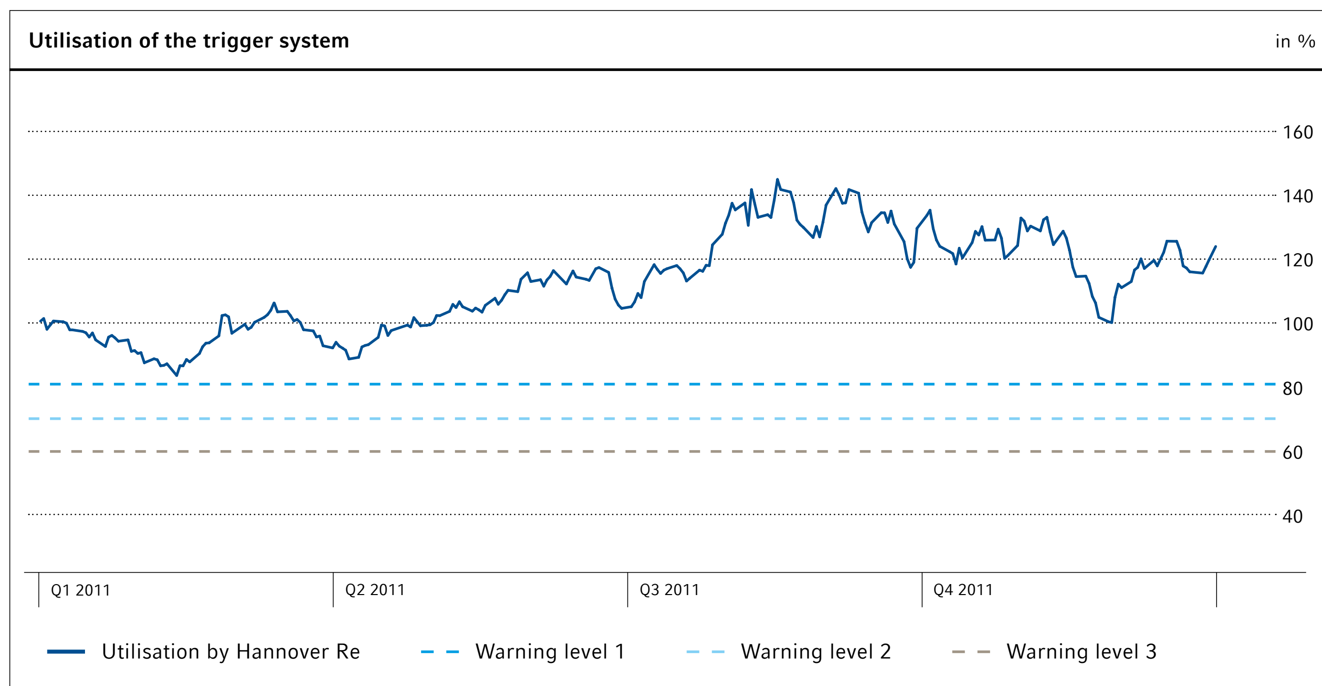
Market risks

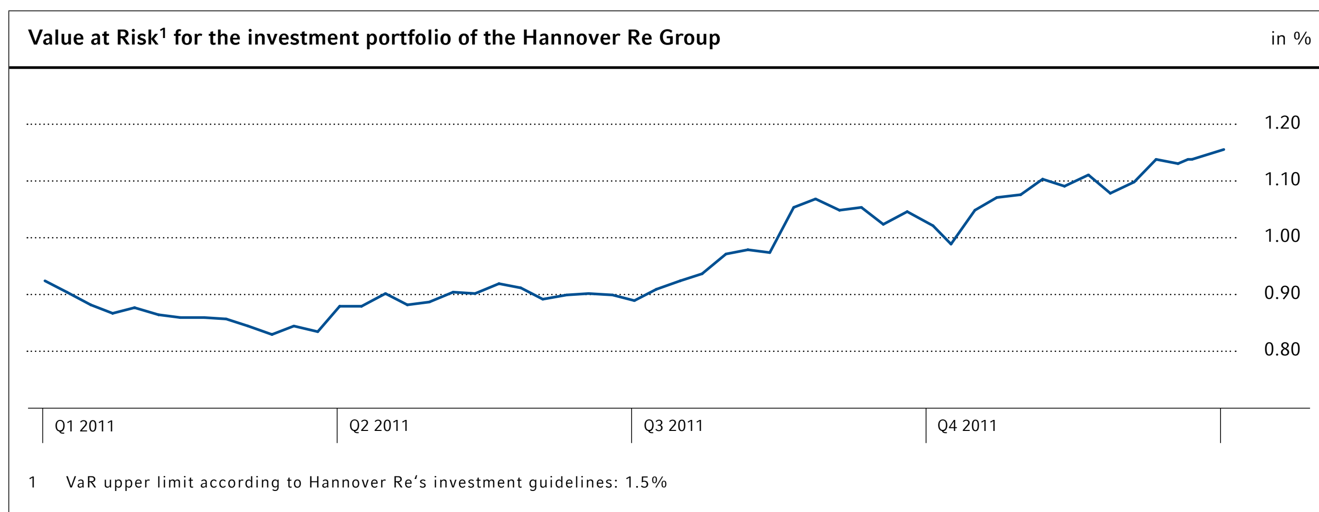
We pursue an investment policy in which the primary emphasis is on the stability of the generated return. With this in mind, our portfolio is guided by the principles of broad diversification and a balanced risk/return ratio. Risks in the investment sector consist primarily of market, credit default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

With a view to preserving the value of our assets under own management, we constantly monitor adherence to a trigger mechanism based on a clearly defined traffic light system that is applied across all portfolios. This system puts the accumulated fluctuations in fair value and realised gains/losses on investments since the beginning of the year in relation to a maximum loss amount, with an eye to clearly graduated trigger values. These are unambiguously defined in conformity with our risk appetite and trigger specified actions if a corresponding fair value development is overstepped. Despite the sometimes difficult capital market environment in the year under review, our early-warning system consistently remained above the escalation levels (cf. graph below).

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

Utilisation of the trigger system in %





The model takes into account the following market risk factors:

- interest rate risk,
- credit spread risk,
- systematic equity risk,
- specific equity risk,
- commodity risk,
- option-specific risk.

Market price risks increased in the year under review in the face of greater volatility. Due to continued broad risk diversification and the liquidation of our equity portfolio in the first quarter, our Value at Risk of 1.2% (0.7%) as at the end of the reporting period was nevertheless clearly below the Value at Risk upper limit of 1.5% defined in our investment guidelines.

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). The internal capital model provides us with quantitative support for the investment strategy as well as a broad diversity of VaR calculations. In addition, tightly defined tactical duration ranges are in place, within which the portfolio can be positioned opportunistically according to market expectations. The parameters for these ranges are directly linked to our calculated risk-bearing capacity.

Further information on the risk concentrations of our investments can be obtained from the tables on the rating structure of fixed-income securities as well as on the currencies in which investments are held. Please see our comments in

Scenarios for changes in the fair value of material investment positions — in EUR million

	Scenario	Portfolio change on a fair value basis	Change in equity before tax
Equity securities	Share prices –10%	–4.0	–4.0
	Share prices –20%	–8.1	–8.1
	Share prices +10%	4.0	4.0
	Share prices +20%	8.1	8.1
Fixed-income securities	Yield increase +50 basis points	–560.3	–388.8
	Yield increase +100 basis points	–1,095.0	–759.0
	Yield decrease –50 basis points	581.7	403.9
	Yield decrease –100 basis points	1,188.5	826.0
Real estate	Real estate market values –10%	–59.1	–12.8
	Real estate market values +10%	59.1	12.8

Section 5.1 of the notes, "Investments under own management", page 148 et seq.

Share price risks derive from the possibility of unfavourable changes in the value of equities, equity derivatives or equity index derivatives held in the portfolio. In the first quarter we disposed of our entire portfolio of listed equities in view of what was already a highly volatile market environment. Since then we have made corresponding 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. Please see also our comments in Section 5.1 of the notes, "Investments under own management", page 148 et seq.

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

Currency risks are especially relevant if there is a currency imbalance between the technical liabilities and the assets. Through extensive matching of currency distributions on the assets and liabilities side, we reduce this risk on the basis of the individual balance sheets within the Group. The short-term Value at Risk therefore does not include quantification of the currency risk. We regularly compare the liabilities per currency with the covering assets and optimise the currency coverage in light of relevant collateral conditions by regrouping assets. Remaining currency surpluses are systematically quantified and monitored within the scope of economic modelling. A detailed presentation of the currency spread of our investments is provided in Section 5.1, "Investments under own management", page 148 et seq.

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

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

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

Credit risks

The credit risk consists primarily of the risk of complete or partial failure of the counterparty and the associated default on payment. Also significant here is the so-called migration risk, which results from the possibility of a deterioration in the counterparty credit quality and is reflected in a change in fair value. Since the business that we accept is not always fully retained, but instead portions are retroceded as necessary, the credit risk is also material for our company in reinsurance transactions. Our retrocession partners are carefully selected and monitored in light of credit considerations in order to keep the risk as small as possible. This is also true of our broker relationships, which entail a risk inter alia through the potential loss of the premium paid by the cedant to the broker or through possible double payments of claims. We minimise these risks, inter alia, by reviewing all broker relationships with an eye to criteria such as the existence of professional indemnity insurance, payment performance and proper contract implementation. The credit status of retrocessionaires is continuously monitored. On the basis of this ongoing monitoring a Security Committee decides on measures where necessary to secure receivables that appear to be at risk of default. This process is supported by a Web-based risk management application, which specifies cession limits for the individual retrocessionaires participating in protection cover programmes and determines the capacities still available for short-, medium- and long-term business (cession management). Depending on the type and expected run-off duration of the reinsured business, the selection of reinsurers takes into account not only the minimum ratings of the rating agencies Standard & Poor's and A. M. Best but also internal and external expert assessments (e.g. market information from brokers). Overall, retrocessions conserve our capital, stabilise and optimise our results and enable us to act on opportunities across a broader front, e.g. following a catastrophe loss event. Regular visits

Keeping risks firmly under control is compulsory. Elegance is a matter of choice.

Risk management is crucial to the success of our business. We therefore keep a particularly close eye on the assessment and evaluation of risks.

Gross written premium retained					in %
	2011	2010	2009	2008	2007
Hannover Re Group	91.2	90.1	92.6	89.1	87.4
Non-life reinsurance	91.3	88.9	94.1	88.9	85.3
Life and health reinsurance	91.0	91.7	90.7	89.3	90.8

to our retrocessionaires give us a reliable overview of the market and put us in a position to respond quickly to capacity changes. Through these close contacts with our retrocessionaires we are able to provide a stable renewals forecast. The table above shows how the proportion of assumed risks that we do not retrocede (i.e. that we run in our retention) has changed in recent years.

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.

The key ratios for management of our bad debt risk are as follows:

- 90.9% of our retrocessionaires have an investment grade rating (“AAA” to “BBB”),
- 89.7% are rated “A” or better.
- Since 2007 we have reduced the level of recoverables by altogether 37.3%.
- 38.8% of our recoverables from reinsurance business are secured by deposits or letters of credit. What is more, for the majority of our retrocessionaires we also function as reinsurer, meaning that in principle recoverables can potentially be set off against our own liabilities.
- In terms of the Hannover Re Group’s major companies, EUR 276.9 million (8.8%) of our accounts receivable from reinsurance business totalling EUR 3,142.1 million were older than 90 days as at the balance sheet date.
- The average default rate over the past three years was 0.1%.

Retrocession gives rise to claims that we hold against our retrocessionaires. These reinsurance recoverables – i.e. the reinsurance recoverables on unpaid claims – amounted to EUR 1,550.6 million (EUR 1,025.3 million) as at the balance sheet date.

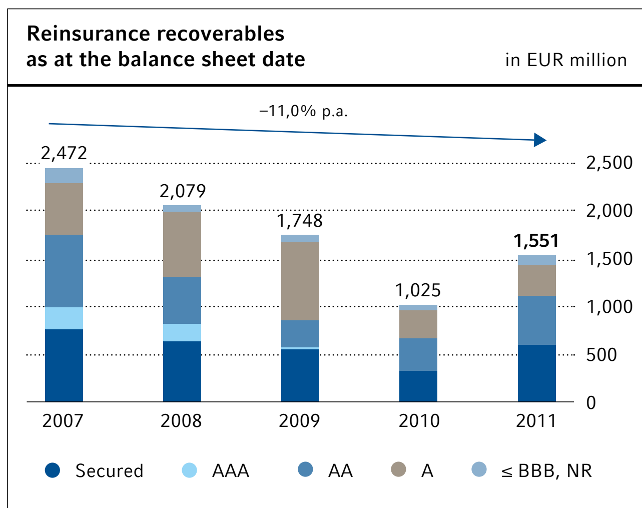
The chart on the next page shows the development of our reinsurance recoverables – split by rating quality – due from our retrocessionaires. Although the reinsurance recoverables were higher in 2011 than in the previous year on account of the heavy burden of major losses, recent years are clearly trending lower with an average reduction of 11% per year.

Further remarks on technical and other assets which were unadjusted but considered overdue as at the balance sheet date as well as on significant impairments in the year under review are provided in Section 5.4 “Technical assets”, page 162 et seq., Section 5.6 “Other assets”, page 164 et seq. and Section 6.2 “Investment result”, page 183 et seq.

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.

Ratios used to monitor and manage our credit risks					
Management ratios	2011	2010	2009	2008	2007
Solvency margin[1]	68.25%	69.5%	60.4%	66.7%	72.6%
Debt leverage[2]	30.9%	36.5%	32.1%	41.3%	35.0%
Interest coverage[3]	8.5x	13.8x	14,9x	1.9x	12.0x
Reserves/premium[4]	292.7%	275.1%	270.1%	312.4%	291.3%
Combined ratio (non-life reinsurance)	104.3%	98.2%	96.6%	95.4%	99.7%

1 (Shareholders‘ equity + hybrid capital)/net earned premium
2 Hybrid capital/shareholders‘ equity
3 EBIT/interest on hybrid capital
4 Net reserves/net premium earned



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.

The measurement and monitoring mechanisms that have been put in place safeguard a prudent, broadly diversified investment strategy. This is reflected inter alia in the fact that within our portfolio of assets under own management the exposures to government bonds or instruments backed by sovereign guarantees issued by the so-called GIIPS states (Greece, Ireland, Italy, Portugal, Spain) amount to altogether just EUR 385.3 million on a fair value basis. This corresponds to a proportion of 1.3%. The individual countries account for the following shares: Spain EUR 309.4 million, Ireland EUR 36.6 million, Italy EUR 20.7 million and Portugal EUR 18.7 million. No impairments had to be taken on these holdings. Our portfolio no longer contains any bonds of Greek issuers.

On a fair value basis EUR 3,305.2 million of the corporate bonds held by our company were issued by entities in the financial sector. Of this amount, EUR 2,731.9 million was attributable to banks. The vast majority of these bank bonds (75.7%) are rated "A" or better. Our investment portfolio under own management does not contain any directly written credit derivatives.

Operational risks

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

Rating structure of our fixed-income securities[1]

Rating classes	Government bonds		Securities issued by semi-governmental entities		Corporate bonds		Covered bonds/asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	35.9	1,986.3	55.8	3,577.7	2.2	190.8	66.7	3,091.5
AA	45.4	2,506.7	40.1	2,576.9	15.9	1,366.9	23.4	1,086.0
A	11.9	658.2	3.0	195.6	52.2	4,483.2	2.4	109.7
BBB	4.7	259.0	0.6	35.8	25.1	2,155.6	3.1	143.1
< BBB	2.1	117.5	0.5	34.0	4.6	393.8	4.4	202.5
Total	**100.0**	**5,527.7**	**100.0**	**6,420.0**	**100.0**	**8,590.3**	**100.0**	**4,632.8**

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

Business process risks are associated with the risk of inadequate or deficient internal processes, e.g. as a consequence of poor data quality. Data quality is a critical success factor, especially in risk management, because all enterprise processes are based on the information made available. The overriding goal of our data quality management is to bring about sustainable improvement and to safeguard data quality within the Hannover Re Group, 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 the business activities of the Hannover Re Group (e.g. tax, anti-trust, embargo or regulatory law). Upon suspicion of breaches of the law pertaining to Hannover Re, our employees and business partners are able to report such suspicions anonymously using our electronic whistleblower system. These tips are brought to the attention of Hannover Re's Compliance Office, which is thus able to investigate the grounds for suspicion. Responsibilities within the compliance organisation are regulated Group-wide and documented in a manual. The process is documented in regular compliance reports and complemented by training activities. It is our assumption that the implementation of Solvency II will be accompanied not only by improved business opportunities but also by more exacting requirements for our risk management. We have therefore put in place extensive internal controls and advanced risk management methods and are tracking, for example, developments in connection with the "Own Risk and Solvency Assessment" very closely.

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

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

The proper functioning and competitiveness of the Hannover Re Group 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 the Hannover Re Group. Given the broad spectrum of such risks, a diverse range of steering and monitoring measures and organisational standards have been put in place. Among other things, our employees are made more conscious of such security risks through practically oriented tools, for example for the secure communication of information by e-mail.

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

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

Other risks

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

The hallmark of emerging risks is that the content of such risks cannot as yet be reliably assessed – especially with respect to our treaty portfolio. Such risks evolve gradually from weak signals to unmistakable tendencies. It is therefore vital to detect these risks at an early stage and then determine their relevance. For the purpose of early detection we have developed an efficient process that spans divisions and lines of business and we have ensured its linkage to risk management. Operational implementation is handled by an expert working group assembled specially for this task. The analyses performed by this working group are used Group-wide 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 of the Hannover Re Group and the constantly changing general business environment. Such an imbalance might be caused, for example, by incorrect strategic policy decisions, a failure to consistently implement the defined strategies and business plans or an incorrect allocation of resources. We therefore regularly review our corporate strategy in a multi-step procedure and adjust our processes and the resulting guidelines as and when required. We have defined performance criteria and indicators for the operational implementation of the strategic guidelines; these are authoritative when it comes to determining fulfilment of the various targets. In accordance with our strategy cycle, we reviewed our strategy this year and adjusted it in line with current requirements. The cross-divisional section, which contains our ten strategic principles, safeguards realisation of our vision: the cementing and expansion of our position as one of the leading, globally operating reinsurance groups of above-average profitability. The business group strategies specify in concrete terms the contribution to be made by the business groups to attainment of the overarching objectives. With the "Strategy Cockpit" responsible managers have at their disposal strategy software that assists them with the planning, elaboration and management of strategic objectives and measures. Further details are provided in the section entitled "Our strategy" on page 14 et seq.

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

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

Above and beyond the foreseeable payments, unexpected and exceptionally large payments may pose a threat to liquidity. Yet in reinsurance business significant events (major losses) are normally paid out after a lead time that can be reliably planned. 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 such as the 2008 financial crisis. Our holdings of unrestricted German, UK and US government bonds as well as cash during the year under

review were larger than possible disbursements for assumed extreme scenarios, which means that our liquidity is assured even in the unlikely event of financial crises coinciding with an extreme event that needs to be paid out quickly. The liquid asset reserve stood at more than EUR 1.8 billion as at the balance sheet date. 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. These 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 holistic conception of risk, since it is always the case that we only enter into those risks that go hand-in-hand with opportunities. Our management and monitoring tools as well as our organisational and operational structures ensure that we are able to identify our risks in a timely manner and maximise our opportunities. The pivotal element in this regard is our effective and closely interlinked system of qualitative and quantitative risk management.

We are of the opinion that our risk management system affords us a transparent overview of the current risk situation at all times and that our overall risk profile is appropriate. Our assessment is reinforced by various developments and key data: the increase of 76% in our shareholders' equity since 2008, our strong market position as one of the world's leading reinsurers and our very good credit rating (Standard & Poor's: AA–). 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 net income.

For additional information on the opportunities and risks associated with our business please see the Forecast contained in the management report.

Value-based management

Profitable growth has been at the heart of our business activities for many years and therefore remains a crucial objective of our Group strategy, which was revised this year. We shall seek to cement and further extend our position as one of the leading globally operating reinsurance groups of above-average profitability.

With a view to allocating our demanding profit and growth targets for the Group to the individual business activities and profit centres on a basis that adequately reflects the risks and in order to be able to measure goal attainment, we have used a set of value-based management tools for many years now.

In Performance Excellence (PE) we have at our disposal a consistent method Group-wide that enables us to steer the development of the company and measure the extent to which we have achieved our strategic objectives. The decentralised approach used by PE is of special importance in this context: every single organisational unit defines and continuously examines its value contributions to execution of the Hannover Re Group strategy and develops improvement initiatives.

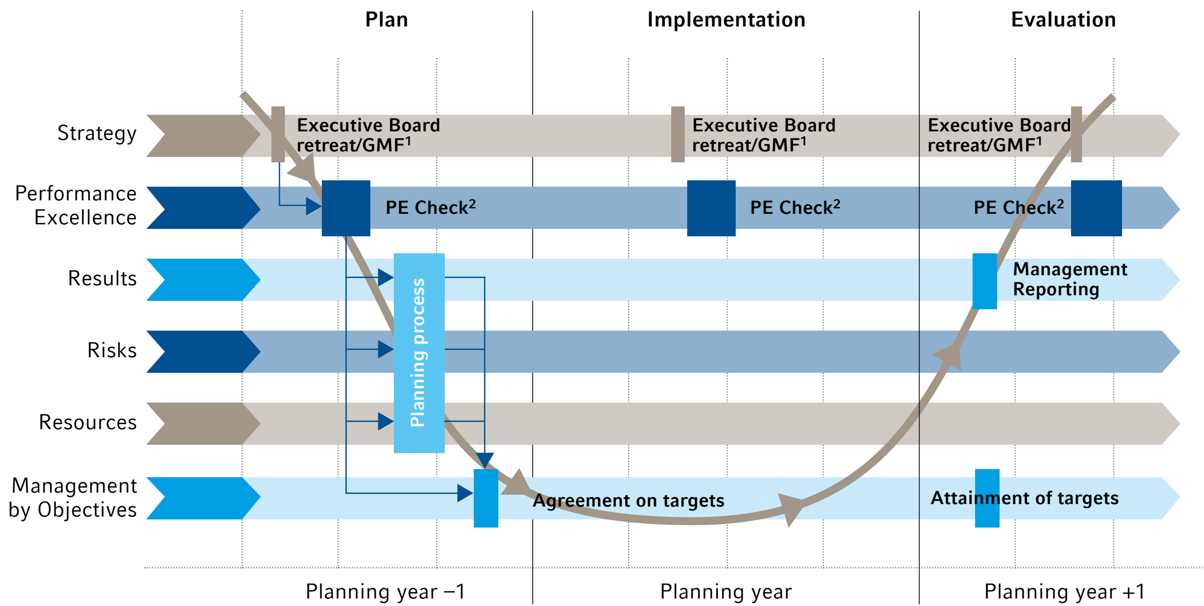
Planning process

The planning process spans the three levels of Results, Risks and Resources, which are closely interrelated. These three levels are planned by the responsible officers with central support and are reviewed and approved by the Executive Board. On the basis of the corporate strategy and the corresponding strategy contributions of all treaty departments and service units, the planning is adopted by the Executive Board and subsequently communicated within the Group.

Management by Objectives

The targets that emerge out of the planning process are integrated into the individual agreements on objectives with managers. When it comes to the definition of objectives, the participants take into account not only profit-oriented but also non-financial variables derived from the strategic parameters.

System of value-based management:
Performance Excellence (PE) combines the strategic and operational levels



1 All managers of the Hannover Re Group worldwide come together once a year at the Global Management Forum (GMF) to define strategic orientations. The parameters developed here serve as the basis for the subsequent process.
2 Verification and elaboration of contributions to the Group strategy

Management Reporting

The annual Management Reporting presents in detail the degree of goal attainment for each individual operational unit and for the Group as a whole. On this basis appropriate performance controlling is carried out, potential scope for improvement and refinement is identified and performance-oriented remuneration components defined in the context of Management by Objectives are established.

Capital allocation

The main component of value-based management is the risk-appropriate allocation of capital to the individual business activities. This enables us to evaluate the assumption of underwriting risks and investment risks both in light of individual risk/return aspects and against the backdrop of our overall risk appetite. Our economic capital model supplies the key parameters for this purpose. In addition, along with considerations of business policy, outside influencing factors such as the requirements of regulatory authorities and rating agencies also play a major role in the allocation of capital. Allowance is therefore made for them in the form of collateral conditions on the various allocation levels. Starting out from the Group's overall risk situation, capital is first allocated to the functional areas of underwriting and investments. We then further divide the capital within the underwriting sector, first between the business segments of non-life reinsurance and life/health reinsurance and then between the various reinsurance products (principally according to treaty types and lines). In this way, we ensure that when evaluating and pricing our various reinsurance products our profit targets are taken into consideration consistently and in light of risk/return aspects.

IVC – the decisive management ratio

In order to fine-tune the portfolios and individual treaties we apply underwriting-year-oriented measurement principles based on expected cash flows that appropriately accommodate the specific characteristics of non-life and life/health reinsurance. The accomplishment of targets in a particular financial year is also of interest – especially from the standpoint of shareholders. Based on our economic capital model, the foundation of our enterprise management, we strive to generate a profit in excess of the cost of capital. This return, which is the decisive ratio for the management of our business activities, is referred to as Intrinsic Value Creation (IVC).

With the aid of the IVC ratio it is possible to compare the value contributions of the Group as a whole, its two business groups and the individual operational units. This enables us to reliably identify value creators and value destroyers. In this way, we can

- optimise the allocation of capital and resources,
- identify opportunities and risks and
- measure strategy contributions with an eye to our demanding profit and growth targets.

The IVC (Intrinsic Value Creation) is calculated according to the following formula:
Adjusted operating profit – (capital allocated x weighted cost of capital) = IVC

The adjusted operating profit is comprised of two factors: the recognised IFRS Group net income after tax and the change in the balancing items for differences between economic valuations and amounts stated in the IFRS balance sheet (changes in the fair values of assets not recognised in income under IFRS, discount effect of the loss reserves and the Embedded Value Not Recognised (EVNR) in life/health reinsurance). In addition, interest on hybrid capital already recognised in the IFRS Group net income and the non-controlling interest in profit and loss are included back in the calculation.

The allocated capital consists of three components: the shareholders' equity including non-controlling interests, the balancing items for differences between economic valuations and amounts stated in the IFRS balance sheet and the hybrid capital. In this context, capital that is not at risk (excess capital) is disregarded, i.e. it is not allocated. Capital is allocated to the profit centres as described above according to the risk content of the business in question. A systematic distinction is made here between the assumption of underwriting risks, on the one hand, and investment risks, on the other. Under the IVC calculation, therefore, only risk-free interest income on the generated cash flows is allocated to the business segments of non-life and life/health reinsurance. The investment income above and beyond risk-free is allocated in its entirety to the functional area of investments and included in the IVC after deduction of the risk-appropriate cost of capital and the administrative expenses.

Intrinsic Value Creation and excess return on capital allocated

	2011			2010		
	IVC in EUR million	xRoCA in %	IVC margin[1] in %	IVC in EUR million	xRoCA in %	IVC margin[1] in %
Non-life reinsurance	91.2	+2.1	+1.5	323.7	+7.5	+6.0
Life and health reinsurance	221.4	+10.3	+4.6	243.9	+15.5	+5.2
Investments[2]	114.5	+5.3		126.3	+6.4	
Group	427.1	+5.0	+4.0	693.9	+8.8	+6.9

1 IVC/net premium earned
2 Income above risk-free after deduction of risk-appropriate cost of capital

In calculating the cost of capital, our assumption – based on a Capital Asset Pricing Model (CAPM) approach – is that the investor's opportunity costs are 450 basis points above the risk-free interest rate, meaning that value is created above this threshold. Our strategic return on equity target of 750 basis points above risk-free thus already contains a not insignificant target value creation. We allocate equity sparingly and use equity substitutes to optimise our average cost of capital. At 6.9%, we can point to a considerably lower average cost of capital than our competitors.

Since comparison of absolute amounts is not always meaningful, we have introduced the xRoCA (excess return on capital allocated) in addition to the IVC. This describes the IVC in relation to the allocated capital and shows us the relative excess return generated above and beyond the weighted cost of capital. Complementary to this, the IVC margin corresponds to the ratio of the IVC to the net premium earned, i.e. the intrinsic value creation as a percentage of our net premium income.

In addition to the intrinsic value creation, we also take into consideration traditional performance indicators (balance sheet ratios) as summarised in our target matrix for the Group and the business groups.

Target attainment

Business group	Key data	Targets 2011	2011	2010[1]	2009	2008	2007
Non-life reinsurance	Combined ratio	≤ 100%	104.3%	98.2%	96.6%	95.4%	99.7%
	Net cat. loss expectancy	≤ 530	981	662	240	458	285
	EBIT margin[2]	≥ 10%	10.1%	16.3%	14.0%	0.1%	14.6%
	IVC margin[3]	≥ 2%	1.5%	6.0%	1.7%	–10.7%	4.1%
Life and health reinsurance	Gross premium growth	10–12%	3.5%	12.4%	44.5%	1.7%	10.4%
	EBIT margin[2]	≥ 6 %	4.5%	6.1%	9.2%	4.3%	8.2%
	MCEV growth[4]	≥ 10%	n. a.[5]	24.3%	33.8%	6.0%	20.1%
	Increase in the value of new business	≥ 10%	n. a.[5]	89.2%	–44.2%	41.4%	65.7%
Group	Investment return	≥ 3.5%[6]	3.9%	3.9%	4.0%	0.4%	4.6%
	Return on equity	≥ 10.6%[7]	12.8%	18.2%	22.4%	–4.1%	23.1%
Triple-10 targets	EBIT growth	≥ 10%	–28.6%	2.7%	> 100%	–84.0%	13.2%
	Growth in earnings per share	≥ 10%	–19.1%	2.1%	> 100%	–117.6%	8.3%[8]
	Growth in book value per share	≥ 10%	10.2%	21.4%	31.2%	–15.5%	15.6%

1 Adjusted on the basis of IAS 1
2 Operating profit (EBIT)/net premium earned
3 IVC/net premium earned
4 MCEV increase on the basis of the adjusted MCEV of the previous year after elimination of capital changes and changes from currency effects.
5 The MCEV as at 31 December 2011 will be published on our website at the same time as the quarterly financial report for the first quarter of 2012.
6 Risk-free interest rate + cost of capital
7 750 basis points above the risk-free return
8 Excluding tax effect

Enterprise management

Declaration on Corporate Governance

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

German Corporate Governance Code

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

Declaration of Conformity

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

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

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

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

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

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

Hannover, 13 December 2011

Executive Board Supervisory Board

Statement of enterprise management practices

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

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

Corporate Governance

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

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

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

Compliance

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

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

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

Risk monitoring and steering

The risk management system applicable throughout the entire Hannover Re Group is based on the risk strategy, which in turn is derived from the company strategy. A core component is the systematic and comprehensive recording of all risks that from the current standpoint could conceivably jeopardise the company's profitability and continued existence. Further details in this regard may be obtained from the opportunity and risk report contained in the Annual Report on page 63 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 8 and 210 respectively of the present Annual Report.

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

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

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

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

The Standing Committee prepares personnel decisions for the Supervisory Board and decides in lieu of the Supervisory Board on the content, formation, amendment and termination of contracts of employment with the members of the Executive Board with the exception of remuneration-related content as well as resolutions regarding their implementation. It bears responsibility for the granting of loans to the group of persons specified in §§ 89 Para. 1, 115 Stock Corporation Act (AktG) and those considered equivalent pursuant to § 89 Para. 3 Stock Corporation Act (AktG) as well as for the approval of contracts with Supervisory Board members in accordance with § 114 Stock Corporation Act (AktG). It exercises the powers arising out of § 112 Stock Corporation Act (AktG) 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 from page 206 onwards.

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 is provided in Section 7.3 "Share-based payment" of the notes, page 194 et seq., and in the remuneration report with respect to the members of the Executive Board.

Remuneration report

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

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

The remuneration report is guided by the recommendations of the German Corporate Governance Code and contains information which forms part of the notes to the 2011 consolidated financial statement as required by IAS 24 "Related Party Disclosures". Under German commercial law, too, this information includes data specified as mandatory for the notes (§ 314 HGB) and the management report (§ 315 HGB). These details are discussed as a whole in this remuneration report and presented in summary form in the notes.

The provisions of the Act on the Adequacy of Management Board Remuneration (VorstAG) and of the Insurance Supervision Act in conjunction with the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (VersVergV) – which entered into force in the previous year – have been observed. In addition, we took into account the more specific provisions of DRS 17 (amended 2010) "Reporting on the Remuneration of Members of Governing Bodies".

Remuneration of the Executive Board

Responsibility

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

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

Objective, structure and system of Executive Board remuneration

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

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

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

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

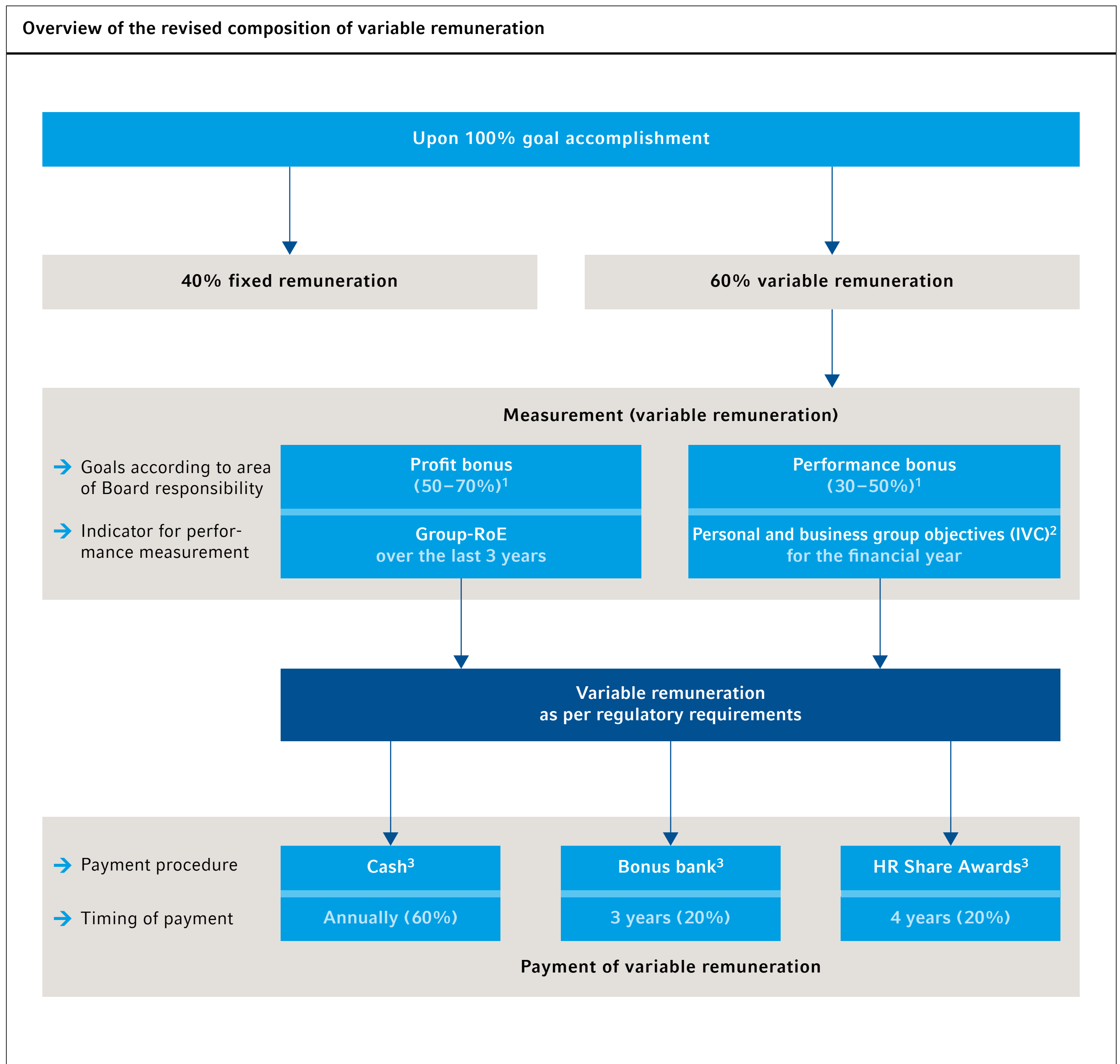
Fixed remuneration (40% of total remuneration upon 100% goal accomplishment)

Measurement basis and payment procedures for fixed remuneration

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

Variable remuneration (60% of total remuneration upon 100% goal accomplishment)
The following chart summarises the revised make-up of the variable remuneration components. For details of measurement and payment procedures please see the two tables following the chart.

Overview of the revised composition of variable remuneration



1 Chief Executive Officer/Chief Financial Officer 70% profit bonus, 30% performance bonus (personal objectives); all other Board members: 50% profit bonus, 50% performance bonus (25% personal objectives/25% business group objectives)
2 An instrument of value-based management used to measure the attainment of long-term objectives on the level of the Group, business groups and operational units.
3 Split defined by legal minimum requirements.

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

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

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

Fixed annual salary

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

Non-cash compensation/fringe benefits

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

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

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

Measurement of the variable remuneration

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

Profit bonus

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

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

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

Performance bonus

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

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

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

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

Total amount of variable remuneration

The total amount of variable remuneration is arrived at by adding the amounts for the individual remuneration components.

If addition of the individual amounts gives rise to a negative amount, the variable remuneration is EUR 0. A negative amount is, however, taken into consideration when calculating the bonus bank (cf. next section "Payment of the variable remuneration").

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

Payment of the variable remuneration

Payment arrangements

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

Retained portion of the variable remuneration

Bonus bank (retention for a period of three years):

Each year 20% of the mathematically determined positive variable remuneration is allocated to the bonus bank. If the mathematically calculated amount of variable remuneration is negative, 100% of this negative amount is allocated to the bonus bank.

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

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

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

Share awards (vesting period of four years):

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

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

Handling of payment of variable remuneration components in special cases

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

If the contractual relationship ends normally prior to the end of the vesting period for the bonus band 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

Members of the Executive Board whose appointment does not extend beyond 31 December 2011 on age grounds shall continue to receive their remuneration according to the remuneration model applicable until 31 December 2010. In contrast to the current remuneration structure, the variable remuneration for the profit bonus is in this case measured by the arithmetic mean of the actual earnings per share (EPS under IFRS) for the last three complete financial years; the performance

bonus corresponds roughly to the individual bonus in the new remuneration model. The old remuneration structure does not include any partially deferred disbursement through a bonus bank. Instead of the virtual Hannover Re share awards, stock appreciation rights are awarded under the old remuneration structure. The detailed conditions of this share-based remuneration are explained in Section 7.3 "Share-based remuneration" of the notes to this Group Annual Report, page 194 et seq.

The virtual stock option plan with stock appreciation rights remains in force for all members of the Executive Board until all stock appreciation rights have been exercised or have lapsed. In the 2011 financial year 268,335 (234,905) stock appreciation rights with a value of EUR 1.4 million (EUR 1.5 million) were granted to active Board members for the 2010 (2009) allocation year. Of the stock appreciation rights granted in previous years, active and former Board members exercised amounts totalling EUR 1.1 million (EUR 0.1 million).

As at 31 December 2011 active members of the Executive Board had at their disposal a total of 722,090 (547,901) granted, but not yet exercised stock appreciation rights with a fair value of EUR 4.9 million (EUR 4.7 million).

Continued payment in the event of disability/death

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

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

Other information

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

With regard to Item 4.2.3 Para. 4 of the German Corporate Governance Code – "Caps on severance payments in management board contracts" – we would refer the reader to our remarks in the Declaration of Conformity contained in the section "Enterprise management" on page 84 of this Group Annual Report.

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

Amount of remuneration received by the Executive Board

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

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

The remuneration (excluding pension payments) received by former members of the Executive Board totalled EUR 0.1 million (EUR 0.9 million).

Sideline activities of the members of the Executive Board

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

Total remuneration received by active members of the Executive Board pursuant to DRS 17 (amended 2010)					in EUR thousand
Name	Non-performance-based remuneration		Performance-based remuneration[1]		
	Basic salary	Non-cash compensation/ fringe benefits[2]	Short-term		Medium-term
			Variable remuneration payable		Bonusbank
			60%	Remuneration from seats with Group bodies[3]	20% (Granting)[4]
Ulrich Wallin	520.0	32.9	698.1		232.7
André Arrago	320.0	10.1	352.5		117.5
Dr. Wolf Becke[8]	300.0	14.4	445.7	26.7	
Claude Chèvre[9]	53.3	172.2	64.7		21.6
Jürgen Gräber	400.0	24.1	490.1		163.4
Dr. Klaus Miller	320.0	10.9	377.7		125.9
Dr. Michael Pickel	320.0	12.9	374.1		124.7
Roland Vogel	320.0	20.1	427.9	18.9	148.9
Total 2011[10]	**2,553.3**	**297.6**	**3,286.0**	**45.6**	**934.7**
Total 2010[11]	1,672.5	111.5	2,449.8	60.9	

1 As at the balance sheet date no Board resolution was available regarding the performance-based remuneration for 2011. The variable remuneration is recognised on the basis of estimates and the provisions constituted accordingly.
2 The non-cash compensation has been carried in the amounts established for tax purposes.
3 Remuneration from seats with Group bodies netted with the variable remuneration payable.
4 The nominal amount is stated; full or partial payment in 2015, depending on the development until such time of the balance in the bonus bank.
5 The nominal amount is stated; virtual Hannover Re share awards are automatically granted in an amount equivalent to 20% of the variable remuneration. The equivalent amount will be paid out in 2016 at the prevailing share price of Hannover Re.
6 The stock appreciation rights granted in 2011 for 2010 were included at their fair value (according to the Black-Scholes option pricing model) at the time when they were granted (8 March 2011). Since the Supervisory Board decides upon the final allocation of stock appreciation rights at the meeting after the balance sheet date and given that the period of the stock appreciation rights commences in each case on 1 January of the following year, the stock appreciation rights awarded for the financial year are expensed in subsequent years.
On account of the changeover from the stock appreciation rights programme to the share awards programme in 2011 and the different booking rules applicable to these programmes, DRS 17 requires that both share-based payment programmes be shown in 2011 even though they refer to different years.
7 In order to calculate the number of share awards reference was made to the Xetra closing price of the Hannover Re share on 30 December 2011 (EUR 38.325). The number to be actually awarded is established from the arithmetic mean of the Xetra closing prices of the Hannover Re share in a period from five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement in March 2012.
8 The remuneration of Dr. Becke continues to be based on the remuneration structure prior to 2011 since his appointment ends on age grounds on 31 December 2011, i. e. the bonus bank and Hannover Re share awards components do not apply.
9 The non-cash compensation and fringe benefits for Mr. Chèvre include the contractually agreed reimbursement of his relocation costs as well as compensation for the forfeited stock options and 2011 bonus from his previous employer.
10 For the 2010 annual bonus altogether EUR 55,200 more was paid out than reserved. The total amount for the variable remuneration payable in 2011 was increased accordingly.
11 The 2010 amounts reflect the old remuneration structure and cannot be compared 1:1 with the figures for 2011.

Total remuneration received by active members of the Executive Board pursuant to DRS 17 (amended 2010) (contd.)				in EUR thousand
Performance-based remuneration[1]		Total	Estimated number of share awards for 2011[7]	Number of stock appreciation rights awarded for 2010
	Long-term			
Share-Awards	Stock appreciation rights			
20% (Granting)[5]	Stock appreciation rights awarded for 2010[6]			
232.7	296.9	2,013.3	6,072	57,500
117.5	154.9	1,072.5	3,066	30,000
	271.1	1,057.9		52,500
21.6	–	333.4	564	–
163.4	258.2	1,499.2	4,264	50,000
125.9	43.0	1,003.4	3,285	8,335
124.7	232.4	1,188.8	3,254	45,000
148.9	129.1	1,214.0	3,885	25,000
934.7	**1,385.6**	**9,437.7**	**24,390**	**268,335**
	1,461.2	5,755.9		234,905

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

Total expense for share-based remuneration of the Executive Board in 2011				in EUR thousand
Name	Stock appreciation rights exercised	Allocation to reserve for stock appreciation rights in 2011	Expense for share awards in 2011[1]	**Total**
Ulrich Wallin	139.0	28.7	54.1	221.8
André Arrago	0.0	66.1	27.3	93.4
Dr. Wolf Becke[2]	269.4	–92.1		177.3
Claude Chèvre	0.0	0.0	1.0	1.0
Jürgen Gräber	258.1	–87.9	27.8	198.0
Dr. Klaus Miller	0.0	8.6	40.2	48.8
Dr. Michael Pickel	223.4	–66.2	53.1	210.3
Roland Vogel	45.0	28.9	25.4	99.3
Total 2011	**934.9**	**–113.9**	**228.9**	**1,049.9**
Total 2010	42.6	1,633.2		1,675.6

1 The expense for share awards is spread across the remaining period of the individual contracts of employment.
2 The old remuneration structure (prior to 2011) applicable to Dr. Becke does not provide for the granting of share awards.

Cash remuneration actually accruing to active members of the Executive Board in the year under review				in EUR thousand
Name	Fixed remuneration	Variable remuneration	Stock appreciation rights exercised	**Total**
Ulrich Wallin	520.0	545.4	139.0	**1,204.4**
André Arrago	320.0	335.3	–	**655.3**
Dr. Wolf Becke	300.0	492.4	269.4	**1,061.8**
Claude Chèvre	53.3	–	–	**53.3**
Jürgen Gräber	400.0	459.3	258.1	**1,117.4**
Dr. Klaus Miller	320.0	71.2	–	**391.2**
Dr. Michael Pickel	320.0	373.3	223.4	**916.7**
Roland Vogel	320.0	278.5	45.0	**643.5**
Total 2011	**2,553.3**	**2,555.4**	**934.9**	**6,043.6**
Total 2010	1,672.5	2,394.0	42.6	4,109.1

Retirement provision

Final-salary pension commitment (appointment before 2009)

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

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

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

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

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

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

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

Contribution-based pension commitment (appointment from 2009 onwards)

The commitments given to members of the Executive Board from 2009 onwards are based on a defined contribution scheme. An indirect commitment is granted by HDI Unterstützungskasse. A precondition for benefits (retirement

pension, disability pension and surviving dependants' pension) is that the Board member must consent to insurance cover being taken out for the pension commitments.

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

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

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

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

Surviving dependants' benefit (in the case of a final-salary pension commitment)

If the member of the Executive Board dies after pension payments begin, the surviving spouse (appointment prior to 1997)/surviving spouse and alternatively dependent children (appointment from 1997 onwards) shall receive continued payment of the retirement pension for the month of death and the following three months (appointment prior to 1997) or six months (appointment from 1997 onwards).

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

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

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

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

Surviving dependant's benefit (in the case of a contribution-based pension commitment)

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

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

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

The orphan's pension is paid until the age of 18. A child who is still attending school or undergoing vocational training at this time shall continue to receive the orphan's pension until

completion of such education, although only for as long as child benefits could have been claimed for the child under the Federal Child Benefit Act.

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

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

Adjustments

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

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

The pension payments to former members of the Executive Board and their surviving dependants, for whom 13 (13) pension commitments existed, totalled EUR 1.2 million (EUR 1.3 million) in the year under review. The projected benefit obligation of the pension commitments to former members of the Executive Board amounted to altogether EUR 15.8 million (EUR 16.6 million).

The projected benefit obligation for Board-funded pension commitments of active members of the Executive Board amounted to EUR 1.5 million as at 31 December 2011; the corresponding projected benefit obligation for former members of the Executive Board totalled EUR 0.8 million as at 31 December 2011.

Defined benefit commitments — in EUR thousand

Name	Attainable annual pension (age 65)	DBO 31.12.2011	Personnel expense
Ulrich Wallin	220.0	2,531.2	125.1
André Arrago	127.0	1,791.9	96.6
Dr. Wolf Becke[1]	189.0	2,629.8	151.6
Jürgen Gräber	158.5	1,606.0	74.4
Dr. Michael Pickel	120.0	800.1	73.9
Roland Vogel[2]	70.9	514.8	142.2
Total 2011	**885.4**	**9,873.8**	**663.8**
Total 2010	868.0	9,929.8	470.9

1 Pension payment to Dr. Becke from 1 January 2012 onwards.
2 Mr. Vogel was appointed as a member of the Executive Board effective 1 April 2009. He was first granted a pension commitment on the basis of his service to the company prior to 2001; the earned portion of the commitment from the Unterstützungskasse is therefore established as a proportion (in the ratio [currently attained service years since entry]/[attainable service years from entry to exit age]) of the final benefit. Measurement under IFRS therefore uses the defined benefit method. An annual premium of EUR 80,000 (25% of the pensionable income) was paid for Mr. Vogel in 2011. The guaranteed interest rate of his commitment is 3.25%.

Defined contribution commitments — in EUR thousand

Name	Annual funding contribution[1]	Attainable annual pension (age 65)	Premium
Claude Chèvre[2]	25%	68.1	**80**
Dr. Klaus Miller[2]	25%	48.3	**80**
Total 2011		**116.4**	**160**

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; it is limited to an annual maximum of EUR 30,000. The Chairman of the Supervisory Board receives twice the aforementioned remuneration amounts and the Deputy Chairman of the Supervisory Board receives one-and-a-half times the said amounts.

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

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

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

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

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

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

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

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

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

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

Individual remuneration received by the members of the Supervisory Board in EUR thousand[1]			2011	2010
Name	Function	Type of remuneration		
Herbert K. Haas[2]	Chairman of the – Supervisory Board – Standing Committee – Finance and Audit Committee – Nomination Committee	Fixed remuneration	100.0	40.0
		Variable remuneration	112.0	153.4
		Remuneration for committee work	95.5	72.1
		Attendance allowances	12.5	7.0
			320.0	272.5

To be continued on the following page

Individual remuneration received by the members of the Supervisory Board in EUR thousand[1]			**2011**	2010
Name	Function	Type of remuneration		
Dr. Klaus Sturany	Deputy Chairman of the – Supervisory Board Member of the – Standing Committee – Nomination Committee (from 3 May 2011)	Fixed remuneration	45.0	15.0
		Variable remuneration	28.9	51.4
		Remuneration for committee work	3.7	10.0
		Attendance allowances	4.0	3.0
			81.6	79.4
Wolf-Dieter Baumgartl	Member of the – Supervisory Board – Standing Committee – Finance and Audit Committee – Nomination Committee	Fixed remuneration	30.0	15.0
		Variable remuneration	19.3	59.6
		Remuneration for committee work	23.0	19.9
		Attendance allowances	8.0	6.5
			80.3	101.0
Uwe Kramp[3]	Member of the Supervisory Board	Fixed remuneration	30.0	10.0
		Variable remuneration	19.3	34.3
		Remuneration for committee work	–	–
		Attendance allowances	3.0	2.0
			52.3	46.3
Karl Heinz Midunsky	Member (until 3 May 2011) of the – Supervisory Board – Nomination Committee	Fixed remuneration	10.3	10.0
		Variable remuneration	7.3	34.3
		Remuneration for committee work	–	–
		Attendance allowances	1.0	2.0
			18.6	46.3
Ass. jur. Otto Müller[3]	Member of the Supervisory Board	Fixed remuneration	30.0	10.0
		Variable remuneration	19.3	34.3
		Remuneration for committee work	–	–
		Attendance allowances	3.0	2.0
			52.3	46.3
Dr. Andrea Pollak	Member of the Supervisory Board (from 3 May 2011)	Fixed remuneration	19.8	–
		Variable remuneration	12.0	–
		Remuneration for committee work	–	–
		Attendance allowances	2.0	–
		Reimbursement of expenses	5.9	–
			39.7	–
Dr. Immo Querner[2]	Member of the Supervisory Board	Fixed remuneration	50.0	15.0
		Variable remuneration	55.4	59.6
		Remuneration for committee work	10.0	–
		Attendance allowances	5.5	3.5
			120.9	78.1
Dr. Erhard Schipporeit	Member of the – Supervisory Board – Finance and Audit Committee (Independent financial expert)	Fixed remuneration	30.0	10.0
		Variable remuneration	19.3	34.3
		Remuneration for committee work	15.3	13.3
		Attendance allowances	6.0	4.0
			70.6	61.6
Gert Wächtler[3]	Member of the Supervisory Board	Fixed remuneration	30.0	10.0
		Variable remuneration	19.3	34.3
		Remuneration for committee work	–	–
		Attendance allowances	3.0	2.0
			52.3	46.3
Total			**888.6**	**777.8**

1 Amounts excluding reimbursed VAT
2 Including supervisory board remuneration and remuneration for committee work received from entities affiliated with the company
3 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 are recognised allowing for any fractional amounts. Value-added tax payable upon the remuneration is reimbursed by the company.

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

Loans to members of the management boards and contingent liabilities

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

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

Securities transactions and shareholdings (directors' dealings)

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

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

Remuneration of employees and managers

Structure and system

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

A system of variable remuneration is in place for management ranks below the Executive Board on the levels of Managing Director, Director and General Manager. It consists, firstly,

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

Participants	Management level		Variable remuneration system	Number of eligible participants in the variable remuneration system
Managing Director	E1MD	Management level 2	Management by Objectives (MbOs), stock appreciation rights	**Hannover Re Group** 140 managers worldwide out of altogether 141 participate in both the MbO process and the stock appreciation rights scheme
Director	E2D	Management level 3		
General Manager	E2GM			
Chief Manager	E3CM		Group Performance Bonus (GPB)	**Home Office Hannover** 551 GPB-eligible staff out of altogether 1,001 staff below the management level
Senior Manager	E3SM			
Manager	E4AU			
Deputy Manager	E4DA			
Assistant Manager	E5			
Staff undergoing job familiarisation	E6			

of a long-term remuneration component (stock appreciation rights) and, secondly, of short-term variable remuneration dependent upon accomplishment of the agreed goals for the year in question (Management by Objectives, MbO). Members of staff on the levels of Chief Manager, Senior Manager and Manager are able to participate in the Group Performance Bonus (GPB). The group of participants and the total number of eligible participants in the variable remuneration system of Hannover Re are set out in the table on the previous page.

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

Remuneration of managers in the 2011 financial year

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

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

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

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

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

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

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

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

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%

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

Remuneration of managers from the 2012 financial year onwards

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

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

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

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

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

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

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

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

When two parties pursuing their own interests meet in the middle, we have a „win-win“ situation.

Profitable growth is a goal defined both by our clients and by our company. We therefore look for solutions that promise profits for both parties. For only in this way can we secure the long-term partnership-based relationships to which we aspire.

Forecast

Economic development

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

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

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

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

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

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

Capital markets

In 2012 international bond markets will probably again be shaped by a low interest rate level. In the relevant currency areas for our company we do not expect any hike in key interest rates. After the European Central Bank had been compelled to cut interest rates again in 2011 on account of the tense economic situation, interest rates can likely only be raised in 2012 if there is a sharp rise in prices. The US Federal Reserve Board will probably take initial steps towards a more restrictive monetary policy in 2013 at the earliest. Against the backdrop of the expansionary fiscal policy and the uncertainty stemming from the Eurozone debt crisis, German and US government bonds will remain on a low level. Bonds issued by certain states belonging to the European Monetary Union will continue to come under pressure. Last but not least, the incremental strategy adopted for solving the Euro debt crisis will lead to further volatility in the capital market environment. The necessary consolidation of public finances will serve as a further drag on the economic climate.

Insurance industry

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

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

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

Non-life reinsurance

Overview

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

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

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

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

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

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

Target markets

In view of the favourable outcome for our company of the treaty renewals as at 1 January 2012, we are looking to the present year with optimism. We currently expect to grow our premium income from German business by some 3%. Our

client base here has also been further enlarged. The situation in motor insurance showed a pleasing development. Hail damage in August and September 2011 as well as claims from prior years contributed to the increase in premiums in own damage business, from which we – as the second-largest reinsurer in Germany – were able to profit.

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

The 1 January 2012 treaty renewals for our business in North America passed off satisfactorily. In US property business it was for the most part possible to push through rate increases. Price rises of up to 30% were possible under loss-impacted programmes. It was also gratifying to note that the rate erosion in US casualty business was halted. Rates in standard casualty business, an important line for our company, remained stable. In the professional indemnity lines we were able to make the most of profitable opportunities. We were particularly satisfied with the outcome of the renewals in Canada, where substantial price increases were attained not only in catastrophe business but also in the property sector. Rates in casualty business showed single-digit increases.

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

Specialty lines

We were satisfied with the treaty renewals in specialty lines.

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

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

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

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

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

Our reinsurance business written in the United Kingdom is expected to deliver an enlarged premium volume in 2012. Similarly, the total premium generated by our portfolio of direct business will also increase significantly. The higher growth rates in this segment will be driven, among other things, by the branch that we opened in Canada in 2011. Our casualty business is expected to show price increases, especially in certain professional indemnity lines, such as for surveyors. Liability covers for professions such as auditors and architects are likely to see modest decreases. The direct business and reinsurance that we write in the UK is expected to generate an increased premium volume. Similarly, the direct business written in South Africa is also expected to record further premium growth.

Global reinsurance

Treaty reinsurance worldwide

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

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

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

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

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

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

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

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

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

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

Global catastrophe business

In view of the significant losses recorded in international property catastrophe business, rates increased again in the treaty renewals as at the 1 January 2012 – especially under programmes that had suffered losses. In Australia, for example, prices surged by an average of 60%; the increase in the United States was in the double-digit million euro range. The increases in Europe – varying from 0% to 5% – were more moderate. We expect to see further substantial rate increases at 1 April 2012 renewal date in Japan and in the New Zealand renewals.

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

Global facultative reinsurance

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

Life and health reinsurance

Going forward, as in the past, we shall strive to be a reliable and sought-after business partner that offers its worldwide clients tailored and innovative reinsurance solutions. In so doing, we shall gear our activities towards our long-standing successful business model founded on the five pillars of conventional reinsurance, new markets, multinationals, bancassurance and financial solutions. Our business model enables us to meet individual customer requirements, on the one hand, while at the same time achieving excellent diversification of our international life and health reinsurance portfolio.

Worldwide demographic change, progressive globalisation and the continuous improvement in living standards in emerging countries are the key factors that will ensure life and health reinsurance remains a growing market. Insurers and reinsurers alike have accepted the challenge of giving fresh impetus to the constantly changing market requirements. The leading life and health reinsurers are faced with the difficult balancing act of satisfying both the value-added expectations of their shareholders and the needs of their clients.

The repercussions of the protracted sharp volatility on international financial and capital markets have also left their mark on the life insurance sector. The already established trend towards primary insurers making increased use of reinsurance as an equity substitute will continue in the coming year, opening up attractive business potential for our company as a financially strong reinsurer.

In our assessment, the greatest growth potential is offered by emerging markets such as China, India and Latin America. Yet we are also increasingly focusing on Russia and Arab markets, where we are optimally positioned thanks to our infrastructure, our "somewhat different" reinsurance concepts and – in the case of the Islamic markets – our successful Sharia-compliant reinsurance solutions. We are convinced that we can advance the development of these markets and further enlarge our business volume under the "new markets" pillar. Our leading technical expertise also opens up good prospects of enlarging our business with longevity risks.

In addition, the impending implementation of Solvency II is already casting its shadow. Set to enter into force in 2013, the new regime will compel European (re)insurers to satisfy more rigorous regulatory requirements and implement risk-based enterprise management and capital determination.

In the case of small to mid-sized insurers and mutual insurance companies, the increased capital requirement can be cost-effectively reduced through reinsurance; this is likely to further boost demand for reinsurance covers as an equity substitute. The advantages of group diversification enable us – also under the provisions of Solvency II – to offer our clients attractive reinsurance solutions.

In order to be optimally prepared for the implementation of Solvency II, we are engaged in a close dialogue with the Federal Financial Supervisory Authority (BaFin) and are currently working on an internal risk model that we are adjusting – taking our lead from the existing standard models, which tend to be more oriented towards primary insurers – to fit reinsurance-specific requirements. Beyond Europe's borders, considerable efforts are presently being made to bring about regulatory equivalence between the regional supervisory systems of as many third countries as possible – including the United States, Bermuda, South Africa and Australia – and Solvency II.

Our business opportunities and risks

Non-life reinsurance

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

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

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

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

Life and health reinsurance

The global framework conditions in life and health reinsurance remain favourable. In industrialised nations such as the United States, United Kingdom, Japan and Germany the progressive demographic shift is generating steadily growing demand for seniors', long-term care and annuity insurance products. In emerging markets such as India, China and Brazil – as well as in Russia – the trend towards urbanisation continues. A middle-class with purchasing power is emerging here, and its ranks are increasingly interested in preservation of their wealth, healthcare and provision for their surviving dependents.

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

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

Investments

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

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

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

Outlook for the full 2012 financial year

In the current year we anticipate another very good overall result for the Hannover Re Group. The non-life reinsurance business group is expected to deliver an increase of 5% to 7% in gross premium income at constant exchange rates.

In the life and health reinsurance business group we are similarly aiming to grow our gross premium income organically by 5% to 7%.

We therefore expect to enlarge our total gross premium volume by 5% to 7%.

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

Bearing in mind the satisfactory to good market conditions described above in non-life and life/health reinsurance as well as our strategic orientation, we are looking forward to a good financial year in 2012. This is subject to the premise that the burden of major losses does not significantly exceed the expected level of around EUR 560 million and that there are no drastically adverse movements on capital markets. Given a growing volume of assets under management, a net return on investment in the order of 3.5% should be attainable. For 2012, as in recent years, we are therefore aiming for a dividend in the range of 35% to 40% of Group net income.

Matters of special significance arising after the closing date for the consolidated financial statements are discussed in Section 7.11 of the notes "Events after the balance sheet date" on page 203.

Outlook for 2013/2014

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

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

The life and health reinsurance business group expects to generate organic growth of between 5% and 7% in gross premium income. We continue to attach considerable importance to the profitability of the business written and are targeting – depending on the nature of the underlying business – an EBIT margin in the range of 4% to 8%.

It remains our aim to generate consistent double-digit growth in the value of new business.

On the Group level our return-on-equity target is at least 750 basis points above the risk-free interest rate. Both the earnings per share and the book value per share also constitute central management ratios and performance indicators for our company. Our strategic objective is to increase these key figures – together with the operating profit (EBIT) – by double-digit margins every year.

Profit and growth targets		
Business group	Key data	Strategic targets
Non-life reinsurance	Combined ratio	≤ 100%
	Net catastrophe loss expectancy in EUR million	≤ 560
	EBIT margin	≥ 10%
	IVC margin[1]	≥ 2%
Life and health reinsurance	Gross premium growth[2]	5–7%
	EBIT margin	≥ 6%
	MCEV growth[3]	≥ 10%
	Increase in the value of new business	≥ 10%
Group	Investment return	≥ 3,5%[4]
	Minimum return on equity	≥ 10,2%[5]
Triple-10 targets	EBIT growth	≥ 10%
	Growth in earnings per share	≥ 10%
	Growth in book value per share	≥ 10%

1 IVC/net premium earned
2 Organic
3 MCEV increase on the basis of the adjusted MCEV of the previous year after elimination of capital changes and changes from currency effects
4 Risk-free interest rate + cost of capital
5 750 basis points above the risk-free return

Creativity and innovation begin where standard solutions end.
We open up fresh growth prospects and business opportunities in response to our clients' needs – and thereby deliver the maximum benefit for them.

Consolidated balance sheet

Assets in EUR thousand	Notes	31.12.2011	31.12.2010
Fixed-income securities – held to maturity	5.1	4,156,089	3,028,018
Fixed-income securities – loans and receivables	5.1	3,524,735	2,314,429
Fixed-income securities – available for sale	5.1	17,328,911	15,877,634
Fixed-income securities – at fair value through profit or loss	5.1	161,130	217,597
Equity securities – available for sale	5.1	40,387	536,755
Other financial assets – at fair value through profit or loss	5.1	21,026	54,756
Real estate and real estate funds	5.1	525,097	394,087
Investments in associated companies	5.1	127,554	127,644
Other invested assets	5.1	931,421	841,896
Short-term investments	5.1	1,017,886	1,570,502
Cash		506,963	447,753
Total investments and cash under own management		**28,341,199**	**25,411,071**
Funds withheld	5.2	13,232,054	11,920,725
Contract deposits	5.3	109,719	715,353
Total investments		**41,682,972**	**38,047,149**
Reinsurance recoverables on unpaid claims	5.7	1,550,587	1,025,332
Reinsurance recoverables on benefit reserve	5.7	380,714	347,069
Prepaid reinsurance premium	5.7	91,823	83,224
Reinsurance recoverables on other technical reserves	5.7	7,810	1,831
Deferred acquisition costs	5.4	1,926,570	1,834,496
Accounts receivable	5.4	3,139,327	2,841,303
Goodwill	5.5	59,289	45,773
Deferred tax assets	6.5	682,888	622,136
Other assets	5.6	336,650	336,443
Accrued interest and rent		5,931	11,182
Assets held for sale	5.1, 4.4	2,391	1,529,355
Total assets		**49,866,952**	**46,725,293**

Liabilities in EUR thousand	Notes	31.12.2011	31.12.2010
Loss and loss adjustment expense reserve	5.7	20,767,317	18,065,395
Benefit reserves	5.7	10,309,066	8,939,190
Unearned premium reserve	5.7	2,215,864	1,910,422
Other technical provisions	5.7	207,262	184,528
Funds withheld	5.8	644,587	1,187,723
Contract deposits	5.9	5,008,193	4,704,267
Reinsurance payable		733,348	733,473
Provisions for pensions	5.10	88,299	81,657
Taxes	6.5	185,015	286,394
Deferred tax liabilities	6.5	1,723,265	1,632,527
Other liabilities	5.11	443,671	443,932
Long-term debt and subordinated capital	5.12	1,934,410	2,056,797
Liabilities related to assets held for sale		–	1,381,120
Total liabilities		**44,260,297**	**41,607,425**
Shareholders' equity			
Common shares	5.13	120,597	120,597
Nominal value: 120,597 Conditional capital: 60,299	5.13		
Additional paid-in capital		724,562	724,562
Common shares and additional paid-in capital		**845,159**	**845,159**
Cumulative other comprehensive income			
Unrealised gains and losses on investments		453,115	372,094
Cumulative foreign currency translation adjustment		11,559	(52,954)
Other changes in cumulative other comprehensive income		(18,553)	(6,450)
Total other comprehensive income		**446,121**	**312,690**
Retained earnings		3,679,351	3,351,116
Equity attributable to shareholders of Hannover Re		**4,970,631**	**4,508,965**
Non-controlling interests		636,024	608,903
Total shareholders' equity		**5,606,655**	**5,117,868**
Total liabilities		**49,866,952**	**46,725,293**

Consolidated statement of income 2011

Figures in EUR thousand	Notes	1.1.–31.12.2011	1.1.–31.12.2010[1]
Gross written premium	6.1	12,096,113	11,428,717
Ceded written premium		1,069,745	1,127,465
Change in gross unearned premium		(269,189)	(287,536)
Change in ceded unearned premium		(5,668)	33,300
Net premium earned		**10,751,511**	**10,047,016**
Ordinary investment income	6.2	966,171	880,521
Profit/loss from investments in associated companies	6.2	3,088	3,857
Realised gains and losses on investments	6.2	179,560	162,003
Unrealised gains and losses on investments	6.2	(38,795)	(39,893)
Total depreciation, impairments and appreciation of investments	6.2	(5,801)	(3,448)
Other investment expenses	6.2	70,322	67,409
Net income from investments under own management		**1,045,503**	**942,527**
Income/expense on funds withheld and contract deposits	6.2	338,538	316,368
Net investment income		**1,384,041**	**1,258,895**
Other technical income	6.3	8,841	16,845
Total revenues		**12,144,393**	**11,322,756**
Claims and claims expenses	6.3	8,029,895	7,008,055
Change in benefit reserves	6.3	621,460	652,711
Commission and brokerage, change in deferred acquisition costs	6.3	2,336,128	2,257,948
Other acquisition costs		10,675	5,302
Other technical expenses	6.3	8,954	44,183
Administrative expenses	6.3	289,063	280,720
Total technical expenses		**11,296,175**	**10,248,919**
Other income and expenses	6.4	(6,801)	104,020
Operating profit/loss (EBIT)		**841,417**	**1,177,857**
Interest on hybrid capital	5.12	99,169	89,323
Net income before taxes		**742,248**	**1,088,534**
Taxes	6.5	65,460	257,629
Net income		**676,488**	**830,905**
thereof			
Non-controlling interest in profit and loss		70,815	82,015
Group net income		**605,973**	**748,890**
Earnings per share			
Basic earnings per share		5.02	6.21
Diluted earnings per share		5.02	6.21

1 Adjusted on the basis of IAS 1

Consolidated statement of comprehensive income 2011

Figures in EUR thousand	1.1.–31.12.2011	1.1.–31.12.2010
Net income	676,788	830,905
Unrealised gains and losses on investments		
Gains (losses) recognised directly in equity	257,798	353,614
Transferred to the consolidated statement of income	(138,484)	(184,823)
Tax income (expense)	(34,919)	(28,933)
	84,395	**139,858**
Currency translation		
Gains (losses) recognised directly in equity	46,970	183,883
Transferred to the consolidated statement of income	23,098	3,863
Tax income (expense)	(5,383)	(10,911)
	64,685	**176,835**
Changes from the measurement of associated companies		
Gains (losses) recognised directly in equity	(3,101)	(2,643)
	(3,101)	**(2,643)**
Other changes		
Gains (losses) recognised directly in equity	(25,464)	(4,240)
Tax income (expense)	7,477	2,517
	(17,987)	**(1,723)**
Total income and expense recognised directly in equity		
Gains (losses) recognised directly in equity	276,203	530,614
Transferred to the consolidated statement of income	(115,386)	(180,960)
Tax income (expense)	(32,825)	(37,327)
	127,992	**312,327**
Total recognised income and expense	**804,780**	**1,143,232**
thereof:		
Attributable to non-controlling interests	65,376	94,200
Attributable to shareholders of Hannover Re	739,404	1,049,032

Consolidated statement of changes in shareholders' equity 2011

Figures in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)			Retained earnings	Non-controlling interests	Share-holders' equity
			Currency translation	Unrealised gains/ losses	Other			
Balance as at 1.1.2010	**120,597**	**724,562**	**(224,084)**	**241,569**	**(4,728)**	**2,856,529**	**542,112**	**4,256,557**
Changes in ownership interest with no change of control status	–	–	26	(235)	–	(756)	7,204	6,239
Changes in the consolidated group	–	–	–	–	–	–	(23)	(23)
Capital increases/ additions	–	–	–	–	–	–	62	62
Capital repayments	–	–	–	–	–	–	(3,920)	(3,920)
Acquisition/disposal of treasury shares	–	–	–	–	–	(293)	–	(293)
Total income and expense recognised after tax	–	–	171,104	130,760	(1,722)	748,890	94,200	1,143,232
Dividends paid	–	–	–	–	–	(253,254)	(30,732)	(283,986)
Balance as at 31.12.2010	**120,597**	**724,562**	**(52,954)**	**372,094**	**(6,450)**	**3,351,116**	**608,903**	**5,117,868**
Balance as at 1.1.2011	**120,597**	**724,562**	**(52,954)**	**372,094**	**(6,450)**	**3,351,116**	**608,903**	**5,117,868**
Changes in ownership interest with no change of control status	–	–	–	–	–	15	179	194
Changes in the consolidated group	–	–	–	–	–	–	15	15
Capital increases/ additions	–	–	–	–	–	–	30	30
Capital repayments	–	–	–	–	–	–	(8)	(8)
Acquisition/disposal of treasury shares	–	–	–	–	–	(380)	–	(380)
Total income and expense recognised after tax	–	–	64,513	81,021	(12,103)	605,973	65,376	804,780
Dividends paid	–	–	–	–	–	(277,373)	(38,471)	(315,844)
Balance as at 31.12.2011	**120,597**	**724,562**	**11,559**	**453,115**	**(18,553)**	**3,679,351**	**636,024**	**5,606,655**

Consolidated cash flow statement 2011

The reporting on cash flows within the Group is based on IAS 7 "Statement of Cash Flows". In addition, we observed the principles set out in German Accounting Standard No. 2 (DRS 2) of the German Accounting Standards Board regarding the preparation of cash flow statements, which were supplemented by the requirements of DRS 2-20 that apply specifically to insurance enterprises. In accordance with the recommendation of the German Accounting Standards Board for insurance enterprises, we adopted the indirect method of presentation. The amounts taken into consideration are limited to cash and cash equivalents shown under the balance sheet item "Cash".

Figures in EUR thousand	1.1.–31.12.2011	1.1.–31.12.2010
I. Cash flow from operating activities		
Net income	676,788	830,905
Appreciation/depreciation	8,125	(33,692)
Net realised gains and losses on investments	(179,560)	(162,003)
Amortisation of investments	52,488	18,701
Changes in funds withheld	(1,632,756)	(949,562)
Net changes in contract deposits	828,891	373,791
Changes in prepaid reinsurance premium (net)	274,857	252,107
Changes in tax assets/provisions for taxes	(88,173)	100,484
Changes in benefit reserve (net)	1,119,973	352,955
Changes in claims reserves (net)	1,782,089	925,798
Changes in deferred acquisition costs	(75,477)	127,681
Changes in other technical provisions	17,384	19,138
Changes in clearing balances	(268,688)	(110,474)
Changes in other assets and liabilities (net)	6,921	(64,561)
Cash flow from operating activities	**2,522,862**	**1,681,268**

Figures in EUR thousand	**1.1.–31.12.2011**	1.1.–31.12.2010
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	305,222	21,611
Purchases	(57,819)	–
Fixed-income securities – loans and receivables		
Maturities, sales	595,645	904,068
Purchases	(1,751,879)	(517,804)
Fixed-income securities – available for sale		
Maturities, sales	8,306,715	8,376,705
Purchases	(10,465,318)	(9,878,959)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	78,924	55,650
Purchases	(35,793)	(6,198)
Equity securities – available for sale		
Sales	730,689	32,550
Purchases	(281,014)	(518,415)
Other financial assets – at fair value through profit or loss		
Sales	468	962
Other invested assets		
Sales	95,050	60,314
Purchases	(162,155)	(112,964)
Affiliated companies and participating interests		
Sales	140,765	182
Purchases	(20,856)	(6,903)
Real estate and real estate funds		
Sales	37,868	915
Purchases	(148,431)	(163,502)
Short-term investments		
Changes	608,113	(244,454)
Other changes (net)	(17,447)	2,521
Cash flow from investing activities	**(2,041,253)**	**(1,993,721)**

Figures in EUR thousand	1.1.–31.12.2011	1.1.–31.12.2010
III. Cash flow from financing activities		
Contribution from capital measures	(4,080)	(2,736)
Acquisition/disposal of treasury shares	(380)	(293)
Structural change without loss of control	194	6,522
Dividends paid	(315,844)	(283,986)
Proceeds from long-term debts	31,056	566,533
Repayment of long-term debts	(160,812)	(2,694)
Cash flow from financing activities	**(449,866)**	**283,346**
IV. Exchange rate differences on cash	**(7)**	**46,922**
Cash and cash equivalents at the beginning of the period	**475,227**	**457,412**
thereof cash and cash equivalents of disposal groups: 27,474		
Change in cash and cash equivalents (I.+II.+III.+IV.)	**31,736**	**17,815**
Cash and cash equivalents at the end of the period	**506,963**	**475,227**
Income taxes	2,514	(147,966)
Interest paid	(37,184)	(103,468)

Consolidated segmental report

Segmentation of assets in EUR thousand	Non-life reinsurance	
	31.12.2011	31.12.2010
Assets		
Held to maturity	3,704,836	2,724,546
Loans and receivables	3,486,857	2,259,375
Available for sale	11,707,340	11,725,861
At fair value through profit or loss	118,327	152,028
Other invested assets	1,554,528	1,330,693
Short-term investments	638,128	1,259,804
Cash	385,531	325,518
Total investments and cash under own management	**21,595,547**	**19,777,825**
Funds withheld	836,170	695,709
Contract deposits	–	–
Total investments	**22,431,717**	**20,473,534**
Reinsurance recoverables on unpaid claims	1,352,406	859,533
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	89,109	81,256
Reinsurance recoverables on other reserves	4,239	422
Deferred acquisition costs	458,651	362,080
Accounts receivable	1,977,106	1,805,883
Other assets in the segment	1,469,312	1,262,674
Assets held for sale	2,391	1,529,355
Total assets	**27,784,931**	**26,374,737**
Segmentation of technical and other liabilities in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	18,030,010	15,634,491
Benefit reserve	–	–
Unearned premium reserve	2,110,289	1,812,861
Provisions for contingent commissions	145,915	130,726
Funds withheld	313,851	218,084
Contract deposits	96,611	102,109
Reinsurance payable	446,301	456,496
Long-term liabilities	202,823	187,690
Other liabilities in the segment	1,544,215	1,564,020
Liabilities related to assets held for sale	–	1,381,120
Total liabilities	**22,890,015**	**21,487,597**

Life/health reinsurance		Consolidation		Total	
31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
199,846	3,528	251,407	299,944	4,156,089	3,028,018
27,560	44,735	10,318	10,319	3,524,735	2,314,429
5,355,477	4,409,009	306,481	279,519	17,369,298	16,414,389
40,346	91,888	23,483	28,437	182,156	272,353
27,041	32,813	2,503	121	1,584,072	1,363,627
339,662	273,051	40,096	37,647	1,017,886	1,570,502
118,835	120,176	2,597	2,059	506,963	447,753
6,108,767	**4,975,200**	**636,885**	**658,046**	**28,341,199**	**25,411,071**
12,395,934	11,225,065	(50)	(49)	13,232,054	11,920,725
109,719	715,353	–	–	109,719	715,353
18,614,420	**16,915,618**	**636,835**	**657,997**	**41,682,972**	**38,047,149**
199,332	165,938	(1,151)	(139)	1,550,587	1,025,332
380,714	347,069	–	–	380,714	347,069
2,802	3,755	(88)	(1,787)	91,823	83,224
3,571	1,409	–	–	7,810	1,831
1,467,915	1,472,416	4	–	1,926,570	1,834,496
1,162,401	1,035,542	(180)	(122)	3,139,327	2,841,303
467,140	507,199	(851,694)	(754,339)	1,084,758	1,015,534
–	–	–	–	2,391	1,529,355
22,298,295	**20,448,946**	**(216,274)**	**(98,390)**	**49,866,952**	**46,725,293**
2,738,458	2,431,045	(1,151)	(141)	20,767,317	18,065,395
10,309,149	8,941,021	(83)	(1,831)	10,309,066	8,939,190
105,575	97,561	–	–	2,215,864	1,910,422
61,347	53,802	–	–	207,262	184,528
330,736	969,639	–	–	644,587	1,187,723
4,911,582	4,602,158	–	–	5,008,193	4,704,267
287,692	277,817	(645)	(840)	733,348	733,473
–	–	1,731,587	1,869,107	1,934,410	2,056,797
1,730,456	1,579,525	(834,421)	(699,035)	2,440,250	2,444,510
–	–	–	–	–	1,381,120
20,474,995	**18,952,568**	**895,287**	**1,167,260**	**44,260,297**	**41,607,425**

Consolidated segmental report

Segmental statement of income in EUR thousand	Non-life reinsurance	
	1.1.–31.12.2011	1.1.–31.12.2010
Gross written premium	6,825,522	6,339,285
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	6,825,522	6,339,285
Net premium earned	5,960,764	5,393,884
Net investment income	845,426	721,225
thereof		
Deposit interest and expenses	14,239	12,200
Claims and claims expenses	4,701,962	3,873,129
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	1,367,299	1,273,906
Administrative expenses	160,223	164,498
Other income and expenses	22,553	75,984
Operating profit/loss (EBIT)	**599,259**	**879,560**
Interest on hybrid capital	–	–
Net income before taxes	**599,259**	**879,560**
Taxes	77,618	220,363
Net income	**521,641**	**659,197**
thereof		
Non-controlling interest in profit or loss	66,051	78,201
Group net income	**455,590**	**580,996**

Life/health reinsurance		Consolidation		Total	
1.1.–31.12.2011	1.1.–31.12.2010	1.1.–31.12.2011	1.1.–31.12.2010[1]	1.1.–31.12.2011	1.1.–31.12.2010[1]
5,270,137	5,090,123	454	(691)	12,096,113	11,428,717
(454)	691	454	(691)	–	–
5,270,591	5,089,432	–	–	12,096,113	11,428,717
4,788,893	4,653,910	1,854	(778)	10,751,511	10,047,016
512,616	508,243	25,999	29,427	1,384,041	1,258,895
324,299	304,168	–	–	338,538	316,368
3,328,609	3,135,785	(676)	(859)	8,029,895	7,008,055
619,713	653,496	1,747	(785)	621,460	652,711
985,803	1,022,800	(6,186)	(6,118)	2,346,916	2,290,588
130,568	118,698	(1,728)	(2,476)	289,063	280,720
(19,170)	52,979	(10,184)	(24,943)	(6,801)	104,020
217,646	**284,353**	**24,512**	**13,944**	**841,417**	**1,177,857**
–	–	99,169	89,323	99,169	89,323
217,646	**284,353**	**(74,657)**	**(75,379)**	**742,248**	**1,088,534**
30,626	60,914	(42,784)	(23,648)	65,460	257,629
187,020	**223,439**	**(31,873)**	**(51,731)**	**676,788**	**830,905**
4,764	3,814	–	–	70,815	82,015
182,256	**219,625**	**(31,873)**	**(51,731)**	**605,973**	**748,890**

1 Adjusted on the basis of IAS 1

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1. Company information

The parent company Hannover Rückversicherung AG ("Hannover Re") and its subsidiaries (collectively referred to as the "Hannover Re Group") transact all lines of non-life and life/health reinsurance and maintain business relations with more than 5,000 insurance companies on every continent. With gross premium of approximately EUR 12.1 billion, Hannover Re is one of the largest reinsurance groups in the world. The company's network consists of more than 100 subsidiaries, affiliates, branches and representative offices worldwide with a total workforce of roughly 2,200. The Group's German business is conducted by the subsidiary E+S Rück. The parent company is a joint-stock corporation, the registered office of which is located at Karl-Wiechert-Allee 50, 30625 Hannover, Germany.

An interest of 50.22% in Hannover Rückversicherung AG is held by Talanx AG, which in turn is wholly owned by HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI).

2. Accounting principles

Hannover Re and its subsidiaries are obliged to prepare a consolidated financial statement and group management report in accordance with § 290 German Commercial Code (HGB).

Pursuant to EU Regulation (EC) No. 1606/2002, the present consolidated financial statement and group management report of Hannover Re have been drawn up in accordance with the International Financial Reporting Standards (IFRS) that are to be applied within the European Union. In addition, we have made allowance for the regulations that are also applicable pursuant to § 315a Para. 1 German Commercial Code (HGB) and the supplementary provisions of the parent company's Articles of Association as amended on 3 May 2011.

The consolidated financial statement reflects all IFRS in force as at 31 December 2011 as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), application of which was mandatory for the 2011 financial year. IFRS 4 "Insurance Contracts" requires disclosures on the nature and extent of risks stemming from reinsurance contracts, while IFRS 7 "Financial Instruments: Disclosures" requires similar information on risks from financial instruments. Additionally, § 315 Para. 2 No. 2 German Commercial Code (HGB) also contains requirements, specified more closely by German Accounting Standard (DRS) 15 "Management Reporting" and DRS 5 in conjunction with DRS 5-20 on risk reporting at insurance undertakings, with regard to information on the management of technical and financial risks to be provided in the management report. The disclosures resulting from these requirements are included in the risk report. We have dispensed with an additional presentation of the same content in the notes. In order to obtain a comprehensive overview of the risks to which Hannover Re is exposed it is therefore necessary to consider both the risk report and the relevant information in the notes. We refer the reader accordingly to the corresponding remarks in the risk report and the notes.

Since 2002 the standards adopted by the International Accounting Standards Board (IASB) have been referred to as "International Financial Reporting Standards (IFRS)"; the standards dating from earlier years still bear the name "International Accounting Standards (IAS)". Standards are cited in our notes accordingly; in cases where the notes do not make explicit reference to a particular standard, the term IFRS is used.

In addition, the German Accounting Standards (DRS) adopted by the German Accounting Standards Committee (DRSC) have been observed insofar as they do not conflict with currently applicable IFRS.

The declaration of conformity required pursuant to § 161 German Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code has been submitted and, as described in the Declaration of the Executive Board regarding the Corporate Governance of the Company, made permanently available on the Hannover Re website.

The annual financial statements included in the consolidated financial statement were for the most part drawn up as at 31 December. Pursuant to IAS 27 "Consolidated and Separate Financial Statements" there is no mandatory requirement to compile interim accounts for Group companies with diverging reporting dates because their closing dates are no earlier than three months prior to the closing date for the consolidated

financial statement. Insofar no interim financial statements have been prepared, allowance has been made for the effects of significant transactions between the diverging reporting dates and the closing date for the consolidated financial statement.

The annual financial statements of all companies were drawn up in accordance with standard Group accounting and measurement rules pursuant to IFRS.

The consolidated financial statement was drawn up in euros (EUR), the amounts shown have been rounded to EUR thousands and – provided this does not detract from transparency – to EUR millions. Figures indicated in brackets refer to the previous year.

The present consolidated financial statement was prepared by the Executive Board on 13 February 2012 and hence released for publication.

New accounting principles

In the 2011 financial year the following IFRS requiring mandatory application were of relevance to Hannover Re:

A major new feature of the revised IAS 24 "Related Party Disclosures" is the requirement for disclosures of "commitments", for example guarantees, undertakings and other commitments, which are dependent upon whether (or not) a particular event occurs in the future. The definitions of a related entity and a related person are also clarified. Hannover Re applied the revised IAS 24 for the first time with effect from the beginning of the financial year. There were no significant implications.

By way of the collection of amendments "Improvements to IFRSs (Issued May 2010)" the IASB published various minor modifications to IFRS, the majority of which are to be applied from the 2011 financial year onwards. Insofar as these amendments were of practical relevance to the Group, they had no significant effect on the assets, financial position or net income of Hannover Re.

Standards or changes in standards that have not yet entered into force or are not yet applicable

The IASB has issued the following standards, interpretations and amendments to existing standards with possible implications for the consolidated financial statement of Hannover Re, application of which is not yet mandatory for the year under review and which are not being applied early by Hannover Re:

In May 2011 the IASB published five new or revised standards governing consolidation, the accounting of investments in associated companies and joint ventures and the related disclosures in the notes.

In this connection IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements" will replace the previous standards governing consolidated financial statements and special purpose entities (IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities") as well as the standards governing the accounting of interests in joint ventures (IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers").

The major new feature of IFRS 10 is that it identifies control as the single basis for verifying the consolidation requirement, irrespective of whether control is substantiated in company law, contractually or economically.

In accordance with IFRS 11 a proportionate inclusion of interests in joint ventures will no longer be permissible in future. Rather, interests in joint ventures must be accounted for using the equity method.

In addition, the disclosure requirements previously contained in IAS 27 and IAS 31 have been combined and restructured in IFRS 12 "Disclosure of Interests in Other Entities". With the aim of clarifying for the users of financial statements the nature of an entity's interest in other entities as well as the effects of those interests on its financial position, financial performance and cash flows, significantly expanded disclosures of information are required in comparison with the previous requirements.

The revised version of IAS 27 will in future consist solely of requirements for the accounting of investments in subsidiaries, jointly controlled entities and associates in separate (non-consolidated) financial statements of the parent company. In this context, only minimal changes were made relative to the previous wording of the standard.

The revised version of IAS 28 "Investments in Associates and Joint Ventures" extends the content of standards governing the accounting of investments in associated companies to include rules governing the accounting of investments in joint ventures. In both instances application of the equity method is required.

The requirements of IFRS 10, 11 and 12 as well as the revised IAS 27 and 28 are to be applied to financial years beginning on or after 1 January 2013. All of these standards have still to be endorsed by the EU.

IFRS 13 "Fair Value Measurement", a new standard also published in May of this year, is intended to establish uniform and consistent requirements for the measurement of fair value, which had hitherto been contained in various standards. In this context, the fair value is defined as the exit price, the calculation of which shall be based as far as possible on relevant observable inputs. In addition, extensive explanatory and qualitative disclosures are required; these are intended, in particular, to describe the quality of the calculation of fair value. IFRS 13 must be applied to financial years beginning on or after 1 January 2013 and has still to be endorsed by the EU.

In June 2011 the IASB published amendments to IAS 1 "Presentation of Financial Statements" and IAS 19 "Employee Benefits". IAS 1 requires entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently, i.e. those that might be reclassified and those that will not be reclassified. Tax associated with items presented before tax is to be shown separately for each of the groups of OCI items. In future the revised IAS 19 eliminates the use of the so-called "corridor approach" to defer remeasurement impacts in connection with defined benefit obligations. Actuarial gains and losses will therefore have to be recognised entirely in OCI. In addition to extended disclosure requirements, the treatment of termination benefits is changed.

The amendments to IAS 1 are to be applied to financial years beginning on or after 1 July 2012. It is envisaged that the amended IAS 19 will be applicable for the first time to financial years beginning on or after 1 January 2013. The amendments to IAS 1 and IAS 19 have still to be endorsed by the EU.

In November 2009 the IASB issued IFRS 9 "Financial Instruments" on the classification and measurement of financial instruments. IFRS 9 is the first step in a three-phase project intended to replace IAS 39 "Financial Instruments: Recognition and Measurement" with a new standard. IFRS 9 introduces new requirements for classifying and measuring financial assets. The provisions of IFRS 9 were expanded in October 2010 with an eye to financial liabilities for which the fair value option is chosen. The standard has not yet been endorsed by the EU.

The following table provides an overview of all other standards and interpretations that have not yet entered into force or are not yet applicable. Hannover Re is currently reviewing the potential implications of their application in future reporting periods.

Standards	Applicable to financial years beginning on or after	Endorsement by European Commission
Amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets	1 July 2011	22 November 2011
Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013	Pending
Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets	1 January 2012	Pending
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	1 January 2014	Pending

3. Accounting policies

3.1 Changes in accounting policies

With respect to collateralised debt obligations, collateralised loan obligations and high yield funds Hannover Re has adjusted the calculation logic used for model-based fair value measurement and for establishing the share of fair value changes attributable to impairments with the aim of measuring such items on a more market-oriented basis. This represents a change in an accounting estimate, which pursuant to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" is to be performed prospectively in the period under review without adjustment of the comparative figures for previous years. Retention of the parameters and methods used until 31 December 2010 would have increased the impairments in the period under review by EUR 0.3 million and increased the write-ups by EUR 4.8 million. The amount recognised for the fair values of the specified instruments would have been EUR 1.4 million higher. The effect of this adjustment of the calculation logic in future reporting periods could only have been determined with a disproportionately high effort.

The hybrid capital shown under debt and subordinated capital is recognised according to the effective interest rate method at amortised cost. Components of income arising out of the amortisation of transaction costs and premiums/discounts occurring in the context of issuance were previously recognised in other income and expenses, while the nominal interest was recognised as interest on hybrid capital. In order to better reflect the character of the effective interest rate method we shall henceforth recognise all expenses consistently as interest on hybrid capital. The amended recognition of the previous period pursuant to IAS 1 thus improved the other income and expenses by an amount of EUR 4.1 million to the detriment of the interest on hybrid capital.

3.2 Summary of major accounting policies

Reinsurance contracts: in March 2004 the IASB published IFRS 4 "Insurance Contracts". The first standard governing the accounting of insurance contracts, it divides the "Insurance Contracts" project into two phases. IFRS 4 "Insurance Contracts" represents the outcome of Phase I and serves as a transitional arrangement until the IASB defines the measurement of insurance contracts after completion of Phase II. Underwriting business is to be subdivided into insurance and investment contracts. Contracts with a significant insurance risk are considered to be insurance contracts, while contracts without significant insurance risk are to be classified as investment contracts. The standard is also applicable to reinsurance contracts. IFRS 4 contains fundamental rules governing specific circumstances, such as the separation of embedded derivatives and unbundling of deposit components. In conformity with these basic rules of IFRS 4 and the IFRS Framework, Hannover Re is availing itself of the option of retaining the previously used accounting policies for underwriting items (US GAAP).

Financial assets: as a basic principle we recognise the purchase and sale of directly held financial assets including derivative financial instruments as at the settlement date. The recognition of fixed-income securities includes apportionable accrued interest.

Financial assets held to maturity are comprised of non-derivative assets that entail fixed or determinable payments on a defined due date and are acquired with the intent and ability to be held until maturity. They are measured at amortised cost. The corresponding premiums or discounts are recognised in profit or loss across the duration of the instruments using the effective interest rate method. Depreciation is taken in the event of permanent impairment. Please refer to our comments on impairments in this section.

Loans and receivables are non-derivative financial instruments that entail fixed or determinable payments on a defined due date and are not listed on an active market or sold at short notice. They are carried at amortised cost; premiums or discounts are deducted or added within the statement of income using the effective interest rate method until the amount repayable becomes due. Impairment is taken only to the extent that repayment of a loan is unlikely or no longer expected in the full amount. Please refer to our comments on impairments in this section.

Financial assets at fair value through profit or loss consist of securities held for trading and those classified as measured at fair value through profit or loss since acquisition. This refers principally to unsecured debt instruments issued by corporate issuers and derivative financial instruments. Within the scope of the fair value option provided under IAS 39 "Financial Instruments: Recognition and Measurement", according to which financial assets may be carried at fair value on first-time recognition subject to certain conditions, all structured securities that would have needed to have been broken down had they been recognised as available for sale or under loans and receivables are also recognised here. Hannover Re makes use of the fair value option solely for selected subportfolios of its assets. In addition, derivative financial instruments that Hannover Re does not recognise as a valuation unit with underlying risks are recognised here. Securities held for trading and securities classified as measured at fair value through profit or loss since acquisition are carried at their fair value on the balance sheet date. If stock market prices are not available for use as fair values, the carrying values are determined using generally acknowledged measurement methods. All unrealised gains or losses from this valuation are recognised in net investment income. The classification of financial assets at fair value through profit or loss is compatible with Hannover Re's risk management strategy and investment strategy, which are oriented extensively towards economic fair value variables.

Financial assets classified as available for sale are carried at fair value; accrued interest is recognised in this context. We allocate to this category those financial instruments that do not satisfy the criteria for classification as held to maturity, loans and receivables, at fair value through profit or loss, or trading. Unrealised gains and losses arising out of changes in the fair value of securities held as available for sale are recognised – with the exception of currency valuation differences on monetary items – directly in shareholder's equity after deduction of deferred taxes.

Establishment of the fair value of financial instruments carried as assets or liabilities: the fair value of a financial instrument corresponds to the amount that Hannover Re would receive or pay if it were to sell or settle the said financial instrument on the balance sheet date. Insofar as market prices are listed on markets for financial instruments, their bid price is used. In other cases the fair values are established on the basis of the market conditions prevailing on the balance sheet date for financial assets with similar credit rating, duration and return characteristics or using recognised models of mathematical finance. Hannover Re uses a number of different valuation models for this purpose. The details are set out in the table on page 132. For further information please see our explanatory remarks on the fair value hierarchy in Section 5.1 "Investments under own management".

Impairments: As at each balance sheet date we review our financial assets with an eye to the need to take impairments. Permanent impairments on all invested assets are recognised directly in the statement of income. In this context we take as a basis the same indicators as those discussed below for fixed-income securities and securities with the character of equity. Qualitative case-by-case analysis is also carried out. IAS 39 "Financial Instruments: Recognition and Measurement" contains a list of objective, substantial indications for impairments of financial assets. In the case of fixed-income securities and loans reference is made, in particular, to the rating of the instrument, the rating of the issuer/borrower as well as the individual market assessment in order to establish whether they are impaired. With respect to held-to-maturity instruments as well as loans and receivables recognised at amortised cost, the level of impairment is arrived at from the difference between the book value of the asset and the present value of the expected future earnings flows. The book value is reduced directly by this amount which is then recognised as an expense. With the exception of value adjustments taken on accounts receivable, we recognize impairments directly on the assets side – without using an adjustment account – separately from the relevant items. If the reasons for the write-down no longer apply, a write-up is made in income up to at most the original amortised cost for fixed-income securities.

With respect to impairments on securities with the character of equity, IAS 39 "Financial Instruments: Recognition and Measurement" states, in addition to the aforementioned principles, that a significant or prolonged decrease in fair value below acquisition cost constitutes objective evidence of impairment. Hannover Re considers securities to be impaired under IAS 39 if their fair value falls significantly, i.e. by at least 20%, or for a prolonged period, i.e. at least nine months, below acquisition cost. In accordance with IAS 39 the reversal of impairment losses on equities to the statement of income once impairment has been taken is prohibited, as is adjustment of the cost basis. Impairment is tested in each reporting period using the criteria defined by Hannover Re. If a security is considered to be impaired on the basis of these criteria, IAS 39 requires that a value adjustment be recognised in the amount of the fair value less historical cost and less prior value adjustments, meaning that depreciation is taken on the fair value as at the closing date – if available, on the publicly quoted stock exchange price. We also apply this method to participations in funds that invest in private equity. In order to reflect the specific character of these funds (in this case initially negative yield and liquidity flows from the so-called

Valuation models			
Financial instrument	Pricing method	Parameter	Pricing model
Fixed-income securities			
Unlisted plain vanilla bonds, interest rate swaps	Theoretical price	Interest rate curve	Present-value method
Unlisted structured bonds	Theoretical price	Interest rate curve, Volatility surfaces	Hull-White, Black-Karasinski, LIBOR market model etc.
Unlisted bond funds	Theoretical price	Audited net asset values (NAV)	Net asset value method
ABS/MBS for which no market prices are available	Theoretical price	Prepayment speed, incurred losses, default probabilities, recovery rates	Future cash flow method, liquidation method
CDOs/CLOs Profit participation certificates	Theoretical price	Risk premiums, default rates, recovery rates, redemptions	Present-value method
Equities			
Unlisted equities	Theoretical price	Acquisition cost, cash flows, EBIT multiples, as applicable book value	Net asset value method
Other invested assets			
Private equity	Theoretical price	Acquisition cost, cash flows, EBIT multiples, market prices	Net asset value method
Other financial assets – at fair value through profit or loss			
Currency forwards	Theoretical price	Interest-rate curves, spot and forward rates	Interest parity model
OTC stock options, OTC stock index options	Theoretical price	Listing of the underlying share, implicit volatilities, money-market interest rate, dividend yield	Black-Scholes
Insurance derivatives	Theoretical price	Market values of the cat. bonds, interest rate curve	Present-value method

"J curve" effect during the investment period of the funds), we take an impairment to net asset value as an approximation of the fair value for the first time after a two-year waiting period if there is a significant or prolonged decrease in value.

Netting of financial instruments: financial assets and liabilities are only netted and recognised in the appropriate net amount if a corresponding legal claim (reciprocity; similarity and maturity) exists or is expressly agreed by contract, in other words if the intention exists to offset such items on a net basis or to effect this offsetting simultaneously.

Other invested assets are for the most part recognised at nominal value. Insofar as such financial assets are not listed on public markets (e.g. participating interests in private equity firms), they are carried at the latest available net asset value as an approximation of the fair value. Loans included in this item are recognised at amortised cost.

Investments in associated companies are valued at equity on the basis of the proportionate shareholders' equity attributable to the Group. Under IAS 28 "Investments in Associates", which requires the application of the equity method based on the investor's share of the results of operations of the investee, the goodwill apportionable to the associated companies must be recognised together with the investments in associated companies. The year-end result of an associated company relating to the Group's share is included in the net investment income and shown separately. The shareholders' equity and net income are taken from the associated company's latest available financial statement.

Real estate used by third parties (investment property) is valued at cost less scheduled depreciation and impairment. Straight-line depreciation is taken over the expected useful life – at most 50 years. Under the impairment test the market value of real estate for third-party use (recoverable amount) is determined using acknowledged valuation methods and compared with the carrying value; arising impairments are recognised. Maintenance costs and repairs are expensed. Value-enhancing expenditures are capitalised if they extend the useful life.

Cash is carried at face value.

Funds withheld are receivables due to reinsurers from their clients in the amount of the cash deposits contractually withheld by such clients; they are recognised at acquisition cost

(nominal amount). Appropriate allowance is made for credit risks.

Contract deposits: under this item we report receivables and liabilities under insurance contracts that satisfy the test of a significant risk transfer to the reinsurer as required by IFRS 4 "Insurance Contracts" but fail to meet the risk transfer required by US GAAP. IFRS 4 in conjunction with FASB ASC 944-20-15 requires insurance contracts that transfer a significant technical risk from the ceding company to the reinsurer to be differentiated from those under which the risk transfer is of merely subordinate importance. Since the risk transfer under the affected transactions is of subordinate importance, these contracts are recognised using the "deposit accounting" method and hence eliminated from the technical account. The compensation for risk assumption booked to income under these contracts is netted under other income and expenses. The payment flows resulting from these contracts are shown in the cash flow statement under operating activities.

Accounts receivable: the accounts receivable under reinsurance business and the other receivables are carried at nominal value; value adjustments are made where necessary on the basis of a case-by-case analysis. We use adjustment accounts for value adjustments taken on reinsurance accounts receivable, while all other write-downs are booked directly against the underlying position.

Deferred acquisition costs principally consist of commissions and other variable costs directly connected with the acquisition or renewal of existing reinsurance contracts. These acquisition costs are capitalised and amortised over the expected period of the underlying reinsurance contracts. Deferred acquisition costs are regularly tested for impairment.

Reinsurance recoverables on technical reserves: shares of our retrocessionaires in the technical reserves are calculated according to the contractual conditions on the basis of the gross technical reserves. Appropriate allowance is made for credit risks.

Intangible assets: in accordance with IFRS 3 "Business Combinations" scheduled depreciation is not taken on goodwill; instead, impairment is taken where necessary after an annual impairment test. For the purposes of the impairment test, goodwill is to be allocated pursuant to IAS 36 "Impairment of Assets" to so-called "cash generating units" (CGUs). Each CGU to which goodwill is allocated should represent the lowest level on which goodwill is monitored for internal management purposes and may not be larger than a segment. Following allocation of the goodwill it is necessary to determine for each CGU the recoverable amount, defined as the higher of the value in use and the fair value less costs to sell. The fair value is calculated using a discounted cash flow method on the basis of a five-year detailed plan and allowing for a perpetuity factor. The recoverable amount is to be compared with the book value of the CGU including goodwill. When the latter exceeds the recoverable amount, an impairment expense is to be recognised.

The other intangible assets largely consist of purchased and self-developed software. This is recognised at acquisition cost less scheduled depreciation. The other intangible assets also contain the present value of expected profits (PVFP) from acquired life reinsurance portfolios at the time of acquisition; amortisation is taken according to the periods of the underlying acquired contracts. Intangible assets are regularly tested for impairment and impairment is taken where necessary.

Deferred tax assets: IAS 12 "Income Taxes" requires that assets-side deferred taxes be established if assets have to be recognised in a lower amount or liabilities in a higher amount in the consolidated balance sheet than in the tax balance sheet and if these temporary differences will lead to reduced tax burdens in the future. In principle, temporary differences result from the valuation differences between the tax balance sheets drawn up in accordance with national standards and the IFRS balance sheets of the companies included in the consolidated financial statement drawn up in accordance with uniform group standards as well as from consolidation processes. Deferred tax assets are also recognised on tax loss carry-forwards and for tax credits. Insofar as the deferred taxes refer to items carried directly in equity, the resulting deferred taxes are also recognised directly in equity. Value adjustments are taken on deferred tax assets as soon as realisation of the receivable no longer appears likely. Deferred taxes are measured according to the tax regulations specific to the country concerned that are applicable or have been adopted as at the closing date.

Deferred tax assets may only be netted with deferred tax liabilities if an enforceable right exists to net actual tax refund claims with actual taxes owing. A precondition here is that the deferred tax assets and deferred tax liabilities refer to income taxes that are levied by the same revenue authority either for (i) the same taxable entity or for (ii) different taxable entities. In this regard, there must be an intention – in every future period in which the discharge or realisation of substantial amounts of deferred tax liabilities/deferred tax assets is to be expected – either to bring about the settlement of the actual taxes owing and refund claims on a net basis or to discharge the liabilities at the same time as the claims are realised. The

recognition of deferred tax assets and deferred tax liabilities in the consolidated balance sheet makes no distinction between short-term and long-term.

Own-use real estate: The portfolio of own-use real estate is measured at cost less scheduled straight-line depreciation over useful lives of 10 to 50 years. The fair values are determined for comparative purposes using the discounted cash flow method.

Other assets are accounted for at amortised cost.

Technical reserves: the technical reserves are shown for gross account in the balance sheet, i.e. before deduction of the share attributable to our reinsurers; cf. here the remarks concerning the corresponding assets. The reinsurers' portion is calculated and accounted for on the basis of the individual reinsurance contracts.

Loss and loss adjustment expense reserves are constituted for payment obligations from reinsurance losses that have occurred but have not yet been settled. They are subdivided into reserves for reinsurance losses reported by the balance sheet date and reserves for reinsurance losses that have already been incurred but not yet reported (IBNR) by the balance sheet date. The loss and loss adjustment expense reserves are based on estimates that may diverge from the actual amounts payable. In reinsurance business a considerable period of time may elapse between the occurrence of an insured loss, notification by the insurer and pro-rata payment of the loss by the reinsurer. For this reason the best estimate of the future settlement amount is carried. With the aid of actuarial methods, the estimate makes allowance for past experience and assumptions relating to the future development. With the exception of a few reserves, future payment obligations are not discounted.

Benefit reserves are comprised of the underwriting reserves for guaranteed claims of ceding companies in life and health reinsurance. Benefit reserves are determined using actuarial methods on the basis of the present value of future payments to cedants less the present value of premium still payable by cedants. The calculation includes assumptions relating to mortality, disability, lapse rates and the future interest rate development. The actuarial bases used in this context allow an adequate safety margin for the risks of change, error and random fluctuation. They correspond to those used in the premium calculation and are adjusted if the original safety margins no longer appear to be sufficient.

Deferred tax liabilities: in accordance with IAS 12 "Income Taxes" deferred tax liabilities must be recognised if assets are to be recognised in a higher amount or liabilities in a lower amount in the consolidated balance sheet than in the tax balance sheet and if these temporary differences will lead to additional tax loads in the future; please see our explanatory remarks on deferred tax assets.

Long-term liabilities principally consist of subordinated debts that can only be satisfied after the claims of other creditors in the event of liquidation or bankruptcy. They are measured at amortised cost. Liabilities to holders of minority shares in partnerships arising out of long-term capital commitments are measured at the fair value of the redemption amount as at the balance sheet date.

Financial liabilities at fair value through profit or loss: Hannover Re does not make use of the fair value option provided by IAS 39 "Financial Instruments: Recognition and Measurement" to classify financial liabilities in this category upon first-time recognition.

Shareholders' equity: the items "common shares" and "additional paid-in capital" are comprised of the amounts paid in by the parent company's shareholders on its shares. In addition to the statutory reserves of the parent company and the allocations from net income, the retained earnings consist of reinvested profits generated by the Hannover Re Group companies in previous periods. What is more, in the event of a retrospective change of accounting policies, the adjustment for previous periods is recognised in the opening balance sheet value of the retained earnings and comparable items of the earliest reported period. Unrealised gains and losses from the fair value measurement of financial instruments held as available for sale are carried in cumulative other comprehensive income under unrealised gains and losses on investments. Translation differences resulting from the currency translation of separate financial statements of foreign subsidiaries are recognised under gains and losses from currency translation.

Non-controlling interests are shares in the equity of affiliated companies not held by companies belonging to the Group. IAS 1 "Presentation of Financial Statements" requires that non-controlling interests be recognised separately within Group shareholders' equity. The non-controlling interest in profit or loss is shown separately as profit appropriation following the net income ("thereof" note). This item refers mainly to non-controlling interests in E+S Rück.

Disclosures about financial instruments: IFRS 7 "Financial Instruments: Disclosures" requires more extensive disclosures according to classes of financial instruments. In this context, the term "class" refers to the classification of financial instru-

ments according to their risk characteristics. A minimum distinction is required here between measurement at amortised cost or at fair value. A more extensive or divergent distinction should, however, be geared to the purpose of the corresponding disclosures in the notes. In contrast, the term "category" is used within the meaning of the measurement categories defined in IAS 39 "Financial Instruments: Recognition and Measurement" (held to maturity, loans and receivables, available for sale and financial assets at fair value through profit or loss with the subcategories of trading and designated financial instruments). Essentially, the following classes of financial instruments are established:

- Fixed-income securities
- Equities, equity funds and other variable-yield securities
- Other financial assets – at fair value through profit or loss
- Other invested assets
- Short-term investments
- Funds held and contract deposits (assets)
- Accounts receivable
- Other receivables
- Funds held and contract deposits (liabilities)
- Other liabilities
- Long-term debt
- Subordinated debt
- Other long-term liabilities

This grouping into classes is not, however, solely determinative for the type and structure of each disclosure in the notes. Rather, guided by the underlying business model of reinsurance, the disclosures are made on the basis of the facts and circumstances existing in the financial year and in light of the principle of materiality.

Currency translation: financial statements of Group subsidiaries were drawn up in the currencies corresponding to the economic environment in which each subsidiary primarily operates. These currencies are referred to as functional currencies. The euro is the reporting currency in which the consolidated financial statement is prepared.

Transactions in foreign currencies reported in Group companies' individual financial statements are converted into the functional currency at the transaction rate. In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" the recognition of exchange differences on translation is guided by the nature of the underlying balance sheet item. Exchange differences from the translation of monetary assets and liabilities are recognised directly in the statement of income. Currency translation differences from the translation of non-monetary assets measured at fair value via the statement of income are recognised with the latter as profit or loss from fair value measurement changes. Exchange differences from non-monetary items – such as equity securities – classified as available for sale are initially recognised outside income in a separate item of shareholders' equity and only booked to income when such non-monetary items are settled.

The individual companies' statements of income prepared in the local currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statement. The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange on the balance sheet date. In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" differences from the currency translation of financial statements of foreign Group companies must be recognised in the consolidated financial statement as a separate item in shareholders' equity. Currency translation differences resulting from long-term loans or lendings without specified maturity between Group companies are similarly recognised outside the statement of income in a separate item of shareholders' equity.

Earned premium and unearned premium: assumed reinsurance premiums, commissions and claim settlements as well as assumed portions of the technical reserves are recognised according to the terms and conditions of the reinsurance treaties, giving due consideration to the underlying contracts for which reinsurance was taken out.

Ceded reinsurance premiums are deducted from the gross written premium. Assets and liabilities in connection with reinsurance ceded are recognised on a gross basis. The reinsured portions of the reserves are estimated on a basis consistent with the reserves attributable to the reinsured risk. Income and expenses in connection with reinsurance treaties are recognised on a basis consistent with the underlying risk of the reinsured business.

Premiums for reinsurance treaties are booked to income as earned across the period of the contracts in proportion to the insurance protection already provided or when they become due. Unearned premiums are calculated individually for each treaty in order to establish the portion of the premium volume that is not booked to income. This applies principally to non-life reinsurance and parts of accident and health reinsurance. Premiums already collected that are attributable to future risk periods are deferred pro rata temporis and recognised in conformity with the pertinent standards of US GAAP. In this context, assumptions are to be made if the data required for

Key exchange rates				1 EUR corresponds to:
	31.12.2011	31.12.2010	2011	2010
	Mean rate of exchange on the balance sheet date		Average rate of exchange	
AUD	1.2723	1.3068	1.3419	1.4510
BHD	0.4881	0.4997	0.5253	0.5009
CAD	1.3198	1.3259	1.3765	1.3758
CNY	8.1489	8.7511	9.0027	8.9895
GBP	0.8362	0.8585	0.8704	0.8592
HKD	10.0565	10.3146	10.8451	10.3232
KRW	1,500.6009	1,501.6346	1,541.9185	1,541.5994
MYR	4.1038	4.0869	4.2592	4.2915
SEK	8.9063	9.0119	9.0121	9.5582
USD	1.2946	1.3254	1.3934	1.3287
ZAR	10.4800	8.7907	10.0559	9.7204

a calculation pro rata temporis is not available. The unearned premium corresponds to the insurance protection afforded in future periods.

Non-current assets held for sale and discontinued operations: in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", non-current assets and disposal groups are classified as held for sale if the relevant carrying amount is realised largely through sale rather than through continued use. Components of an entity that can be clearly distinguished from the rest of the entity for operational and accounting purposes and were classified as sold or for sale are recognised as discontinued operations. Measurement is at the lower of carrying amount and fair value less costs to sell. Scheduled depreciation is not taken on non-current assets classified as held for sale. Impairment losses on fair value less costs to sell are recognised in profit or loss; a gain for any subsequent increase in fair value less costs to sell leads to the realisation of profit up to the amount of the cumulative impairment. If the impairment loss to be taken on a disposal group exceeds the carrying amount of the corresponding non-current assets, the need to establish a provision within the meaning of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" is reviewed.

3.3 Segmentation

Hannover Re's segmental report is based on IFRS 8 "Operating Segments" and on the principles set out in German Accounting Standard No. 3 "Segment Reporting" (DRS 3) of the German Accounting Standards Board as well as the requirements of DRS 3–20 "Segment Reporting of Insurance Enterprises".

The segmentation in non-life reinsurance and life/health reinsurance and the segment information presented follow the system used for internal reporting purposes, on the basis of which the full Executive Board regularly evaluates the performance of the segments and decides on the allocation of resources to the segments.

During the financial year no material changes occurred in the organisational structure that could have influenced the composition of the segments. Since the performance indicators used to steer the segments correspond to the system according to which the consolidated financial statement is prepared, a separate reconciliation of the segment results with the Group result is not provided.

3.4 Major discretionary decisions and estimates

In the consolidated financial statement it is to some extent necessary to make estimates and assumptions which affect the assets and liabilities shown in the balance sheet, the information on contingent claims and liabilities as at the balance sheet date and the disclosure of income and expenses during the reporting period. Key facts and circumstances subject to such assumptions and estimates include, for example, the recoverability of contingent reinsurance liabilities, the recoverability of investments in associated companies, the valuation of derivative financial instruments as well as assets and liabilities relating to employee benefits. The actual amounts may diverge from the estimated amounts.

In order to measure the "ultimate liability" in non-life business the expected ultimate loss ratios are calculated for all lines. Actuarial methods such as the "chain ladder" method provide the starting point for these calculations. The best possible estimated future settlement amount is recognised in the balance sheet. The development until completion of the run-off is projected on the basis of statistical triangles from the original notifications of ceding companies. In this context it is generally assumed that the future rate of inflation of the loss run-off will be analogous to the average rate of the past inflation contained in the data. The more recent underwriting years in actuarial projections are of course subject to greater uncertainty, although this can be considerably reduced with the aid of a variety of additional information on improvements in the rates and conditions of the business written and on loss trends. The amounts arrived at as the difference between the ultimate losses and the reported losses are set aside as the IBNR reserve for losses that have been incurred but are not yet known or have still to be reported.

By analysing a broad range of observable information it is possible to classify losses as major individual loss events. Measurement of the obligations existing in this connection is carried out using a separate process, which is based largely on contract-specific estimates.

For further details, for example concerning the modelling of natural catastrophe scenarios and the assumptions relating to asbestos and pollution risks, the reader is referred to our comments in the risk report on page 68 et seq. We would further refer to our explanatory remarks on the technical reserves in Section 3.2 "Summary of major accounting policies", page 130 et seq., and Section 5.7 "Technical provisions", page 167 et seq.

In life business too the calculation of reserves and assets is crucially dependent on actuarial projections of the covered business. So-called model points are defined according to the type of business covered. The main distinguishing criteria are the age, sex and (non-)smoker status of the insured, tariff, policy period, period of premium payment and amount of insurance. The portfolio development is simulated for each model point, in which regard the key input parameters are either predefined by the tariff (e.g. allowance for costs, amount of premium, actuarial interest rate) or need to be estimated (e.g. mortality or disability rates, lapse rates). These assumptions are heavily dependent on country-specific parameters and on the sales channel, quality of the cedant's underwriting and claims handling, type of reinsurance and other framework conditions of the reinsurance treaty. The superimposition of numerous model points gives rise to a projection, which incorporates inter alia assumptions concerning the portfolio composition and the commencement of covered policies within the year. Such assumptions are estimated at the inception of a reinsurance treaty and subsequently adjusted to the actual projection.

The projections, which cover various model scenarios ("conservative assumptions" versus "best estimate"), constitute the starting point for numerous areas of application encompassing quotation, the determination of carrying values and embedded values as well as contract-specific analyses, e.g. regarding the appropriateness of the recognised reinsurance liabilities ("liability adequacy test"). In this context we would refer the reader to our comments on technical assets and provisions in Section 3.2 "Summary of major accounting policies", page 130 et seq., and on the liability adequacy tests in Section 5.7 "Technical provisions", page 167 et seq.

In determining the carrying values for certain financial assets it is sometimes necessary to make assumptions in order to calculate fair values. In this regard we would refer the reader to our remarks in Section 3.2 "Summary of major accounting policies" concerning financial assets at fair value through profit or loss and securities held as available for sale. Assumptions concerning the appropriate applicability criteria are necessary when determining the need for impairments on non-monetary financial assets held as available for sale. In this regard we would again refer the reader to our explanatory remarks in Section 3.2 "Summary of major accounting policies".

4. Consolidation

4.1 Consolidation principles

Capital consolidation

The capital consolidation complies with the requirements of IAS 27 “Consolidated and Separate Financial Statements”. Subsidiaries are consolidated as soon as Hannover Re acquires a majority voting interest or de facto controlling influence. The same is true of special purpose entities, the consolidation of which is discussed separately below.

Only subsidiaries which are of minor importance – both individually and in their entirety – for the net assets, financial position and results of operations of the Hannover Re Group are exempted from consolidation. Hannover Re assesses whether a subsidiary is of minor importance on the basis of the company’s total assets and net income relative to the corresponding values for the Group as a whole on average over the last three years. For this reason 30 (26) companies at home and abroad, the business object of which is primarily the rendering of services for reinsurance companies within the Group, were not consolidated in the year under review.

The capital consolidation is based on the revaluation method. In the context of the “purchase accounting” method the acquisition costs of the parent company are netted with the proportionate shareholders’ equity of the subsidiary at the time when it is first included in the consolidated financial statement after the revaluation of all assets and liabilities. After recognition of all acquired intangible assets that in accordance with IFRS 3 “Business Combinations” are to be accounted for separately from goodwill, the difference between the revalued shareholders’ equity of the subsidiary and the purchase price is recognised as goodwill. Under IFRS 3 scheduled amortisation is not taken on goodwill. Instead, impairment is taken where necessary on the basis of annual impairment tests. Immaterial and negative goodwill are recognised in the statement of income in the year of their occurrence.

Non-controlling interests in shareholders’ equity are reported separately within Group shareholders’ equity in accordance with IAS 1 “Presentation of Financial Statements”. The non-controlling interest in profit or loss, which forms part of net income and is shown separately after net income as a “thereof” note, amounted to EUR 70.8 million (EUR 82.0 million) in the year under review.

Non-controlling interests in partnerships are reported in accordance with IAS 32 “Financial Instruments: Presentation” under long-term liabilities.

Companies over which Hannover Re is able to exercise a significant influence are normally consolidated “at equity” as associated companies with the proportion of the shareholders’ equity attributable to the Group. A significant influence is presumed to exist if a company belonging to the Hannover Re Group directly or indirectly holds at least 20% – but no more than 50% – of the voting rights. Income from investments in associated companies is recognised separately in the consolidated statement of income.

Consolidation of business transactions within the Group

Receivables and liabilities between the companies included in the consolidated financial statement were offset against each other. Profits and expenses from business transactions within the Group were also eliminated. Transactions between a disposal group and the continuing operations of the Group were similarly eliminated in accordance with IAS 27 “Consolidated and Separate Financial Statements”.

4.2 Consolidated companies and complete list of shareholdings

In addition to Hannover Rückversicherung AG as the parent company of the Group, the scope of consolidation of the Hannover Re Group encompasses the companies listed in the table below.

Scope of consolidation (number of companies)	2011	2010
Consolidated companies		
Germany	16	15
Abroad[1]	52	54
Total	**68**	**69**
Consolidated special purpose entities and special funds		
Abroad[1]	3	3
Sum total	**71**	**72**
Companies included at equity		
Germany	3	3
Abroad[2]	6	7
Total	**9**	**10**

1 Consists of: 19 (18) individual companies and 36 (39) companies which are fully consolidated in 3 (3) subgroups.
2 Consists of: 1 (1) associated companies and 5 (6) companies which are included at equity in 1 (1) subgroup.

The following list of shareholdings is provided in full in the present Group annual financial report in accordance with the requirements of § 313 German Commercial Code (HGB) as amended by the Act on the Modernisation of Accounting Law (BilMoG).

In conformity with Item 7.1.4 of the recommendations of the German Corporate Governance Code as amended on 26 May 2010, the following table also lists the percentage share in capital, the capital and reserves and the result for the last financial year for major participations in unconsolidated third companies.

The figures for the capital and reserves as well as the result for the last financial year are taken from the local financial statements drawn up by the companies.

With regard to the major acquisitions and disposals in the year under review please see our remarks in the following paragraphs of this section.

Companies included in the consolidated financial statement

Name and registered office of the company Figures in currency units of 1,000	Participation in %		Capital and reserves		Result for the last financial year
Affiliated companies resident in Germany					
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany[1]	100.00	EUR	2,621,855	EUR	–
Hannover Life Re AG, Hannover/Germany[1,2]	100.00	EUR	1,032,596	EUR	–
HILSP Komplementär GmbH, Hannover/Germany[3]	100.00	EUR	26	EUR	2
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover/Germany[3]	100.00	EUR	39,274	EUR	7,068
Funis GmbH & Co. KG, Hannover/Germany[3]	100.00	EUR	25,040	EUR	44
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover/Germany[3]	95.28	EUR	171,011	EUR	3,202
HAPEP II Holding GmbH, Hannover/Germany[3]	95.28	EUR	27,016	EUR	3,487
HAPEP II Komplementär GmbH, Cologne/Germany[3]	81.84	EUR	27	EUR	–
Hannover Re Euro PE Holdings GmbH & Co. KG, Cologne/Germany[3]	90.92	EUR	46,685	EUR	474
Hannover Re Euro RE Holdings GmbH, Cologne/Germany[3]	81.84	EUR	142,612	EUR	1,105
Hannover Euro Private Equity Partners III GmbH & Co. KG, Hannover/Germany[3]	67.08	EUR	47,892	EUR	1,159
HEPEP III Holding GmbH, Hannover/Germany[3]	67.08	EUR	9,152	EUR	(523)
E+S Rückversicherung AG, Hannover/Germany[4]	63.69	EUR	716,413	EUR	133,000
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Hannover/Germany[3]	60.17	EUR	82,836	EUR	5,812
Hannover Euro Private Equity Partners II GmbH & Co. KG, Hannover/Germany[3]	57.63	EUR	2,056	EUR	232
HEPEP II Holding GmbH, Hannover/Germany[3]	57.63	EUR	6,181	EUR	6,136

Name and registered office of the company Figures in currency units of 1,000	Participation in %	Capital and reserves		Result for the last financial year	
Affiliated companies resident abroad					
Hannover Finance (Luxembourg) S.A., Luxembourg/Luxembourg[4]	100.00	EUR	31,719	EUR	475
Hannover Finance (UK) Limited, Virginia Water/United Kingdom[4]	100.00	GBP	131,122	GBP	27
Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda	100.00	EUR	183,262	EUR	23,815
Hannover Life Reassurance Company of America, Orlando/USA[4]	100.00	USD	175,264	USD	4,103
Hannover Life Reassurance (Ireland) Ltd., Dublin/Ireland[4]	100.00	EUR	981,765	EUR	31,700
Hannover Life Reassurance (UK) Ltd., Virginia Water/United Kingdom[4]	100.00	GBP	34,654	GBP	(5,856)
Hannover Life Re of Australasia Ltd., Sydney/Australia[4]	100.00	AUD	297,281	AUD	45,537
Hannover Re Advanced Solutions Ltd., Dublin/Ireland[5]	100.00	EUR	31	EUR	–
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda[4]	100.00	EUR	888,307	EUR	30,260
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland	100.00	EUR	460,232	EUR	36,853
Hannover ReTakaful B.S.C. (c), Manama/Bahrain[4]	100.00	BHD	34,302	BHD	6,103
Hannover Services (UK) Ltd., Virginia Water/United Kingdom	100.00	GBP	663	GBP	(60)
International Insurance Company of Hannover Ltd., Bracknell/United Kingdom[4]	100.00	GBP	116,406	GBP	5,702
Inter Hannover (No.1) Limited, London/United Kingdom[4]	100.00	GBP	(1,314)	GBP	1
Secquaero ILS Fund Ltd., George Town, Grand Cayman/Cayman Islands[6]	100.00	USD	53,277	USD	1,805
Hannover Re (Guernsey) PCC Limited, St Peter Port/Guernsey[4]	100.00	EUR	258	EUR	(3)
Fracom FCP, Paris/France[7]	100.00	EUR	842,369	EUR	25,906
Kaith Re Ltd., Hamilton/Bermuda[4]	88.00	USD	386	USD	(254)
Integra Insurance Solutions Limited, Bradford/UK[8]	74.99	GBP	115	USD	100
Subgroups resident abroad					
Hannover Finance, Inc., Wilmington/USA[4]	100.00	USD	494,803	USD	61,969
Hannover Finance, Inc. compiles its own subgroup financial statement in which the following major companies are included:					
Consolidated companies					
Clarendon Insurance Group, Inc., Wilmington/USA	100.00	USD	221,640	USD	66,885
Atlantic Capital Corporation, Wilmington/USA[6,9,10]	100.00	USD	(111,867)	USD	1,520
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR	155,600	ZAR	109,787
Hannover Reinsurance Group Africa (Pty) Ltd. compiles its own subgroup financial statement in which the following companies are included:					
Consolidated companies					
Hannover Life Reassurance Africa Ltd., Johannesburg/South Africa	100.00	ZAR	368,337	ZAR	22,482

Name and registered office of the company Figures in currency units of 1,000	Participation in %	Capital and reserves		Result for the last financial year	
Hannover Reinsurance Africa Ltd., Johannesburg/South Africa	100.00	ZAR	755,497	ZAR	147,341
Compass Insurance Company Limited, Johannesburg/South Africa	100.00	ZAR	109,365	ZAR	(21,717)
Micawber 185 (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR	20,355	ZAR	2,098
Peachtree (Pty) Ltd., Johannesburg/South Africa[9]	100.00	ZAR	–	ZAR	–
Indoc Holdings S.A., Luxembourg/Luxembourg[9]	100.00	CHF	–	CHF	–
Hannover Reinsurance Mauritius Ltd., Port Louis/Mauritius	100.00	MUR	46,393	MUR	(4,220)
Lireas Holdings (Pty) Ltd., Johannesburg/South Africa	51.00	ZAR	199,836	ZAR	57,019
Transit Underwriting Managers (Pty) Ltd., Cape Town/South Africa	51.00	ZAR	806	ZAR	1,474
MUA Insurance Company Ltd., Cape Town/South Africa	51.00	ZAR	9,784	ZAR	111
MUA Insurance Acceptances (Pty) Ltd., Cape Town/South Africa	40.80	ZAR	4,376	ZAR	4,624
Garagesure Consultants and Acceptances (Pty) Ltd., Johannesburg/South Africa	40.80	ZAR	541	ZAR	815
Cargo Transit Insurance (Pty) Ltd., Helderkruin/South Africa	40.80	ZAR	(2,522)	ZAR	(2,252)
Landmark Underwriting Agency (Pty) Ltd., Bloemfontein/South Africa	38.51	ZAR	2,948	ZAR	3,802
Hospitality Industries Underwriting Consultants (Pty) Ltd., Johannesburg/South Africa	36.82	ZAR	1,603	ZAR	2,981
SUM Holdings (Pty) Ltd., Johannesburg/South Africa	36.82	ZAR	20,811	ZAR	5,689
Gem & Jewel Acceptances (Pty) Ltd., Johannesburg/South Africa[4]	35.70	ZAR	157	ZAR	998
Thatch Risk Acceptances (Pty) Ltd., Cape Town/South Africa	33.14	ZAR	1,246	ZAR	2,233
Envirosure Underwriting Managers (Pty) Ltd., Durban/South Africa	30.60	ZAR	(1,690)	ZAR	159
Woodworking Risk Acceptances (Pty) Ltd., Pietermaritzburg/South Africa	30.60	ZAR	1,910	ZAR	2,409
Construction Guarantee (Pty) Ltd., Parktown/South Africa	30.60	ZAR	(831)	ZAR	3,455
Film & Entertainment Underwriters SA (Pty) Ltd., Northcliff/South Africa	26.01	ZAR	(1,479)	ZAR	(620)
Associated companies					
Takafol South Africa (Pty) Ltd., Johannesburg/South Africa[4]	24.99	ZAR	601	ZAR	(181)
Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg/South Africa[4]	20.40	ZAR	6,218	ZAR	19,901
Flexible Accident and Sickness Acceptances (Pty) Ltd., Johannesburg/South Africa[4]	20.40	ZAR	5,053	ZAR	3,322
Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg/South Africa[4]	19.04	ZAR	3,893	ZAR	47,912
Camargue Underwriting Managers (Pty) Ltd., Parktown/South Africa[4]	13.26	ZAR	3,504	ZAR	504
Participations (non-consolidated)					
Clarenfin (Pty) Ltd., Johannesburg/South Africa[5]	19.04	ZAR	–	ZAR	–

Name and registered office of the company Figures in currency units of 1,000	Participation in %		Capital and reserves		Result for the last financial year
Subgroups resident abroad					
Hannover Re Real Estate Holdings, Inc., Orlando/USA[6]	95.10	USD	280,345	USD	12,939
Hannover Re Real Estate Holdings, Inc. compiles its own subgroup financial statement in which the following companies are included:					
Consolidated companies					
5115 Sedge Corporation, Chicago/USA[6]	95.10	USD	1,899	USD	(585)
GLL HRE CORE PROPERTIES LP, Wilmington/USA[6]	95.00	USD	111,771	USD	391
11 Stanwix LLC, Wilmington/USA[6]	95.00	USD	30,292	USD	941
One Winthrop Square LLC, Wilmington/USA[6]	95.00	USD	23,816	USD	693
402 Santa Monica Blvd LLC, Wilmington/USA[6]	95.00	USD	32,352	USD	679
300 South Orange Avenue LLC, Wilmington/USA[6]	95.00	USD	56,694	USD	1,302
465 Broadway LLC, Wilmington/USA[6]	95.00	USD	43,175	USD	788
5115 Sedge Boulevard LP, Chicago/USA[6]	79.88	USD	149	USD	(1,084)
GLL Terry Francois Blvd. LLC, Wilmington/USA[6]	48.40	USD	25,542	USD	741
Associated companies resident in Germany					
Oval Office Grundstücks GmbH, Hannover/Germany[4]	50.00	EUR	59,553	EUR	1,765
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover/Germany[11,12]	32.74	EUR	77,311	EUR	3,112
HANNOVER Finanz GmbH, Hannover/Germany[11]	25.00	EUR	69,063	EUR	5,629
Associated companies resident abroad					
ITAS Vita S.p.A., Trient/Italy[11]	34.88	EUR	76,299	EUR	1,449
Participations in Germany (non-consolidated)					
International Hannover Holding AG, Hannover/Germany	100.00	EUR	41	EUR	–
Capital System GmbH, Hannover/Germany[13]	49.00	EUR	25	EUR	–
Participations abroad (non-consolidated)					
International Mining Industry Underwriters Ltd., London/United Kingdom[4]	100.00	GBP	419	GBP	60
HR Hannover Re, Correduría de Reaseguros S.A., Madrid/Spain[4]	100.00	EUR	231	EUR	33
LRA Superannuation Plan Pty Ltd., Sydney/Australia[5]	100.00	AUD	–	AUD	–
Mediterranean Reinsurance Services Ltd., Hong Kong/China[9,14]	100.00	USD	125	USD	–
Hannover Re Services Japan, Tokyo/Japan	100.00	JPY	92,870	JPY	2,573
Hannover Re Consulting Services India Private Limited, Mumbai/India[8]	100.00	INR	50,647	INR	5,004
Hannover Life Re Consultants, Inc., Orlando/USA[11]	100.00	USD	199	USD	26

Name and registered office of the company Figures in currency units of 1,000	Participation in %	Capital and reserves		Result for the last financial year	
Participations abroad (non-consolidated)					
Hannover Services (México) S.A. de C.V., Mexico City/Mexico[11]	100.00	MXN	10,552	MXN	561
Hannover Re Services USA, Inc., Itasca/USA	100.00	USD	845	USD	50
Hannover Rückversicherung AG Escritório de Representação no Brasil Ltda., Rio de Janeiro/Brazil[11]	100.00	BRL	377	BRL	3
Hannover Re Services Italy Srl, Milan/Italy	99.64	EUR	485	EUR	80
Glencar Underwriting Managers, Itasca/USA[13]	95.90	USD	2,502	USD	–
Svedea AB, Stockholm/Sweden[11]	71.20	SEK	255	SEK	(18,515)
Hannover Care AB, Stockholm/Sweden[11]	30.00	SEK	522	SEK	(2,656)
Energi, Inc., Peabody/USA[11,15]	28.50	USD	7,381	USD	(817)
Energi Insurance Services, Inc., Peabody/USA[11]	28.50	USD	1,305	USD	(1,381)
Energi of Canada, Ltd., Toronto/Canada[13]	28.50	CAD	–	CAD	–
Energi Re LLC, Dover/USA[13]	28.50	USD	250	USD	–
Hurst Holme Insurance Company Limited - account 2006 - 03 SCC, Hamilton/Bermuda[11]	28.50	USD	780	USD	(113)
Hurst Holme Insurance Company Limited - account 2009 - 01 SCC, Hamilton/Bermuda[11]	28.50	USD	1,577	USD	1,440
XS Direct Holdings Limited, Dublin/Ireland[11]	25.00	EUR	4,870	EUR	2,962
SimShare Limited, Dublin/Ireland[11,16]	25.00	EUR	3,093	EUR	(777)
XS Direct Insurance Brokers Limited, Dublin/Ireland[11]	25.00	EUR	(172)	EUR	(725)
Indemnity Guarantee Company Limited, Dublin/Ireland[9,11]	25.00	EUR	(6)	EUR	–
Sciemus Power MGA Limited, London/United Kingdom[11]	25.00	GBP	1	GBP	–
PlaNet Guarantee (SAS), Saint-Ouen/France[11]	23.58	EUR	1,447	EUR	(549)
Acte Vie S.A. Compagnie d'Assurances sur la Vie et de Capitalisation, Strasbourg/France[11]	9.38	EUR	8,203	EUR	226

1 Year-end result after profit transfer
2 Formerly Zweite Hannover Rück Beteiligung Verwaltungs-GmbH
3 Financial year as at 30 September 2011
4 Provisional (unaudited) figures
5 Company is inactive and does not compile an annual report
6 IFRS figures
7 Financial year as at 30 October 2010
8 Financial year as at 31 March 2011
9 Company is in liquidation
10 Certain equity items are not counted under IFRS, as a consequence of which the amount of capital and reserves can be negative here. According to the local accounting practice relevant for supervisory purposes, the company is adequately capitalised.
11 Figures as at 31 December 2010
12 Formerly WeHaCo Unternehmensbeteiligungs-AG
13 Company was newly established in 2011; an annual financial statement is not yet available
14 Last annual financial statement compiled as at 31 December 1999
15 Formerly Energi Holdings, Inc. (until 5 December 2011)
16 Formerly XS Reinsurance Limited (until 2 June 2011)

Consolidation of special purpose entities

Business relations with special purpose entities are to be examined in accordance with SIC-12 "Consolidation – Special Purpose Entities" with an eye to their implications for consolidation. In cases where IFRS do not currently contain any specific standards, Hannover Re's analysis – in application of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – also falls back on the relevant standards of US GAAP.

Retrocessions and Insurance-Linked Securities (ILS)

Since 2010, as part of its extended Insurance-Linked Securities (ILS) activities, Hannover Re has written a number of so-called collateralised fronting arrangements under which risks assumed from ceding companies are passed on to institutional investors outside the Group using special purpose entities. The purpose of such transactions is to directly transfer clients' business. Due to the lack of a controlling influence over the special purpose entities involved, there is no consolidation requirement for Hannover Re with respect to these structures. One of the major transactions, "FacPool Re", under which Hannover Re transferred a portfolio of facultative reinsurance risks to the capital market from September 2009 to January 2011, was in run-off as at the balance sheet date. A number of special purpose entities participated in the reinsurance cessions within "FacPool Re"; Hannover Re did not hold any shares in these special purpose entities and did not bear the majority of the economic benefits or risks arising out of their activities through any of its business relations.

In connection with the sale of the operational companies of the subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton/Bermuda, a partial portfolio of CIGI was retroceded to a special purpose entity. The retrocession treaty entered into force together with the entire disposal transaction at the time when it was approved by US regulators ("closing condition"). Approval was given on 8 July 2011 and the transaction commenced upon closing of the sale with simultaneous deconsolidation of the operational companies. Since Hannover Re is not the major beneficiary of the special purpose entity and does not exercise either indirect or direct control over it, there is no requirement to consolidate this special purpose entity.

Securitisation of reinsurance risks

The securitisation of reinsurance risks is largely structured through the use of special purpose entities.

Effective 30 March 2011 a structured transaction was entered into in order to finance the statutory reserves (so-called TripleX reserves) of a US cedant. The structure necessitates the involvement of a special purpose entity, namely the Delaware-based Maricopa LLC. The special purpose entity carries extreme mortality risks securitised by the cedant above a contractually defined retention and transfers these risks by way of a fixed/floating swap with a ten-year term to a Group company of the Hannover Re Group. The maximum capacity of the transaction is equivalent to EUR 386.2 million; an amount equivalent to EUR 193.1 million had been taken up as at the balance sheet date. The variable payments to the special purpose entity guaranteed by Hannover Re cover its payment obligations. By way of a compensation agreement Hannover Re is reimbursed by the cedant's parent company for all payments resulting from the swap in the event of a claim. Since Hannover Re does not bear the majority of the economic risks or benefits arising out of its business relations with the special purpose entity and does not exercise a controlling influence over it, there is no consolidation requirement for Hannover Re. Under IAS 39 this transaction is to be recognised at fair value as a financial guarantee. To this end Hannover Re uses the net method, according to which the present value of the agreed fixed swap premiums is netted with the present value of the guarantee commitment. The fair value on initial recognition therefore amounted to zero. The higher of the fair value and the amount carried as a provision on the liabilities side pursuant to IAS 37 is recognized at the point in time when utilization is considered probable. This was not the case as at the balance sheet date. In this case the reimbursement claims from the compensation agreement are to be capitalized separately from and up to the amount of the provision.

In July 2009 Hannover Re issued a catastrophe ("CAT") bond with the aim of transferring to the capital market peak natural catastrophe exposures deriving from European windstorm events. The term of the CAT bond, which has a volume of nominally EUR 150.0 million, runs until 31 March 2012; it was placed with institutional investors from Europe and North America by Eurus II Ltd., a special purpose entity domiciled in the Cayman Islands. Hannover Re does not exercise a controlling influence over the special purpose entity. Under IFRS this transaction is to be recognised as a financial instrument.

By way of its "K" transactions Hannover Re has raised further underwriting capacity for catastrophe risks on the capital market. The "K Cession" (formerly "K6"), which was placed with investors in North America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. The volume of this securitisation, which was increased in the year under review, was equivalent to EUR 258.8 million (EUR 248.5 million) as at the balance sheet date. The transaction henceforth has an indefinite term and can be cancelled annually by the investors. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is being used for the securitisation.

Hannover Re also uses the special purpose entity Kaith Re Ltd. for various retrocessions of its traditional covers to institutional investors. In accordance with SIC–12 Kaith Re Ltd. is included in the consolidated financial statement.

Investments

Within the scope of its asset management activities Hannover Re has participated since 1988 in numerous special purpose entities – predominantly funds –, which for their part transact certain types of equity and debt capital investments. On the basis of our analysis of our relations with these entities we concluded that the Group does not exercise a controlling influence in any of these transactions and a consolidation requirement therefore does not exist.

Hannover Re participates – primarily through the companies Secquaero ILS Fund Ltd. and Hannover Insurance-Linked Securities GmbH & Co. KG – in a number of special purpose entities for the securitisation of catastrophe risks by investing in "disaster bonds" (or "CAT bonds"). Since Hannover Re does not exercise a controlling influence in any of these transactions either there is no consolidation requirement.

4.3 Major acquisitions and new formations

International Hannover Holding AG was established in the second quarter with its registered office in Hannover. The company, the share capital of which amounts to EUR 50,000, is a wholly owned subsidiary of International Insurance Company of Hannover Ltd., Bracknell, United Kingdom, which in turn is wholly owned by Hannover Re. The business object of the company is to hold, acquire and sell participating interests in other companies.

In the course of the second quarter Funis GmbH & Co. KG, a wholly owned subsidiary of Hannover Re, acquired a participating interest in Glencar Underwriting Managers, Inc., based in Chicago, United States, with a capital contribution of USD 98,000 (corresponding to 49% of the share capital). The business object of the company will primarily be to underwrite specialty lines as well as property and casualty program business. Preference shares in an amount of roughly USD 2.3 million were purchased in the course of the third quarter of 2011.

Funis GmbH & Co. KG acquired roughly 75% of the shares in Integra Insurance Solutions Ltd. for a purchase price of GBP 7.5 million effective 18 August 2011. Incidental acquisition costs of EUR 0.1 million were recognised as other expenses in the statement of income. As an agency, Integra mediates insurance business to International Insurance Company of Hannover Ltd., which is also a company belonging to the Hannover Re Group. In addition, a contingent purchase price payment of at most GBP 11.3 million was agreed; this is conditional principally on the volume and profitability of the business acquired by Integra until 2014. Based on the probable business experience, the fair value of the contingent purchase price payments at the time of acquisition was around GBP 5.1 million, thereby increasing the difference arising in the context of initial consolidation.

The shareholders' equity of Integra at the time of acquisition amounted to GBP 0.1 million. The company's assets are comprised largely of accounts receivable and payable. In the context of allocation of the purchase price, no effects arose out of the measurement of the assumed assets, nor was it possible to identify any intangible assets or liabilities that had hitherto not been brought to account. For this reason, the difference of

GBP 12.6 million arising in the context of initial consolidation was recognised in full as goodwill. In the period of its affiliation with the Group Integra generated a positive result after tax of GBP 0.3 million.

In the fourth quarter Funis GmbH & Co. KG also subscribed to 49% of the shares in the newly established Capital Systeme GmbH in an amount of EUR 12,250. In addition, a capital contribution of EUR 250,000 was made. The business object of the company is the sale and mediation of insurance products.

In the 2011 financial year Hannover Re and E+S Rück each acquired 50% interests in HAPEP II Komplementär GmbH from Talanx Asset Management GmbH, which is wholly owned by Talanx AG. No goodwill had to be capitalised with respect to this transaction between companies under common control.

4.4 Major disposals

On 21 December 2010 Hannover Re reached agreement on the sale of the operational companies of its US subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton, Bermuda, a company specialising in the run-off of insurance business. The transaction received the customary regulatory approvals on 8 July 2011; closing and deconsolidation subsequently took place on 12 July 2011. Hannover Re holds all shares of CIGI indirectly through the intermediate holding company Hannover Finance, Inc. (HFI), Wilmington, which is also included in full in the consolidated financial statement. The agreed purchase price is USD 219.1 million.

Pursuant to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" the subsidiaries of CIGI constituted a disposal group, which was to be measured at the lower of the carrying amount and fair value less costs to sell. The measurement of the disposal group gave rise to income of EUR 7.9 million in the current financial year. The income was recognised in other income and expenses.

The cumulative other comprehensive income of –EUR 23.1 million arising out of the currency translation of the assets and liabilities belonging to the disposal group was realised in the context of deconsolidation. Profits from the measurement of available-for-sale financial assets were realised in an amount of EUR 5.2 million upon deconsolidation and recognised in other income and expenses.

In compliance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" we recognised the assets and liabilities of the disposal group in corresponding balance sheet items that were distinct from continuing operations. Transactions between the disposal group and the Group's continuing operations were entirely eliminated in conformity with IAS 27 "Consolidated and Separate Financial Statements".

The assets and liabilities of the disposal group are presented in the following table and broken down into their major components.

Assets and liabilities of the disposal group in EUR thousand	12.07.2011	31.12.2010
Assets		
Total investments	577,503	643,060
Cash	15,679	27,474
Reinsurance recoverables on unpaid claims	782,520	831,093
Accounts receivable	4,515	16,916
Other assets	15,722	10,812
Assets held for sale	**1,395,939**	**1,529,355**
Liabilities		
Technical provisions	1,205,679	1,309,860
Funds withheld	18,350	26,713
Reinsurance payable	10,794	17,612
Other liabilities	21,281	26,935
Liabilities related to assets held for sale	**1,256,104**	**1,381,120**

5. Notes on the individual items of the balance sheet

5.1 Investments under own management

Investments are classified and measured in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

Hannover Re classifies investments according to the following categories: held-to-maturity, loans and receivables, financial assets at fair value through profit or loss and available-for-sale. The allocation and measurement of investments are determined by the investment intent.

The investments under own management also encompass investments in associated companies, real estate and real estate funds (also includes: investment property), other invested assets, short-term investments and cash.

The following table shows the regional origin of the investments under own management.

Investments[1] in EUR thousand	**31.12.2011**	31.12.2010
Regional origin		
Germany	6,144,974	6,402,667
United Kingdom	2,356,400	1,731,362
France	1,828,923	2,188,048
Other	5,486,964	4,856,718
Europe	**15,817,261**	**15,178,795**
USA	6,744,589	6,145,130
Other	1,472,776	1,057,850
North America	**8,217,365**	**7,202,980**
Asia	1,235,331	673,879
Australia	2,020,017	1,577,157
Australasia	**3,255,348**	**2,251,036**
Africa	413,093	409,767
Other	638,132	368,493
Total	**28,341,199**	**25,411,071**

1 After elimination of internal transactions within the Group across segments

Maturities of the fixed-income and variable-yield securities				in EUR thousand
	2011		2010	
	Amortised cost[1]	Fair value	Amortised cost[1]	Fair value
Held to maturity				
due in one year	486,965	491,332	293,247	296,019
due after one through two years	926,846	942,245	481,951	497,863
due after two through three years	613,913	643,263	530,917	556,296
due after three through four years	1,097,347	1,161,746	402,290	435,132
due after four through five years	562,175	597,596	842,291	896,024
due after five through ten years	461,311	462,789	458,201	489,910
due after more than ten years	7,532	8,091	19,121	18,143
Total	**4,156,089**	**4,307,062**	**3,028,018**	**3,189,387**
Loans and receivables				
due in one year	106,731	107,501	61,280	61,845
due after one through two years	205,235	209,847	129,327	129,184
due after two through three years	505,043	523,717	348,915	356,739
due after three through four years	306,484	318,696	576,421	592,242
due after four through five years	321,807	348,653	330,110	342,088
due after five through ten years	1,174,558	1,250,207	806,953	840,900
due after more than ten years	904,877	983,320	61,423	58,741
Total	**3,524,735**	**3,741,941**	**2,314,429**	**2,381,739**
Available for sale				
due in one year[2]	3,063,034	3,070,822	4,127,663	4,146,256
due after one through two years	1,781,899	1,802,286	1,856,401	1,892,437
due after two through three years	2,197,915	2,228,729	1,841,265	1,892,893
due after three through four years	2,308,598	2,331,561	2,184,191	2,238,279
due after four through five years	1,807,404	1,844,680	2,277,464	2,294,991
due after five through ten years	5,204,281	5,299,165	3,710,502	3,727,430
due after more than ten years	2,074,463	2,276,517	1,629,312	1,703,603
Total	**18,437,594**	**18,853,760**	**17,626,798**	**17,895,889**
Financial assets at fair value through profit or loss				
due in one year	35,186	35,186	76,542	76,542
due after one through two years	66,826	66,826	28,498	28,498
due after two through three years	5,399	5,399	60,257	60,257
due after three through four years	7,510	7,510	4,876	4,876
due after four through five years	2,595	2,595	–	–
due after five through ten years	5,625	5,625	–	–
due after more than ten years	37,989	37,989	47,424	47,424
Total	**161,130**	**161,130**	**217,597**	**217,597**

1 Including accrued interest
2 Including short-term investments and cash

Notes

The stated maturities may in individual cases diverge from the contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

Variable-rate bonds (so-called "floaters") are shown under the maturities due in one year and constitute our interest-related, within-the-year reinvestment risk.

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as held to maturity as well as their fair value — Figures in EUR thousand

	2011				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	356,246	24,036	370	7,509	387,421
US treasury notes	920,424	43,554	–	6,769	970,747
Other foreign government debt securities	56,748	924	–	158	57,830
Debt securities issued by semi-governmental entities	820,844	38,595	3,201	13,996	870,234
Corporate securities	545,719	15,265	3,890	11,469	568,563
Covered bonds/asset-backed securities	1,388,592	45,401	9,341	27,615	1,452,267
Total	**4,088,573**	**167,775**	**16,802**	**67,516**	**4,307,062**

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as held to maturity as well as their fair value — Figures in EUR thousand

	2010				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	324,564	13,960	1,252	6,884	344,156
US treasury notes	382,844	44,791	–	3,038	430,673
Other foreign government debt securities	11,618	743	–	28	12,389
Debt securities issued by semi-governmental entities	709,181	35,252	978	13,305	756,760
Corporate securities	563,779	26,219	1,132	12,453	601,319
Covered bonds/asset-backed securities	979,452	48,562	4,796	20,872	1,044,090
Total	**2,971,438**	**169,527**	**8,158**	**56,580**	**3,189,387**

The carrying amount of the portfolio held to maturity is arrived at from the cost or amortised cost plus accrued interest.

Hannover Re reclassified fixed-income securities at fair values of altogether EUR 1.3 billion from the available-for-sale to the held-to-maturity portfolio. The securities gave rise to cumulative hidden reserves of EUR 46.5 million, which as a consequence of reclassification are to be amortised in the statement of income across the maturities of the instruments. These securities are permanently available to the relevant companies of the Hannover Re Group in light of cash flow projections. The intention and the ability to hold them until maturity enable the companies to reduce balance sheet volatility.

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value					Figures in EUR thousand
	2011				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	10,375	424	–	203	11,002
Debt securities issued by semi-governmental entities	2,039,867	144,690	–	28,451	2,213,008
Corporate securities	275,329	14,545	500	4,161	293,535
Covered bonds/asset-backed securities	1,149,976	61,088	3,041	16,373	1,224,396
Total	**3,475,547**	**220,747**	**3,541**	**49,188**	**3,741,941**

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value					Figures in EUR thousand
	2010				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	–	–	–	305	305
Debt securities issued by semi-governmental entities	996,339	29,986	88	14,622	1,040,859
Corporate securities	467,355	15,317	829	6,335	488,178
Covered bonds/asset-backed securities	818,053	27,541	4,617	11,420	852,397
Total	**2,281,747**	**72,844**	**5,534**	**32,682**	**2,381,739**

The carrying amount of the loans and receivables is arrived at from the cost or amortised cost plus accrued interest.

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as available for sale as well as their fair value					Figures in EUR thousand
	2011				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,514,373	67,635	12,909	19,062	1,588,161
US treasury notes	1,181,810	54,293	159	6,457	1,242,401
Other foreign government debt securities	1,206,891	31,295	900	9,519	1,246,805
Debt securities issued by semi-governmental entities	3,302,451	161,466	10,992	46,694	3,499,619
Corporate securities	7,402,064	234,916	149,209	124,754	7,612,525
Covered bonds/asset-backed securities	1,921,998	71,997	46,179	32,294	1,980,110
Investment funds	144,400	17,411	2,521	–	159,290
	16,673,987	**639,013**	**222,869**	**238,780**	**17,328,911**
Equity securities					
Shares	12,231	2,980	1	–	15,210
Investment funds	26,688	798	2,309	–	25,177
	38,919	3,778	2,310	–	40,387
Short-term investments	1,009,578	25	3	8,286	1,017,886
Total	**17,722,484**	**642,816**	**225,182**	**247,066**	**18,387,184**

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as available for sale as well as their fair value					Figures in EUR thousand
	2010				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	2,091,535	29,356	28,204	27,268	2,119,955
US treasury notes	2,011,438	68,669	3,530	13,532	2,090,109
Other foreign government debt securities	777,750	13,659	1,466	3,922	793,865
Debt securities issued by semi-governmental entities	3,453,861	90,835	10,100	50,883	3,585,479
Corporate securities	4,951,023	105,530	61,778	89,912	5,084,687
Covered bonds/asset-backed securities	2,015,755	100,579	42,381	31,513	2,105,466
Investment funds	90,815	8,773	1,515	–	98,073
	15,392,177	**417,401**	**148,974**	**217,030**	**15,877,634**
Equity securities					
Shares	374,338	29,020	5,038	–	398,320
Investment funds	128,132	10,373	70	–	138,435
	502,470	39,393	5,108	–	536,755
Short-term investments	1.568,528	939	275	1,310	1,570,502
Total	**17,463,175**	**457,733**	**154,357**	**218,340**	**17,984,891**

The carrying amounts of the fixed-income securities and equity securities classified as available for sale as well as the short-term investments allocated to this category correspond to their fair values, in the case of interest-bearing assets including accrued interest.

Fair value of financial assets at fair value through profit or loss before and after accrued interest as well as accrued interest on such financial assets — Figures in EUR thousand

	2011	2010	2011	2010	2011	2010
	Fair value before accrued interest		Accrued interest		Fair value	
Financial assets at fair value through profit or loss						
Fixed-income securities						
Debt securities of semi-governmental entities	9,998	9,995	115	80	10,113	10,075
Corporate securities	81,974	97,770	1,194	542	83,168	98,312
Covered bonds/ asset-backed securities	67,849	108,598	–	612	67,849	109,210
	159,821	216,363	1,309	1,234	161,130	217,597
Other financial assets						
Derivatives	21,026	54,756	–	–	21,026	54,756
	21,026	54,756	–	–	21,026	54,756
Total	180,847	271,119	1,309	1,234	182,156	272,353

The carrying amounts of the financial assets at fair value through profit or loss correspond to their fair values including accrued interest.

Hannover Re recognised in this category as at the balance sheet date derivative financial instruments in an amount of EUR 21.0 million (EUR 54.8 million) that are originally allocable to this item as well as fixed-income securities amounting to EUR 161.1 million (EUR 217.6 million) designated in this category.

Analysis of the fair value changes in the portfolio of fixed-income securities at fair value through profit or loss indicated that an amount of –EUR 4.1 million was due to changes in the ratings of callable bonds. This contrasted with an increase in fair values of EUR 0.6 million in the previous year.

We additionally use an internal rating method to back up this analysis. Our internal rating system is based on the corresponding credit ratings of securities assigned by the agencies Standard & Poor's and Moody's and in each case reflects the lowest of the available ratings.

For further information please see the explanatory remarks in Section 7.1 "Derivative financial instruments".

Carrying amounts before impairment				Figures in EUR thousand
	2011		2010	
	Carrying amount before impairment	Impairment	Carrying amount before impairment	Impairment
Fixed-income securities – held to maturity	4,156,089	–	3,028,149	131
Fixed-income securities – loans and receivables	3,524,756	21	2,315,964	1,535
Fixed-income securities – available for sale	17,334,335	5,424	15,883,874	6,240
Short-term investments	1,017,886	–	1,570,502	–
Equity securities – available for sale	41,263	876	537,324	569
Participating interests and other invested assets, real estate funds	1,075,051	15,569	940,538	7,976
Total	**27,149,380**	**21,890**	**24,276,351**	**16,451**

For further explanatory remarks on the impairment criteria please see Section 3.2 "Summary of major accounting policies".

Valuation of the available-for-sale portfolio affecting shareholders' equity		in EUR thousand
	2011	2010
Changes in the other comprehensive income from fair value measurement and transactions	Other comprehensive income from investments	
Allocation to gains/losses from the fair-value measurement of the available-for-sale portfolio	245,396	208,751
Transfer of gains/losses from the fair-value measurement of the available-for-sale portfolio to the result for the period	(126,617)	(55,857)
Total	**118,779**	**152,894**

Rating structure of fixed-income securities — Figures in EUR thousand

	2011								
	AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity	1,775,632	1,783,998	478,168	118,291	–	–	–	–	4,156,089
Fixed-income securities – loans and receivables	1,598,652	1,676,610	132,617	70,559	5,302	4,242	–	36,753	3,524,735
Fixed-income securities – available-for-sale	5,472,083	4,063,262	4,826,757	2,347,271	415,233	76,694	3,092	124,519	17,328,911
Fixed-income securities – at fair value through profit or loss	–	12,728	9,134	57,322	48,404	24,990	52	8,500	161,130
Total fixed-income securities	**8,846,367**	**7,536,598**	**5,446,676**	**2,593,443**	**468,939**	**105,926**	**3,144**	**169,772**	**25,170,865**
Derivatives	(1,582)	(6,647)	(12,525)	(2,078)	(127)	(65)	(253)	(25,105)	(48,382)
Total fixed-income securities incl. derivatives	**8,844,785**	**7,529,951**	**5,434,151**	**2,591,365**	**468,812**	**105,861**	**2,891**	**144,667**	**25,122,483**

Rating structure of fixed-income securities — Figures in EUR thousand

	2010								
	AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity	1,685,201	723,446	496,375	115,027	4,000	3,969	–	–	3,028,018
Fixed-income securities – loans and receivables	1,118,414	776,712	241,609	94,831	5,303	–	–	77,560	2,314,429
Fixed-income securities – available-for-sale	8,444,249	2,542,309	3,441,409	1,092,359	133,890	59,984	10,643	152,791	15,877,634
Fixed-income securities – at fair value through profit or loss	3,306	10,075	26,130	73,000	57,963	39,656	51	7,416	217,597
Total fixed-income securities	**11,251,170**	**4,052,542**	**4,205,523**	**1,375,217**	**201,156**	**103,609**	**10,694**	**237,767**	**21,437,678**
Derivatives	18,121	1,243	(33,080)	4,200	(2,387)	51	25	(10,622)	(22,449)
Total fixed-income securities incl. derivatives	**11,269,291**	**4,053,785**	**4,172,443**	**1,379,417**	**198,769**	**103,660**	**10,719**	**227,145**	**21,415,229**

The maximum credit risk of the items shown here corresponds to their carrying amounts.

Breakdown of investments by currencies									Figures in EUR thousand
	2011								
	AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
Fixed-income securities – held to maturity	–	142,211	2,244,930	161,123	–	1,607,825	–	–	4,156,089
Fixed-income securities – loans and receivables	–	6,948	2,576,691	42,192	–	881,588	–	17,316	3,524,735
Fixed-income securities – available-for-sale	1,597,327	438,940	5,445,934	1,884,464	163,937	6,658,778	209,623	929,908	17,328,911
Fixed-income securities – at fair value through profit or loss	–	–	45,486	–	–	86,553	29,091	–	161,130
Equity securities – available-for-sale	13,472	–	15,168	57	–	11,690	–	–	40,387
Other financial assets – at fair value through profit or loss	–	–	20,413	75	–	538	–	–	21,026
Other invested assets	–	–	598,214	15	–	984,178	1,665	–	1,584,072
Short-term investments, cash	199,877	34,775	367,031	79,179	36,639	377,176	158,988	271,184	1,524,849
Total investments and cash	**1,810,676**	**622,874**	**11,313,867**	**2,167,105**	**200,576**	**10,608,326**	**399,367**	**1,218,408**	**28,341,199**

Breakdown of investments by currencies									Figures in EUR thousand
	2010								
	AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
Fixed-income securities – held to maturity	15,593	22,766	1,917,315	81,476	–	986,863	4,005	–	3,028,018
Fixed-income securities – loans and receivables	–	6,916	1,683,975	6,280	–	593,892	–	23,366	2,314,429
Fixed-income securities – available-for-sale	1,223,302	455,694	5,973,882	1,478,993	100,013	5,772,300	282,866	590,584	15,877,634
Fixed-income securities – at fair value through profit or loss	–	–	67,433	–	–	116,699	33,465	–	217,597
Equity securities – available-for-sale	–	11,515	276,625	41,725	6,528	178,737	–	21,625	536,755
Other financial assets – at fair value through profit or loss	–	–	9,495	–	–	45,261	–	–	54,756
Other invested assets	–	–	510,792	19	–	850,963	1,853	–	1,363,627
Short-term investments, cash	145,714	42,632	883,049	131,932	18,432	442,878	120,004	233,614	2,018,255
Total investments and cash	**1,384,609**	**539,523**	**11,322,566**	**1,740,425**	**124,973**	**8,987,593**	**442,193**	**869,189**	**25,411,071**

The maximum credit risk of the items shown here corresponds to their carrying amounts.

Associated companies

Investments in associated companies Figures in EUR thousand	2011	2010
Net book value at 31 December of the previous year	**127,644**	**128,316**
Currency translation at 1 January	(297)	289
Net book value after currency translation	**127,347**	**128,605**
Additions	2,174	590
Disposals	395	50
Adjustment recognised in income	1,534	1,127
Adjustment recognised outside income	(3,101)	(2,643)
Currency translation at 31 December	(5)	15
Net book value at 31 December of the year under review	**127,554**	**127,644**

Public price listings are not available for companies valued at equity. The net book value of associated companies includes goodwill in the amount of EUR 18.3 million (EUR 18.4 million).

For further details of our major participating interests please see Section 4 "Consolidation".

Real estate

Real estate is divided into real estate for own use and third-party use (investment property). The investment property in the portfolio which is used to generate income is shown under the investments. Real estate is valued at cost of acquisition less scheduled depreciation with useful lives of at most 50 years. Own-use real estate is recognised under other assets.

Income and expenses from rental agreements are included in the investment income.

Development of investment property in EUR thousand	**2011**	2010
Gross book value at 31 December of the previous year	338,634	190,212
Currency translation at 1 January	5,346	11,583
Gross book value after currency translation	**343,980**	**201,795**
Additions	98,110	136,662
Disposals	1,437	–
Reclassification	(2,633)	–
Reclassification to assets held for sale	(5,036)	–
Currency translation at 31 December	3,890	177
Gross book value at 31 December of the year under review	**436,874**	**338,634**
Cumulative depreciation at 31 December of the previous year	35,212	27,600
Currency translation at 1 January	266	335
Cumulative depreciation after currency translation	**35,478**	**27,935**
Depreciation	8,955	7,120
Impairments	123	192
Appreciation	–	(52)
Reclassification	(2,623)	–
Reclassification to assets held for sale	(2,645)	–
Currency translation at 31 December	549	17
Cumulative depreciation at 31 December of the year under review	**39,837**	**35,212**
Net book value at 31 December of the previous year	**303,422**	**162,612**
Net book value at 1 January of the year under review	308,502	173,860
Net book value at 31 December of the year under review	**397,037**	**303,422**

In addition, we held indirect real estate investments in the year under review in an amount of EUR 128.1 million (EUR 90.7 million).

The fair value of investment property amounted to EUR 397.2 million (EUR 305.4 million) as at the balance sheet date.

The market value of the real estate was determined using the discounted cash flow method.

The additions to this item are attributable in large part to the sharply increased investment activities of the real estate companies belonging to the Hannover Re Group.

In the year under review a property was classified as an asset held for sale pursuant to IFRS 5. The gross book value of the property amounted to EUR 5.0 million and the cumulative depreciation totalled EUR 2.6 million at the time of reclassification. The carrying amount of the reclassified property at amortised cost was EUR 2.4 million.

Other invested assets

The other invested assets consisted largely of participating interests in partnerships measured at fair value in an amount of EUR 833.8 million (EUR 779.5 million). The amortised cost of these participations amounted to EUR 612.8 million (EUR 536.4 million); in addition, unrealised gains of EUR 222.9 million (EUR 244.5 million) and unrealised losses of EUR 1.9 million (EUR 1.5 million) were recognised from these participations.

Short-term investments

This item comprises investments with a maturity of up to one year at the time of investment.

Fair value hierarchy

For the purposes of the disclosure requirements pursuant to IFRS 7 "Financial Instruments: Disclosures", the financial instruments recognised at fair value in the balance sheet are to be assigned to a three-level fair value hierarchy. This hierarchy, which reflects characteristics of the price data and inputs used for measurement purposes, is structured as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: Inputs used for measurement that are based on observable market data and are not included within level 1. This level includes, in particular, prices for comparable assets and liabilities, prices on markets that are not considered active as well as inputs derived from such prices or market data.
- Level 3: Inputs used for measurement that are not based on observable market data (unobservable inputs).

The following table shows the breakdown of the financial instruments recognised at fair value into the three-level fair value hierarchy.

Fair value hierarchy of financial instruments recognised at fair value — in EUR thousand

	2011			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	5,575,988	11,875,863	38,190	17,490,041
Equity securities	40,379	–	8	40,387
Other financial assets – at fair value through profit or loss	–	21,026	–	21,026
Other invested assets	–	110,700	875,401	986,101
Short-term investments	1,003,618	14,268	–	1,017,886
Total financial assets measured at fair value	**6,619,985**	**12,021,857**	**913,599**	**19,555,441**
Other financial liabilities	–	98,498	–	98,498
Total financial liabilities measured at fair value	**–**	**98,498**	**–**	**98,498**

Fair value hierarchy of financial instruments recognised at fair value — in EUR thousand

	2010			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	7,068,695	8,944,072	82,464	16,095,231
Equity securities	536,059	685	11	536,755
Other financial assets – at fair value through profit or loss	–	54,756	–	54,756
Other invested assets	–	90,547	779,592	870,139
Short-term investments	1,557,049	13,453	–	1,570,502
Total financial assets measured at fair value	**9,161,803**	**9,103,513**	**862,067**	**19,127,383**
Other financial liabilities	1,755	75,451	–	77,206
Total financial liabilities measured at fair value	**1,755**	**75,451**	**–**	**77,206**

In the year under review financial instruments with a fair value of EUR 306.8 million (EUR 289.4 million) were no longer allocable to level 1 – as in the previous year – but rather to level 2. The reclassification was necessary owing to the reduced liquidity of the instruments. Financial instruments with a fair value of EUR 103.5 million (EUR 21.6 million), which in the previous year were recognised as level 2 instruments, were allocated to level 1 in the current reporting period. The reclassifications principally affected fixed-income securities carried as available for sale.

The following table provides a reconciliation of the fair values of financial instruments included in level 3 at the beginning of the financial year with the fair values as at 31 December of the financial year.

Development of level 3 financial instruments in EUR thousand	**2011**		
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets
Net book value at 1 January of the year under review	82,464	11	779,592
Currency translation at 1 January	1,419	–	12,051
Net book value after currency translation	**83,883**	**11**	**791,643**
Income and expenses			
recognised in the statement of income	(1,412)	–	5,730
recognised directly in shareholders' equity	(3,494)	(4)	(13,900)
Additions	6,523	1	185,108
Disposals	38,048	–	59,313
Transfers to level 3	–	–	–
Transfers from level 3	(5,752)	–	(41,441)
Currency translation at 31 December of the year under review	(3,510)	–	7,574
Net book value at 31 December of the year under review	**38,190**	**8**	**875,401**

Development of level 3 financial instruments in EUR thousand	2010		
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets
Net book value at 1 January of the year under review	131,453	350	576,807
Currency translation at 1 January	9,453	1	29,348
Net book value after currency translation	**140,906**	**351**	**606,155**
Income and expenses			
recognised in the statement of income	6,261	(514)	(4,676)
recognised directly in shareholders' equity	(354)	399	79,456
Additions	18,337	441	152,515
Disposals	78,790	666	56,458
Transfers to level 3	–	–	–
Transfers from level 3	–	–	–
Currency translation at 31 December of the year under review	(3,896)	–	2,600
Net book value at 31 December of the year under review	**82,464**	**11**	**779,592**

The breakdown of income and expenses recognised in the statement of income in the financial year in connection with financial instruments assigned to level 3 is as follows.

Income and expenses from level 3 financial instruments			in EUR thousand
	2011		
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets
Total in the financial year			
Ordinary investment income	431	–	–
Unrealised gains and losses	(2,141)	–	1,323
Total depreciation, impairments and appreciation of investments	298	–	4,407
Thereof attributable to financial instruments included in the portfolio at 31 December of the year under review			
Ordinary investment income	431	–	–
Unrealised gains and losses	(1,413)	–	1,323
Total depreciation, impairments and appreciation of investments	225	–	4,407

Income and expenses from level 3 financial instruments			in EUR thousand
	2010		
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets
Total in the financial year			
Ordinary investment income	61	–	–
Unrealised gains and losses	4,950	–	–
Total depreciation, impairments and appreciation of investments	1,250	(514)	(4,676)
Thereof attributable to financial instruments included in the portfolio at 31 December of the year under review			
Ordinary investment income	61	–	–
Unrealised gains and losses	4,950	–	–
Total depreciation, impairments and appreciation of investments	1,250	(514)	(6,614)

If models are used to measure financial instruments included in level 3 under which the adoption of reasonable alternative inputs leads to a material change in fair value, IFRS 7 "Financial Instruments: Disclosures" requires disclosure of the effects of these alternative assumptions. Of the financial instruments included in level 3 with fair values of altogether EUR 913.6 million (EUR 862.1 million) as at the balance sheet date, Hannover Re measures financial instruments with a volume of EUR 863.5 million (EUR 839.4 million) using the net asset value method, in respect of which alternative inputs within the meaning of the standard cannot reasonably be established. For the remaining financial instruments included in level 3 with a volume of EUR 50.1 million (EUR 22.7 million), the effects of alternative inputs and assumptions are immaterial.

5.2 Funds withheld (assets)

The funds withheld totalling EUR 13,232.1 million (EUR 11,920.7 million) represent the cash and securities deposits furnished by our company to our cedants that do not trigger any cash flows and cannot be realised by cedants without our consent. The maturities of these deposits are matched to the corresponding provisions. In the event of default on such a deposit our reinsurance commitment is reduced to the same extent. The rise in funds withheld was attributable principally to increased new business in the area of life reinsurance.

5.3 Contract deposits (assets)

In the year under review the contract deposits on the assets side fell by EUR 605.7 million from EUR 715.4 million to EUR 109.7 million. The decrease was attributable principally to specific new contracts in the area of life reinsurance.

5.4 Technical assets

The retrocessionaires' portions of the technical provisions are based on the contractual agreements of the underlying reinsurance treaties. For further details please refer to our comments on the technical provisions in Section 5.7 "Technical provisions" as well as the remarks in the risk report on page 76 et seq.

FASB ASC 944-30-25-1 requires that acquisition costs be capitalised as assets and amortised in proportion to the earned premium.

In the case of reinsurance treaties for unit-linked life insurance policies classified as "universal life-type contracts" pursuant to FASB ASC 944-20-15-26 to -30, the capitalised acquisition costs are amortised on the basis of the estimated gross profit margins from the reinsurance treaties, making allowance for the period of the insurance contracts. A discount rate based on the interest for medium-term government bonds was applied to such contracts. In the case of annuity policies with a single premium payment, these values refer to the expected policy period or period of annuity payment.

In life and health reinsurance the deferred acquisition costs associated with life and annuity policies with regular premium payments are determined in light of the period of the contracts, the expected surrenders, the lapse expectancies and the anticipated interest income.

In non-life reinsurance acquisition costs directly connected with the acquisition or renewal of contracts are deferred for the unearned portion of the premium.

Development of deferred acquisition costs in EUR thousand	2011	2010
Net book value at 31 December of the previous year	1,834,496	1,838,450
Currency translation at 1 January	15,423	114,743
Net book value after currency translation	**1,849,919**	**1,953,193**
Additions	430,093	438,858
Reclassification	1,269	–
Amortisations	362,353	567,165
Portfolio entries/exits	–	626
Reclassification pursuant to IFRS 5	–	(3)
Currency translation at 31 December	7,642	8,987
Net book value at 31 December of the year under review	**1,926,570**	**1,834,496**

For further explanatory remarks please see Section 3.2 "Summary of major accounting policies".

The age structure of the accounts receivable which were unadjusted but considered overdue as at the balance sheet date is presented below.

Age structure of overdue accounts receivable				in EUR thousand
	2011		2010	
	Three months to one year	More than one year	Three months to one year	More than one year
Accounts receivable	109,764	166,543	61,366	87,605

Within the scope of our management of receivables we expect to receive payment of accounts receivable within three months of the date of creation of the debit entry – a period for which we also make allowance in our risk analysis. Please see our comments on the credit risk within the risk report on page 74 et seq.

The default risks associated with accounts receivable under reinsurance business are determined and recognised on the basis of case-by-case analysis.

The value adjustments on accounts receivable that we recognise in adjustment accounts changed as follows in the year under review:

Value adjustments on accounts receivable in EUR thousand	**2011**	2010
Cumulative value adjustments at 31 December of the previous year	35,768	72,258
Currency translation at 1 January of the year under review	531	2,325
Cumulative value adjustments after currency translation	**36,299**	**74,583**
Value adjustments	8,995	11,025
Reversal	9,626	38,375
Disposal	3	–
Reclassification pursuant to IFRS 5	–	(11,465)
Cumulative value adjustments at 31 December of the year under review	**35,665**	**35,768**
Gross book value of accounts receivable at 31 December of the year under review	3,174,992	2,877,071
Cumulative value adjustments at 31 December of the year under review	35,665	35,768
Net book value of accounts receivable at 31 December of the year under review	**3,139,327**	**2,841,303**

In addition, we took specific value adjustments on reinsurance recoverables on unpaid claims in the year under review. We would refer the reader to the corresponding remarks on the loss and loss adjustment expense reserve in Section 5.7 "Technical provisions".

With regard to the credit risks resulting from technical assets we would also refer the reader to our comments in the risk report on page 74 et seq.

Notes

5.5 Goodwill

In accordance with IFRS 3 “Business Combinations” scheduled amortisation is not taken on goodwill. Goodwill was subject to an impairment test.

Development of goodwill in EUR thousand	2011	2010
Net book value at 31 December of the previous year	45,773	44,393
Currency translation at 1 January	(1,563)	1,663
Net book value after currency translation	**44,210**	**46,056**
Corporate changes	–	(283)
Additions	14,487	–
Currency translation at 31 December	592	–
Net book value at 31 December of the year under review	**59,289**	**45,773**

This item principally included the goodwill from the acquisition of E+S Rückversicherung AG as well as from the acquisition of a 75% interest in Integra Insurance Solutions Ltd. For further information on the method used to test impairment the reader is referred to our explanatory remarks in Section 3.2 “Summary of major accounting policies”.

5.6 Other assets

Other assets in EUR thousand	2011	2010
Present value of future profits on acquired life reinsurance portfolios	94,985	98,368
Other intangible assets	35,672	39,799
Insurance for pension commitments	62,524	57,064
Own-use real estate	44,319	45,699
Tax refund claims	16,422	35,104
Fixtures, fittings and equipment	26,521	31,808
Other receivables	6,186	8,396
Other	50,021	20,205
Total	**336,650**	**336,443**

Of this, other assets of EUR 6.3 million (EUR 5.2 million) are attributable to affiliated companies.

Present value of future profits (PVFP) on acquired life reinsurance portfolios

Development of the present value of future profits (PVFP) on acquired life reinsurance portfolios in EUR thousand	2011	2010
Net book value at 31 December of the previous year	98,368	102,408
Currency translation at 1 January	30	264
Net book value after currency translation	**98,398**	**102,672**
Amortisation	3,374	4,304
Currency translation at 31 December	(39)	–
Net book value at 31 December of the year under review	**94,985**	**98,368**

This item principally consists of the present value of future cash flows from the business acquired that we recognised in 2009 in the context of the acquisition of the ING life reinsurance portfolio. This intangible asset is amortised over the term of the underlying reinsurance contracts in proportion to the future premium income. The period of amortisation amounts to altogether 30 years. The PVFP is recognised under other assets. For further information please refer to our explanatory notes on intangible assets in Section 3.2 "Summary of major accounting policies".

Liability insurance for pension obligations

Effective 1 July 2003 Hannover Re took out liability insurance for pension commitments. The commitments involve deferred annuities with regular premium payment under a group insurance policy. In accordance with IAS 19 "Employee Benefits" they were carried as a separate asset at fair value as at the balance sheet date in an amount of EUR 62.5 million (EUR 57.1 million).

Fixtures, fittings and equipment

Fixtures, fittings and equipment in EUR thousand	2011	2010
Gross book value at 31 December of the previous year	107,445	111,425
Currency translation at 1 January	296	4,002
Gross book value after currency translation	**107,741**	**115,427**
Additions	7,630	10,013
Disposals	3,639	18,238
Reclassification	1,754	201
Changes in consolidated group	–	(34)
Currency translation at 31 December	1	76
Gross book value at 31 December of the year under review	**113,487**	**107,445**
Cumulative depreciation at 31 December of the previous year	75,637	72,581
Currency translation at 1 January	52	2,132
Cumulative depreciation after currency translation	**75,689**	**74,713**
Disposals	3,573	13,767
Depreciation	12,853	14,489
Reclassification	1,668	175
Changes in consolidated group	–	(19)
Currency translation at 31 December	329	46
Cumulative depreciation at 31 December of the year under review	**86,966**	**75,637**
Net book value at 31 December of the previous year	31,808	38,844
Net book value at 31 December of the year under review	**26,521**	**31,808**

With regard to the measurement of fixtures, fittings and equipment, the reader is referred to our explanatory notes on the other assets in Section 3.2 "Summary of major accounting policies".

Other intangible assets

Development of other intangible assets in EUR thousand	2011	2010
Gross book value at 31 December of the previous year	167,593	171,899
Currency translation at 1 January	57	1,373
Gross book value after currency translation	**167,650**	**173,272**
Changes in consolidated group	–	(6)
Additions	8,317	4,157
Disposals	177	9,815
Currency translation at 31 December	77	(15)
Gross book value at 31 December of the year under review	**175,867**	**167,593**
Cumulative depreciation at 31 December of the previous year	127,794	115,028
Currency translation at 1 January	(3)	247
Cumulative depreciation after currency translation	**127,791**	**115,275**
Changes in consolidated group	–	(6)
Disposals	271	84
Write-ups	9	12
Depreciation	12,624	12,602
Currency translation at 31 December	60	19
Cumulative depreciation at 31 December of the year under review	**140,195**	**127,794**
Net book value at 31 December of the previous year	39,799	56,871
Net book value at 31 December of the year under review	**35,672**	**39,799**

The item includes EUR 5.7 million (EUR 6.6 million) for self-provided software and EUR 28.5 million (EUR 31.6 million) for purchased software as at the balance sheet date. Scheduled depreciation is taken over useful lives of three to ten years. The additions can be broken down into EUR 6.4 million (EUR 2.9 million) for purchased software and EUR 0.9 million (EUR 1.0 million) for capitalised development costs for self-provided software.

As in the previous year, the other receivables do not include any items that were overdue but unadjusted as at the balance sheet date. Value adjustments were taken on other receivables in an amount of EUR 0.6 million (EUR 0.5 million) in the year under review on the basis of specific impairment analyses.

Credit risks may result from other financial assets that were not overdue or adjusted as at the balance sheet date. In this regard, the reader is referred in general to our comments on the credit risk contained in the risk report on page 74 et seq.

5.7 Technical provisions

In order to show the net technical provisions remaining in the retention the following table compares the gross provisions with the corresponding retrocessionaires' shares, which are shown as assets in the balance sheet.

Technical provisions — in EUR thousand

	2011			2010		
	gross	retro	net	gross	retro	net
Loss and loss adjustment expense reserve	20,767,317	1,550,587	19,216,730	18,065,395	1,025,332	17,040,063
Benefit reserve	10,309,066	380,714	9,928,352	8,939,190	347,069	8,592,121
Unearned premium reserve	2,215,864	91,823	2,124,041	1,910,422	83,224	1,827,198
Other technical provisions	207,262	7,810	199,452	184,528	1,831	182,697
Total	**33,499,509**	**2,030,934**	**31,468,575**	**29,099,535**	**1,457,456**	**27,642,079**

The loss and loss adjustment expense reserves are in principle calculated on the basis of the information supplied by ceding companies. Additional IBNR reserves are established for losses that have been incurred but not as yet reported.

The development of the loss and loss adjustment expense reserve is shown in the following table. Commencing with the gross reserve, the change in the reserve after deduction of the reinsurers' portions is shown in the year under review and the previous year.

Loss and loss adjustment expense reserve — in EUR thousand

	2011			2010		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	18,065,395	1,025,332	17,040,063	17,425,293	1,747,991	15,677,302
Currency translation at 1 January	227,344	17,300	210,044	1,084,548	121,769	962,779
Net book value after currency translation	**18,292,739**	**1,042,632**	**17,250,107**	**18,509,841**	**1,869,760**	**16,640,081**
Reclassification pursuant to IFRS 5	–	–	–	(1,306,483)	(827,314)	(479,169)
Incurred claims and claims expenses (net)[1]						
Year under review	6,862,640	1,086,852	5,775,788	6,971,047	512,650	6,458,397
Previous years	2,298,146	31,760	2,266,386	765,975	218,902	547,073
	9,160,786	**1,118,612**	**8,042,174**	**7,737,022**	**731,552**	**7,005,470**
Less:						
Claims and claims expenses paid (net)						
Year under review	(1,756,897)	(276,660)	(1,480,237)	(2,491,229)	(230,553)	(2,260,676)
Previous years	(5,119,362)	(374,176)	(4,745,186)	(4,481,203)	(520,687)	(3,960,516)
	(6,876,259)	**(650,836)**	**(6,225,423)**	**(6,972,432)**	**(751,240)**	**(6,221,192)**
Changes in consolidated group	65,772	–	65,772	–	–	–
Specific value adjustment for retrocessions	–	2,247	(2,247)	–	2,100	(2,100)
Reversal of impairments	–	2,252	(2,252)	–	23,107	(23,107)
Portfolio entries/exits	18,806	(239)	19,045	133,254	(5,673)	138,927
Currency translation at 31 December	105,473	40,413	65,060	(35,807)	(12,760)	(23,047)
Net book value at 31 December of the year under review	**20,767,317**	**1,550,587**	**19,216,730**	**18,065,395**	**1,025,332**	**17,040,063**

1 Including expenses recognised directly in shareholders' equity

Notes

In the year under review specific value adjustments on retrocessions, i.e. on the reinsurance recoverables on unpaid claims, were established in an amount of EUR 2.2 million (EUR 2.1 million) and reversed in virtually the same amount of EUR 2.2 million (EUR 23.1 million). On balance, therefore, unchanged cumulative specific value adjustments of EUR 3.5 million (EUR 3.5 million) were recognised in these reinsurance recoverables as at the balance sheet date.

The total amount of the net reserve before specific value adjustments, to which the following remarks apply, was EUR 19,213.3 million (EUR 17,036.6 million) as at the balance sheet date.

Run-off of the net loss reserve in the non-life reinsurance segment

To some extent the loss and loss adjustment expense reserves are inevitably based upon estimations that entail an element of uncertainty. The difference between the previous year's and current estimates is reflected in the net run-off result. In addition, owing to the fact that the period of some reinsurance treaties is not the calendar year or because they are concluded on an underwriting-year basis, it is frequently impossible to make an exact allocation of claims expenditures to the current financial year or the previous year.

The run-off triangles of the reporting units delivered in foreign currencies are translated to euro at the current rate on the balance sheet date in order to show run-off results after adjustment for currency effects. In cases where the originally estimated ultimate loss corresponds to the actual ultimate loss in the original currency, it is ensured that after translation to the Group reporting currency (EUR) a run-off result indicated purely by currency effects is not shown.

The run-off triangles show the run-off of the net loss reserve (loss and loss adjustment expense reserve) established as at each balance sheet date, this reserve comprising the provisions constituted in each case for the current and preceding occurrence years.

The following table shows the net loss reserve for the non-life reinsurance business group in the years 2001 to 2011 as well as the run-off of the reserve (so-called run-off triangle). The figures reported for the 2001 balance sheet year also include the amounts for previous years that are no longer shown separately in the run-off triangle. The run-off results shown reflect the changes in the ultimate loss arising in the 2011 financial year for the individual run-off years.

Loss reserves connected with portfolio entries and withdrawals as well as changes in the consolidated group may be included here. For this reason, the run-off results in the current financial year are shown after adjustment for the net loss reserves of the operational companies of the Clarendon Insurance Group, Inc., which were sold in July 2011.

Net loss reserve and its run-off in the non-life reinsurance segment											Figures in EUR million
	31.12. 2001	31.12. 2002	31.12. 2003	31.12. 2004	31.12. 2005	31.12. 2006	31.12. 2007	31.12. 2008	31.12. 2009	31.12. 2010	31.12. 2011
Loss and loss adjustment expense reserve (from balance sheet)											
	11,693.2	**12,736.5**	**12,996.9**	**12,657.2**	**12,976.5**	**16,231.7**	**12,818.2**	**13,675.0**	**14,012.6**	**15,281.2**	**16,678.8**
Cumulative payments for the year in question and previous years											
One year later	2,025.8	2,350.8	3,379.2	4,164.1	1,466.0	2,567.0	2,511.5	2,986.3	2,814.5	2,489.8	
Two years later	3,465.5	5,185.4	6,892.2	5,289.8	3,480.7	4,316.1	4,319.7	4,640.0	4,062.1		
Three years later	5,708.3	7,833.5	7,597.5	6,270.3	4,632.3	5,648.6	5,447.0	5,409.3			
Four years later	8,234.0	8,456.3	8,338.2	7,052.5	5,755.7	6,457.8	6,005.6				
Five years later	8,715.6	9,018.6	8,933.9	7,848.8	6,387.9	6,860.4					
Six years later	9,107.2	9,457.6	9,579.2	8,311.0	6,709.7						
Seven years later	9,449.8	10,029.0	9,929.0	8,585.2							
Eight years later	9,869.1	10,297.8	10,150.9								
Nine years later	10,070.5	10,455.0									
Ten years later	10,192.5										
Loss and loss adjustment expense reserve (net) for the year in question and previous years plus payments made to date on the original reserve											
End of year	**11,693.2**	**12,736.5**	**12,996.9**	**12,657.2**	**12,976.5**	**16,231.7**	**12,818.2**	**13,675.0**	**14,012.6**	**15,281.2**	**16,678.8**
One year later	10,294.7	10,638.8	12,809.5	13,137.8	13,966.1	12,365.2	12,481.2	13,486.4	13,908.5	14,471.5	
Two years later	9,173.0	10,627.3	13,122.9	14,197.3	10,899.6	11,953.1	12,104.6	12,697.4	13,176.4		
Three years later	9,247.0	10,960.9	14,044.0	11,829.2	10,472.5	11,710.8	11,923.8	11,896.4			
Four years later	9,912.4	11,615.6	12,190.4	11,451.3	10,363.9	11,525.7	11,136.8				
Five years later	10,485.9	10,201.1	11,990.5	11,425.9	10,193.8	10,815.9					
Six years later	9,513.1	10,290.0	12,051.5	11,274.4	9,552.0						
Seven years later	9,640.3	10,380.4	11,907.8	10,750.4							
Eight years later	9,741.4	10,267.4	11,442.8								
Nine years later	9,607.3	9,871.3									
Ten years later	9,252.2										
Change relative to previous year											
– in ultimate loss reserve	355.1	41.0	68.9	59.1	117.8	67.9	77.3	13.9	(68.9)	77.6	
– in consolidated group	289.5	54.0	39.6	42.3	45.8	12.5	5.8	1.1	0.9	0.3	
Net run-off result	65.6	(13.0)	29.3	16.8	72.0	55.4	71.5	12.8	(69.8)	77.3	
As percentage of original loss reserve	0.6	(0.1)	0.2	0.1	0.6	0.3	0.6	0.1	(0.5)	0.5	

The run-off profit of altogether EUR 317.9 million in the current financial year derives in particular from positive run-offs of reserves in the areas of credit/surety, marine/aviation and short-tail property business.

Maturities of the technical reserves

IFRS 4 "Insurance Contracts" requires information which helps to clarify the amount and timing of cash flows expected from reinsurance contracts. In the following tables we have shown the future maturities of the technical provisions broken down by the expected remaining times to maturity. As part of our maturity analysis we have directly deducted the deposits put up as security for these reserves, since the cash inflows and outflows from these deposits are to be allocated directly to the ceding companies. For further explanation of the recognition and measurement of the reserves please see Section 3.2 "Summary of major accounting policies".

Maturities of the technical reserves in EUR thousand

	2011					
	Loss and loss adjustment expense reserves			Benefit reserve		
	gross	retro	net	gross	retro	net
Due in one year	5,912,679	503,588	5,409,091	391,718	58,747	332,971
Due after one through five years	8,089,293	537,465	7,551,828	505,571	52,150	453,421
Due after five through ten years	3,121,946	212,126	2,909,820	546,495	12,739	533,756
Due after ten through twenty years	2,054,096	146,595	1,907,501	855,499	7,709	847,790
Due after twenty years	971,863	72,145	899,718	677,604	4,703	672,901
	20,149,877	1,471,919	18,677,958	2,976,887	136,048	2,840,839
Deposits	617,440	82,175	535,265	7,332,179	244,666	7,087,513
Total	**20,767,317**	**1,554,094**	**19,213,223**	**10,309,066**	**380,714**	**9,928,352**

Maturities of the technical reserves in EUR thousand

	2010					
	Loss and loss adjustment expense reserves			Benefit reserve		
	gross	retro	net	gross	retro	net
Due in one year	5,253,835	261,749	4,992,086	143,307	8,639	134,668
Due after one through five years	6,808,647	378,545	6,430,102	366,402	46,992	319,410
Due after five through ten years	2,758,919	153,552	2,605,367	301,596	8,890	292,706
Due after ten through twenty years	1,864,722	92,180	1,772,542	757,943	5,216	752,727
Due after twenty years	909,207	41,438	867,769	545,488	2,908	542,580
	17,595,330	927,464	16,667,866	2,114,736	72,645	2,042,091
Deposits	470,065	101,380	368,685	6,824,454	274,424	6,550,030
Total	**18,065,395**	**1,028,844**	**17,036,551**	**8,939,190**	**347,069**	**8,592,121**

The average maturity of the loss and loss adjustment expense reserves was 5.1 years (5.2 years), or 5.1 years (5.3 years) after allowance for the corresponding retrocession shares. The benefit reserve had an average maturity of 12.8 years (14.4 years) – or 13.2 years (14.7 years) on a net basis.

The average maturity of the reserves is determined using actuarial projections of the expected future payments. A payment pattern is calculated for each homogenous category of our portfolio – making allowance for the business sector, geographical considerations, treaty type and the type of reinsurance – and applied to the outstanding liabilities for each underwriting year and run-off status.

The payment patterns are determined with the aid of actuarial estimation methods and adjusted to reflect changes in payment behaviour and outside influences. The calculations can also be distorted by major losses, and these are therefore considered separately using reference samples or similar losses. The payment patterns used can be compared year for year by contrasting the projected payments with the actual amounts realised. Liabilities in liability and motor reinsurance traditionally have long durations, sometimes in excess of 20 years, while liabilities in property business are settled within the first ten years.

The benefit reserve is established for life, annuity, personal accident and health reinsurance contracts. Based on the duration of these contracts, long-term reserves are constituted for life and annuity policies and predominantly short-term reserves are set aside for health and personal accident business.

The parameters used to calculate the benefit reserve are interest income, lapse rates and mortality/morbidity rates.

The values for the first two components (interest income and lapse rates) differ according to the country concerned, product type, investment year etc.

The mortality and morbidity rates used are chosen on the basis of national tables and the insurance industry standard. Empirical values for the reinsured portfolio, where available, are also taken into consideration. In this context insights into the gender, age and smoker structure are incorporated into the calculations, and allowance is also made for factors such as product type, sales channel and the frequency of premium payment by policyholders.

At the inception of every reinsurance contract, assumptions about the three parameters are made and locked in for the purpose of calculating the benefit reserve. At the same time, safety/fluctuation loadings are built into each of these components. In order to ensure at all times that the originally chosen assumptions continue to be adequate throughout the contract, checks are made on a regular – normally annual – basis in order to determine whether these assumptions need to be adjusted ("unlocked').

The benefit reserve is established in accordance with the principles set out in FASB ASC 944-40-30 and -35). The provisions are based on the Group companies' information regarding mortality, interest and lapse rates.

Development of the benefit reserve — in EUR thousand

	2011			2010		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	8,939,190	347,069	8,592,121	7,952,640	104,868	7,847,772
Currency translation at 1 January	150,726	901	149,825	361,507	(27,793)	389,300
Net book value after currency translation	**9,089,916**	**347,970**	**8,741,946**	**8,314,147**	**77,075**	**8,237,072**
Changes	619,849	(1,611)	621,460	694,150	41,439	652,711
Portfolio entries/exits	527,657	29,144	498,513	(71,410)	228,346	(299,756)
Currency translation at 31 December	71,644	5,211	66,433	2,303	209	2,094
Net book value at 31 December of the year under review	**10,309,066**	**380,714**	**9,928,352**	**8,939,190**	**347,069**	**8,592,121**

The unearned premium reserve derives from the deferral of reinsurance premium. The unearned premium is determined by the period during which the risk is carried and established in accordance with the information supplied by ceding companies. In cases where no information was received, the unearned premium was estimated using suitable methods. Premium paid for periods subsequent to the date of the balance sheet was deferred from recognition within the statement of income.

Development of the unearned premium reserve						in EUR thousand
	2011			2010		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	1,910,422	83,224	1,827,198	1,512,840	47,651	1,465,189
Currency translation at 1 January	19,890	454	19,436	116,463	3,994	112,469
Net book value after currency translation	**1,930,312**	**83,678**	**1,846,634**	**1,629,303**	**51,645**	**1,577,658**
Reclassifications pursuant to IFRS 5	–	–	–	(108)	(85)	(23)
Changes	269,222	(5,644)	274,866	287,536	33,300	254,236
Portfolio entries/exits	2	35	(33)	(3,351)	(1,221)	(2,130)
Currency translation at 31 December	16,328	13,754	2,574	(2,958)	(415)	(2,543)
Net book value at 31 December of the year under review	**2,215,864**	**91,823**	**2,124,041**	**1,910,422**	**83,224**	**1,827,198**

The adequacy of the technical liabilities arising out of our reinsurance treaties is reviewed as at each balance sheet date. As part of the adequacy test for technical liabilities the anticipated future contractual payment obligations are compared with the anticipated future income. Hannover Re adopts the "loss recognition" method set out under US GAAP. Should the result of the test indicate that the anticipated future income will not be sufficient to fund future payments, the entire shortfall is recognised in income by first writing off capitalised acquisition costs corresponding to the shortfall. Any remaining difference is constituted as an additional provision.

5.8 Funds withheld (liabilities)

The funds withheld under reinsurance treaties totalling EUR 644.6 million (EUR 1,187.7 million) represent the cash and securities deposits furnished to our company by our retrocessionaires that do not trigger any cash flows and cannot be realised without the consent of our retrocessionaires. The maturities of these deposits are matched to the corresponding shares of the reinsurers in the technical provisions. If such a share no longer exists the corresponding funds withheld are reduced to the same extent.

5.9 Contract deposits (liabilities)

The contract deposits on the liabilities side increased by EUR 303.9 million in the year under review from EUR 4,704.3 million to EUR 5,008.2 million. The contract deposits item on the liabilities side encompasses balances deriving from non-traditional life insurance contracts that are to be carried as liabilities. The rise was due principally to growth in new business in the area of life reinsurance.

5.10 Provisions for pensions and other post-employment benefit obligations

Pension commitments are given in accordance with the relevant version of the pension plan as amended. The 1968 pension plan provides for retirement, disability, widows' and orphans' benefits. The pension entitlement is dependent on length of service; entitlements under the statutory pension insurance scheme are taken into account. The pension plan was closed to new participants with effect from 31 January 1981.

On 1 April 1993 (1 June 1993 in the case of managerial staff) the 1993 pension plan came into effect. This pension plan provides for retirement, disability and surviving dependants' benefits. The scheme is based upon annual determination of the pension contributions, which are calculated according to the pensionable employment income and the company's performance. The pension plan was closed to new participants with effect from 31 March 1999.

From 1997 onwards it has been possible to obtain pension commitments through deferred compensation. The employee-funded commitments included in the provisions for accrued pension rights are protected by an insurance contract with HDI-Gerling Lebensversicherung AG, Cologne.

As at 1 July 2000 the 2000 pension plan came into force for the entire Group. Under this plan, new employees included in the group of beneficiaries are granted an indirect commitment from HDI Unterstützungskasse. The pension plan provides for retirement, disability and surviving dependants' benefits.

Effective 1 December 2002 Group employees have an opportunity to accumulate additional old-age provision at unchanged conditions by way of deferred compensation through membership of HDI-Gerling Pensionskasse AG.

In addition to these pension plans, managerial staff and members of the Executive Board, in particular, enjoy individual commitments as well as commitments given under the benefits plan of the Bochumer Verband.

Provisions for pensions are established in accordance with IAS 19 "Employee Benefits" using the projected unit credit method. The pension plans are defined benefit plans. The basis of the valuation is the estimated future increase in the rate of compensation of the pension beneficiaries. The benefit entitlements are discounted by applying the capital market rate for highest-rated securities. The commitments to employees in Germany predominantly comprise benefit obligations financed by the Group companies. The pension plans are unfunded. Amounts carried as liabilities are recognised under other liabilities. The provisions for pensions in Germany and abroad were calculated on the basis of uniform standards defined by Talanx AG and subject to local economic conditions.

Provisions for pensions are established in accordance with actuarial principles and are based upon the commitments made by the Hannover Re Group for retirement, disability and widows' benefits. The amount of the commitments is determined according to length of service and salary level.

The calculation of the provisions for pensions is based upon the following assumptions:

Measurement assumptions in %	2011		2010	
	Germany	Australia	Germany	Australia
Discount rate	4.84	4.00	4.57	5.00
Projected long-term yield on plan assets	–	7.00	–	7.00
Rate of compensation increase	2.75	5.00	2.75	5.00
Pension indexation	2.00	3.00	2.00	3.00

The change in the projected benefit obligation of the pension commitments as well as their breakdown into plans that are unfunded or are wholly or partially funded was as follows:

Change in the projected benefit obligation in EUR thousand	2011	2010
Projected benefit obligation at the beginning of the year under review	109,962	93,462
Current service cost for the year under review	3,341	2,818
Interest cost	4,921	4,969
Deferred compensation	–	20
Actuarial gain/loss	(10,643)	11,034
Currency translation	366	2,447
Benefits paid during the year	(2,309)	(3,466)
Past service cost	1,062	57
Effect of plan curtailments or settlements	(82)	(1,379)
Projected benefit obligation at 31 December of the year under review	**106,618**	**109,962**

Funding of the defined benefit obligation in EUR thousand	2011	2010
Projected benefit obligation from unfunded plans	91,730	97,420
Projected benefit obligation from wholly or partially funded plans (before deduction of fair value of plan assets)	14,888	12,542
Projected benefit obligation at 31 December of the year under review	**106,618**	**109,962**
Fair value of plan assets	11,525	10,464
Funded status (present value of earned benefit entitlements less fund assets)	**95,093**	**99,498**

The fair value of the plan assets developed as follows:

Change in plan assets in EUR thousand	2011	2010
Fair value at 31 December of the previous year	10,464	9,317
Expected return on plan assets	777	710
Actuarial gain/loss	(1,253)	(448)
Currency translation	283	1,928
Employer contributions	1,257	1,507
Benefits paid during the year	(3)	(1,126)
Effect of plan curtailments or settlements	–	(1,424)
Fair value of plan assets at 31 December of the year under review	**11,525**	**10,464**

The expected long-term return on plan assets was derived from the anticipated long-term yields of the individual asset classes and weighted pro rata. The plan assets consist exclusively of qualifying insurance policies as defined by IAS 19.

The following table presents a reconciliation of the funded status – calculated from the difference between the defined benefit obligations and the plan assets – with the provision for pensions recognised as at the balance sheet date.

Reconciliation of the net provision for pensions in EUR thousand	2011	2010
Defined benefit obligations at 31 December of the year under review	106,618	109,962
Fair value of plan assets at 31 December of the year under review	11,525	10,464
Funded status	**95,093**	**99,498**
Unrealised actuarial gain/loss	(6,650)	(17,784)
Past service cost	(254)	(57)
Effect of the upper limit in IAS 19.58(b)	110	–
Net provisions for pensions at 31 December of the year under review	**88,299**	**81,657**

The recognised provision for pensions developed as follows in the year under review:

Change in the provision for pensions in EUR thousand	2011	2010
Net provisions for pensions at 31 December of the previous year	81,657	77,497
Currency translation	83	(681)
Expense for the year under review	9,217	7,688
Amounts paid during the year	(590)	(344)
Benefits paid during the year	(2,306)	(2,340)
Other	238	(163)
Net provisions for pensions at 31 December of the year under review	**88,299**	**81,657**

The components of the net periodic pension cost for benefit plans were as follows:

Net periodic pension cost in EUR thousand	2011	2010
Current service cost for the year under review	3,341	2,818
Interest cost	4,893	4,908
Expected return on plan assets	738	640
Recognised actuarial gain/loss	(1,695)	(526)
Effect of plan curtailments or settlements	–	(76)
Effect of the upper limit in IAS 19.58(b)	(26)	–
Total	**9,217**	**7,688**

In determining the actuarial gains and losses to be recognised in the statement of income the corridor method provided for as an option in IAS 19 "Employee Benefits" is applied.

The net periodic pension cost was recognised in the consolidated statement of income in amounts of EUR 6.9 million (EUR 6.0 million) under administrative expenses, EUR 1.6 million (EUR 1.0 million) under other expenses and EUR 0.8 million (EUR 0.7 million) under other investment expenses.

No actuarial gains (previous year: none) were recognised as at the balance sheet date in other comprehensive income.

The following amounts were recognised for the year under review and prior years under the accounting of defined benefit plans:

Amounts recognised in EUR thousand	2011	2010	2009	2008	2007
Present value of defined benefit obligation	106,618	109,962	93,462	79,908	79,135
Fair value of plan assets	11,525	10,464	9,317	7,051	9,372
Surplus/(deficit) in the plan	(95,093)	(99,498)	(84,145)	(72,857)	(69,763)
Experience adjustments on plan liabilities	(6,650)	(17,784)	(6,647)	(649)	(3,410)
Experience adjustments on plan assets	–	–	–	–	(374)

In the current financial year Hannover Re does not expect any contribution payments (previous year: none) under the pension plans set out above.

Notes

Defined contribution plans

In addition to the defined benefit plans, some Group companies have defined contribution plans that are based on length of service and the employee's income or level of contributions. The expense recognised for these obligations in the year under review in accordance with IAS 19 "Employee Benefits" was EUR 5.7 million (EUR 4.2 million), of which EUR 0.8 million (EUR 0.0 million) was due to obligations to members of staff in key positions.

5.11 Other liabilities

Other liabilities in EUR thousand	2011	2010
Liabilities from derivatives	69,407	77,205
Interest	69,246	73,575
Deferred income	12,929	16,545
Direct minority interests in partnerships	35,418	38,470
Sundry non-technical provisions	109,960	157,951
Sundry liabilities	146,711	80,186
Total	**443,671**	**443,932**

Of this, other liabilities of EUR 4.4 million (EUR 6.1 million) are attributable to affiliated companies. The liabilities from derivatives of EUR 69.4 million (EUR 77.2 million) consist of instruments to hedge currency and inflation risks as well as embedded derivatives recognised separately from the underlying insurance contract at fair value pursuant to IAS 39 "Financial Instruments: Recognition and Measurement". Please see our remarks on derivative financial instruments in Section 7.1 "Derivative financial instruments".

The sundry liabilities include, most notably, distributions within the year of EUR 53.4 million (EUR 28.4 million) from interests in private equity funds that had still to be recognised in income as at the balance sheet date.

Development of sundry non-technical provisions			
	Balance at 31.12.2010	Currency translation at 1 January	Balance at 1 January of the year under review
Provisions for			
Audits and costs of publishing the annual financial statements	5,840	(42)	5,798
Consultancy fees	3,156	(245)	2,911
Suppliers' invoices	8,277	(530)	7,747
Partial retirement arrangements and early retirement obligations	5,483	28	5,511
Holiday entitlements and overtime	5,810	(34)	5,776
Anniversary bonuses	2,080	–	2,080
Management bonuses	16,373	(315)	16,058
Measurement of disposal groups	55,055	1,312	56,367
Other	55,877	(461)	55,416
Total	**157,951**	**(287)**	**157,664**

in EUR thousand

Changes in consolidated group	Additions	Utilisation	Release	Currency translation at 31 December	Balance at 31.12.2011
2	4,560	4,282	197	7	5,888
–	1,027	1,851	122	49	2,014
–	4,448	6,080	589	121	5,647
–	546	171	–	(1)	5,885
–	3,522	3,280	8	11	6,021
–	98	8	–	–	2,170
–	22,295	13,515	939	299	24,198
–	–	52,368	–	(3,999)	–
–	13,412	10,558	415	282	58,137
2	**49,908**	**92,113**	**2,270**	**(3,231)**	**109,960**

5.12 Debt and subordinated capital

In order to safeguard the sustained financial strength of the Hannover Re Group, Hannover Re has issued subordinated debt by way of a number of guaranteed, callable bonds.

On 14 September 2010 Hannover Re placed a new subordinated bond on the European capital market through its subsidiary Hannover Finance (Luxembourg) S.A. This subordinated debt of nominally EUR 500.0 million has a maturity of 30 years with a first scheduled call option after ten years. The bond carries a fixed coupon of 5.75% in the first ten years after which the interest basis changes to a floating rate of 3-month EURIBOR +423.5 basis points.

On 1 June 2005 Hannover Re issued further subordinated debt in the amount of EUR 500.0 million through its subsidiary Hannover Finance (Luxembourg) S.A. The bond is perpetual and carries a fixed coupon of 5.00% in the first ten years. It may be redeemed by Hannover Re on 1 June 2015 at the earliest and at each coupon date thereafter. If the bond is not called at the end of the tenth year, the coupon will step up to a floating-rate yield of quarterly EURIBOR +268 basis points. The interest will be serviced according to the same principles as those practised in the past. As part of the transaction, holders of the subordinated debt of EUR 350.0 million placed by Hannover Re in 2001 – which had a term of 30 years and could be called in prior to maturity by the issuer on 14 March 2011 – were offered an opportunity to exchange their existing issue for holdings in the new bond. Participation in the exchange was nominally EUR 211.9 million, corresponding to EUR 240.5 million of the new bond issue. The cash component of the new bond in the amount of nominally EUR 259.5 million was placed predominantly with institutional investors in Europe. The remaining volume of the bond issued in 2001 after the exchange was EUR 138.1 million and carried a fixed coupon of 6.25% until March 2011. The remaining bond volume was called by the issuer on the specified date and repaid in full.

On 26 February 2004 subordinated debt in the amount of EUR 750.0 million was placed through Hannover Finance (Luxembourg) S.A., a wholly owned subsidiary of Hannover Re, on the European capital markets. The bond has a final maturity of 20 years and for the first ten years carries a fixed coupon of 5.75%. It may be redeemed by Hannover Re on 26 February 2014 at the earliest and at each coupon date thereafter. If the bond is not called at the end of the tenth year, the coupon will step up to a floating-rate yield of quarterly EURIBOR +263 basis points.

Altogether three (previous year: four) subordinated bonds were recognised as at the balance sheet date with amortised cost of EUR 1,731.6 million (EUR 1,869.1 million).

Debt and subordinated capital Figures in EUR thousand				2011			
Subordinated loans	Coupon	Maturity	Currency	Amortised cost	Fair value measurement	Accrued interest	Fair value
Hannover Finance (Luxembourg) S.A., 2010	5.75	2040	EUR	497,877	(38,937)	8,484	467,424
Hannover Finance (Luxembourg) S.A., 2005	5.00	n. a.	EUR	485,736	(98,276)	14,589	402,049
Hannover Finance (Luxembourg) S.A., 2004	5.75	2024	EUR	747,974	(12,974)	36,390	771,390
				1,731,587	**(150,187)**	**59,463**	**1,640,863**
Debt				202,790	–	828	203,618
Other long-term liabilities				33	–	–	33
Total				**1,934,410**	**(150,187)**	**60,291**	**1,844,514**

Debt and subordinated capital Figures in EUR thousand				2010			
Subordinated loans	Coupon	Maturity	Currency	Amortised cost	Fair value measurement	Accrued interest	Fair value
Hannover Finance (Luxembourg) S.A., 2010	5.75	2040	EUR	500,000	(34,750)	8,507	473,757
Hannover Finance (Luxembourg) S.A., 2005	5.00	n. a.	EUR	484,132	(44,527)	14,589	454,194
Hannover Finance (Luxembourg) S.A., 2004	5.75	2024	EUR	746,912	9,276	36,390	792,578
Hannover Finance (Luxembourg) S.A., 2001	6.25	2031	EUR	138,063	(1,549)	6,908	143,422
				1,869,107	**(71,550)**	**66,394**	**1,863,951**
Debt				187,624	–	841	188,465
Other long-term liabilities				66	–	–	66
Total				**2,056,797**	**(71,550)**	**67,235**	**2,052,482**

The aggregated fair value of the issued subordinated loans is based on quoted, active market prices. If such price information was not available, fair value was determined on the basis of the recognised effective interest rate method or estimated using other financial assets with similar rating, duration and return characteristics. Under the effective interest rate method the current market interest rate levels in the relevant fixed-interest-rate periods are always taken as a basis.

Maturities of financial liabilities							in EUR thousand
	2011						
	Less than three months	Three months to one year	One to five years	Five to ten years	Ten to twenty years	More than twenty years	No maturity
Other financial liabilities[1]	130,110	90,815	1,168	4	–	–	6,790
Debt	60	92,093	110,637	–	–	–	–
Subordinated loans	–	–	–	–	747,974	497,877	485,736
Other long-term liabilities	–	–	33	–	–	–	–
Total	**130,170**	**182,908**	**111,838**	**4**	**747,974**	**497,877**	**492,526**

1 Excluding derivatives and minority shares in partnerships

Maturities of financial liabilities							in EUR thousand
	2010						
	Less than three months	Three months to one year	One to five years	Five to ten years	Ten to twenty years	More than twenty years	No maturity
Other financial liabilities[1]	59,947	106,647	924	–	–	–	2,787
Debt	–	–	187,624	–	–	–	–
Subordinated loans	–	138,063	–	–	746,912	500,000	484,132
Other long-term liabilities	–	–	66	–	–	–	–
Total	**59,947**	**244,710**	**188,614**	**–**	**746,912**	**500,000**	**486,919**

1 Excluding derivatives and minority shares in partnerships

Net gains and losses from debt and subordinated capital						in EUR thousand
	2011	2010	2011	2010	2011	2010
	Ordinary income/expenses		Amortisation		Net result	
Debt	(10,548)	(9,218)	(1,520)	(1,414)	(12,068)	(10,632)
Subordinated loans	(98,539)	(85,266)	(630)	(4,057)	(99,169)	(89,323)
Total	**(109,087)**	**(94,484)**	**(2,150)**	**(5,471)**	**(111,237)**	**(99,955)**

The ordinary expenses principally include interest expenses of nominally EUR 98.5 million (EUR 85.3 million) resulting from the subordinated debt placed through Hannover Finance (Luxembourg) S.A.

Other financial facilities

In order to replace the syndicated facilities for letters of credit (LoC) taken out in 2005 and 2006 Hannover Re obtained a credit line of EUR 772.5 million in 2011 in the form of an unsecured syndicated guarantee facility. The LoC facility matures in principle at the beginning of 2017 and has various renewal options. In addition, several bilateral loan agreements were also taken out.

The syndicated guarantee facility from 2005 had a remaining volume of EUR 27.0 million as at the balance sheet date after partial cancellations and ends in its entirety at the beginning of January 2012. The syndicated LoC line from 2006 was repaid in full in the context of the refinancing.

Unsecured letter of credit facilities with various terms (maturing at the latest in 2021) and a total volume equivalent to EUR 2,403.1 million (EUR 1,207.2 million) exist on a bilateral basis with financial institutions; in addition, a long-term unsecured line of credit intended specifically for US life business was concluded in December 2009 with a total volume equivalent to EUR 386.2 million (EUR 565.9 million).

For further information on the letters of credit provided please see our explanatory remarks in Section 7.7 "Contingent liabilities and commitments".

A number of LOC facilities include standard market clauses that allow the banks rights of cancellation in the event of material changes in our shareholding structure or trigger a requirement on the part of Hannover Re to furnish collateral upon materialisation of major events, for example if our rating is significantly downgraded. Please see our explanatory remarks in the "Financial position" section of the management report, page 57, on the information pursuant to § 315 Para. 4 German Commercial Code (HGB).

5.13 Shareholders' equity, non-controlling interests and treasury shares

Shareholders' equity is shown as a separate component of the financial statement in accordance with IAS 1 "Presentation of Financial Statements" and subject to IAS 32 "Financial Instruments: Disclosure and Presentation" in conjunction with IAS 39 "Financial Instruments: Recognition and Measurement". The change in shareholders' equity comprises not only the net income deriving from the statement of income but also the changes in the value of asset and liability items not recognised in the statement of income.

The common shares (share capital of the parent company) amount to EUR 120,597,134.00. They are divided into 120,597,134 voting and dividend-bearing registered no-par shares. The shares are paid in in full. Each share carries an equal voting right and an equal dividend entitlement.

Non-controlling interests in the shareholders' equity of the subsidiaries and amounted to EUR 636.0 million (EUR 608.9 million) as at the balance sheet date. They were principally attributable to non-controlling interests in the shareholders' equity of E+S Rück in an amount of EUR 611.6 million (EUR 587.5 million).

Authorised capital of up to EUR 60,299 thousand is available with a time limit of 3 May 2015. The subscription right of shareholders may be excluded with the consent of the Supervisory Board. New, no-par-value registered shares may be issued on one or more occasions for contributions in cash or kind. Of the total amount, up to EUR 1,000 thousand may be used to issue employee shares.

In addition, conditional capital of up to 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 holders of participating bonds with conversion rights and warrants and has a time limit of 2 May 2016.

For the disclosures arising out of IAS 1 "Presentation of Financial Statements" with regard to the management of capital, the reader is referred to page 52 of the "Financial position" section of the management report.

Treasury shares

IAS 1 "Presentation of Financial Statements" requires separate disclosure in shareholders' equity of treasury shares and transactions with owners acting in their capacity as such. 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 share capital existing on the date of the resolution. As part of this year's employee share option plan Hannover Re acquired altogether 24,305 treasury shares in the course of the second quarter of 2011 and delivered them to eligible employees at preferential conditions. These shares are blocked until 31 May 2015. This transaction reduced the retained earnings by EUR 0.4 million. The company was no longer in possession of treasury shares as at the balance sheet date.

6. Notes on the individual items of the statement of income

6.1 Gross written premium

The following table shows the breakdown of the gross written premium according to regional origin.

Gross written premium[1] in EUR thousand	**31.12.2011**	31.12.2010
Regional origin		
Germany	1,172,044	1,163,854
United Kingdom	2,415,505	2,434,328
France	524,153	496,836
Other	1,574,466	1,329,042
Europe	**5,686,168**	**5,424,060**
USA	2,725,705	2,957,878
Other	444,492	415,623
North America	**3,170,197**	**3,373,501**
Asia	1,327,159	965,463
Australia	620,901	488,212
Australasia	**1,948,060**	**1,453,675**
Africa	472,423	465,062
Other	819,265	712,419
Total	**12,096,113**	**11,428,717**

1 After elimination of internal transactions within the Group across segments

6.2 Investment income

Investment income in EUR thousand	2011	2010
Income from real estate	38,283	31,410
Dividends	6,965	4,427
Interest income	916,220	829,855
Other investment income	4,703	14,829
Ordinary investment income	**966,171**	**880,521**
Profit or loss on shares in associated companies	3,088	3,857
Appreciation	36,769	27,213
Realised gains on investments	262,853	244,694
Realised losses on investments	83,293	82,691
Unrealised gains and losses on investments	(38,795)	(39,893)
Impairments on real estate	10,532	7,314
Impairments on equity securities	876	569
Impairments on fixed-income securities	5,445	7,906
Impairments on participating interests and other financial assets	14,115	7,976
Other investment expenses	70,322	67,409
Net income from assets under own management	**1,045,503**	**942,527**
Interest income on funds withheld and contract deposits	432,186	436,183
Interest expense on funds withheld and contract deposits	93,648	119,815
Total investment income	**1,384,041**	**1,258,895**

Of the impairments totalling EUR 22.0 million (EUR 16.6 million), an amount of EUR 14.0 million (EUR 7.7 million) was attributable to alternative investments. The impairments on fixed-income securities of EUR 5.4 million (EUR 7.9 million) were taken predominantly on structured assets. An impairment loss of EUR 0.9 million (EUR 0.6 million) was recognised on equities whose fair value had fallen significantly – i.e. by at least 20% – or for a prolonged period – i.e. for at least nine months – below acquisition cost. This contrasted with write-ups of EUR 36.8 million (EUR 27.2 million) on investments that had been written down in previous periods. Of this total volume, EUR 17.3 million (EUR 3.0 million) was attributable to alternative assets, EUR 16.9 million (EUR 24.1 million) to fixed-income securities and EUR 2.5 million (EUR 0.1 million) to real estate funds. The portfolio did not contain any overdue, unadjusted assets as at the balance sheet date since overdue securities are written down immediately.

Interest income on investments in EUR thousand	2011	2010
Fixed-income securities – held to maturity	127,697	124,539
Fixed-income securities – loans and receivables	97,708	90,063
Fixed-income securities – available for sale	652,365	583,968
Financial assets – at fair value through profit or loss	6,571	6,812
Other	31,879	24,473
Total	**916,220**	**829,855**

The net gains and losses on investments held to maturity, loans and receivables and the available-for-sale portfolio shown in the following table are composed of interest income, realised gains and losses as well as impairments and appreciation. In the case of the fixed-income securities at fair value through profit or loss designated in this category and the other financial assets, which include the technical derivatives, changes in unrealised gains and losses are also recognised.

Making allowance for the other investment expenses of EUR 70.3 million (EUR 67.4 million), net income from assets under own management of altogether EUR 1,045.5 million (EUR 942.5 million) was recognised in the year under review.

Net gains and losses on investments					Figures in EUR thousand
	2011				
	Ordinary investment income[1]	Realised gains and losses	Impairments/ appreciation	Unrealised gains and losses	Net income from assets under own management[2]
Held to maturity					
Fixed-income securities	136,413	501	–	–	136,914
Loans and receivables					
Fixed-income securities	96,929	6,207	21	–	103,115
Available for sale					
Fixed-income securities	607,138	140,994	(11,521)	–	759,653
Equity securities	4,020	(2,360)	876	–	784
Other invested assets	43,532	34,532	(4,255)	1,323	83,642
Short-term investments	30,152	1,291	–	–	31,443
At fair value through profit or loss					
Fixed-income securities	11,130	764	–	(12,358)	(464)
Other financial assets	655	409	–	(45,606)	(44,542)
Other	39,290	(2,778)	9,078	17,846	45,280
Total	**969,259**	**179,560**	**(5,801)**	**(38,795)**	**1,115,825**

Net gains and losses on investments					Figures in EUR thousand
	2010				
	Ordinary investment income[1]	Realised gains and losses	Impairments/ appreciation	Unrealised gains and losses	Net income from assets under own management[2]
Held to maturity					
Fixed-income securities	135,340	306	131	–	135,515
Loans and receivables					
Fixed-income securities	91,255	8,299	434	–	99,120
Available for sale					
Fixed-income securities	579,090	161,238	(16,744)	–	757,072
Equity securities	1,726	407	569	–	1,564
Other invested assets	13,536	3,507	4,951	–	12,092
Short-term investments	19,693	1,399	(50)	–	21,142
At fair value through profit or loss					
Fixed-income securities	13,597	5,979	–	6,004	25,580
Other financial assets	2,842	–	–	10,125	12,967
Other	27,299	(19,132)	7,261	(56,022)	(55,116)
Total	**884,378**	**162,003**	**(3,448)**	**(39,893)**	**1,009,936**

1 Including income from associated companies, for reconciliation with the consolidated statement of income
2 Excluding other investment expenses

6.3 Reinsurance result

Reinsurance result in EUR thousand	2011	2010
Gross written premium	12,096,113	11,428,717
Ceded written premium	1,069,745	1,127,465
Change in unearned premium	(269,189)	(287,536)
Change in ceded unearned premium	(5,668)	33,300
Net premium earned	**10,751,511**	**10,047,016**
Other technical income	8,841	16,845
Total net technical income	**10,760,352**	**10,063,861**
Claims and claims expenses paid	6,266,166	6,221,192
Change in loss and loss adjustment expense reserve	1,763,729	786,863
Claims and claims expenses	**8,029,895**	**7,008,055**
Change in benefit reserve	621,460	652,229
Premium refund	–	(482)
Net change in benefit reserve	**621,460**	**652,711**
Commissions	2,394,591	2,119,269
Change in deferred acquisition costs	75,682	(117,566)
Change in provision for contingent commissions	17,219	21,113
Other acquisition costs	10,675	5,302
Other technical expenses	8,954	44,183
Administrative expenses	289,063	280,720
Net technical result	**(535,823)**	**(185,058)**

With regard to the claims and claims expenses as well as the change in the benefit reserve the reader is also referred to Section 5.7 "Technical provisions". The change in the benefit reserve relates exclusively to the life and health reinsurance segment.

The administrative expenses amounted to altogether 2.7% (2.8%) of net premium earned.

Other technical income in EUR thousand	2011	2010
Other technical income (gross)	8,841	13,168
Reinsurance recoverables	–	(3,677)
Other technical income (net)	**8,841**	**16,845**

Commissions and brokerage, change in deferred acquisition costs in EUR thousand	2011	2010
Commissions paid (gross)	2,491,637	2,266,467
Reinsurance recoverables	97,046	147,198
Change in deferred acquisition costs (gross)	45,516	(158,192)
Reinsurance recoverables	(30,166)	(40,626)
Change in provision for contingent commissions (gross)	22,723	22,373
Reinsurance recoverables	5,504	1,260
Commissions and brokerage, change in deferred acquisition costs (net)	**2,336,128**	**2,257,948**

Notes

Other technical expenses in EUR thousand	2011	2010
Other technical expenses (gross)	8,980	44,574
Reinsurance recoverables	26	391
Other technical expenses (net)	**8,954**	**44,183**

6.4 Other income/expenses

Other income/expenses in EUR thousand	2011	2010[1]
Other income		
Exchange gains	77,099	157,691
Reversals of impairments on receivables	11,878	55,655
Income from contracts recognised in accordance with the deposit accounting method	49,374	49,672
Income from services	2,996	10,546
Other interest income	73,139	5,896
Sundry income	19,883	106,931
	234,369	**386,391**
Other expenses		
Other interest expenses	43,460	35,246
Exchange losses	59,057	20,688
Separate value adjustments	12,933	13,540
Expenses for the company as a whole	50,854	39,847
Depreciation	14,326	15,489
Expenses for services	4,339	9,321
Expenses from the disposal of Clarendon	10,015	54,918
Sundry expenses	46,186	93,322
	241,170	**282,371**
Total	**(6,801)**	**104,020**

1 Adjusted on the basis of IAS 1

The increase in the other interest income derived principally from the interest portion of the tax refund arising out of the Federal Fiscal Court (BFH) decision of the previous year. Please see our explanatory remarks in Section 6.5 "Taxes on income".

Of the separate value adjustments, an amount of EUR 9.2 million (EUR 10.9 million) was attributable to accounts receivable, EUR 2.2 million (EUR 2.1 million) to reinsurance recoverables on unpaid claims and EUR 0.6 million (EUR 0.5 million) to other receivables.

6.5 Taxes on income

Domestic taxes on income, comparable taxes on income at foreign subsidiaries as well as deferred taxes in accordance with IAS 12 "Income Taxes" and deferred tax assets and liabilities are recognised under this item.

The reader is referred to Section 3.2 "Summary of major accounting policies" regarding the basic approach to the recognition and measurement of deferred taxes.

The tax rate used to calculate the deferred taxes of the domestic companies was unchanged from the previous year at 31.93% (rounded to 32%). It is arrived at from the corporate income tax rate of 15.0%, the German reunification charge of 5.5% and a uniform trade earnings tax rate of 16.1%. The deferred taxes at the companies abroad were calculated using the applicable country-specific tax rates.

Tax-relevant bookings on the Group level are made using the Group tax rate of 32% unless they refer specifically to individual companies.

Deferred tax liabilities on profit distributions of significant affiliated companies are established in the year when they are received.

Breakdown of taxes on income

The breakdown of actual and deferred income taxes was as follows:

Income tax in EUR thousand	2011	2010
Actual tax for the year under review	191,911	307,519
Actual tax for other periods	(124,812)	(52,498)
Deferred taxes due to temporary differences	42,515	(2,792)
Deferred taxes from loss carry-forwards	(43,830)	6,299
Change in deferred taxes due to changes in tax rates	(324)	(899)
Total	**65,460**	**257,629**

Domestic/foreign breakdown of recognised tax expenditure/income in EUR thousand	2011	2010
Current taxes		
Germany	8,045	198,204
Outside Germany	59,053	56,817
Deferred taxes		
Germany	34,072	(22,189)
Outside Germany	(35,710)	24,797
Total	**65,460**	**257,629**

Notes

The following table presents a breakdown of the deferred tax assets and liabilities into the balance sheet items from which they are derived.

Deferred tax assets and deferred tax liabilities of all Group companies		in EUR thousand
	2011	2010
Deferred tax assets		
Tax loss carry-forwards	81,178	45,433
Loss and loss adjustment expense reserves	271,615	201,132
Benefit reserve	54,846	36,148
Other technical/non-technical provisions	216,240	170,844
Funds withheld	586,554	308,411
Accounts receivable/reinsurance payable	7,156	6,243
Valuation differences relating to investments	19,210	14,517
Contract deposits	5,230	84
Other valuation differences	79,000	278,904
Value adjustments[1]	(43,203)	(44,377)
Total	**1,277,826**	**1,017,339**
Deferred tax liabilities		
Loss and loss adjustment expense reserves	22,542	13,228
Benefit reserve	515,207	190,521
Other technical/non-technical provisions	125,659	95,284
Equalisation reserve	933,711	802,480
Funds withheld	39,951	51,402
Deferred acquisition costs	372,436	363,468
Accounts receivable/reinsurance payable	62,800	53,593
Valuation differences relating to investments	174,914	183,523
Present value of future profits on acquired life reinsurance portfolios (PVFP)	11,873	12,155
Other valuation differences	59,110	262,076
Total	**2,318,203**	**2,027,730**
Deferred tax liabilities	1,040,377	1,010,391

1 Thereof on tax loss carry-forwards: –EUR 42,760 thousand (–EUR 43,787 thousand)

The deferred tax assets and deferred tax liabilities are shown unoffset in the above table. The deferred taxes are recognised as follows in the balance sheet after appropriate netting:

Netting of deferred tax assets and deferred tax liabilities in EUR thousand	**2011**	2010
Deferred tax assets	682,888	622,136
Deferred tax liabilities	1,723,265	1,632,527
Net deferred tax liabilities	**1,040,377**	**1,010,391**

The actual and deferred taxes recognised directly in shareholders' equity in the financial year amounted to –EUR 36.4 million (–EUR 37.5 million). They resulted from items that were charged or credited directly to equity.

The following table presents a reconciliation of the expected expense for income taxes with the actual expense for income taxes reported in the statement of income. The pre-tax result is multiplied by the Group tax rate in order to calculate the Group's expected expense for income taxes.

Reconciliation of the expected expense for income taxes with the actual expense	in EUR thousand	
	2011	2010
Profit before income taxes	742,248	1,088,534
Expected tax rate	32%	32%
Expected expense for income taxes	237,519	348,331
Change in deferred tax rates	(324)	(899)
Taxation differences affecting foreign subsidiaries	(37,199)	(54,112)
Non-deductible expenses	56,022	9,777
Tax-exempt income	(66,664)	(14,174)
Tax income not attributable to the reporting period	(127,547)	(54,026)
Other	3,653	22,732
Actual expense for income taxes	**65,460**	**257,629**

On the basis of a decision of the Federal Fiscal Court (BFH) from the previous year regarding the taxation of investment income generated by the Group's reinsurance subsidiaries domiciled in Ireland as foreign-sourced income pursuant to the Foreign Transactions Tax Act, taxes already paid for earlier years were in large measure refunded in the first quarter of the year under review. Assessments regarding the taxation of foreign-sourced income for the companies Hannover Reinsurance (Ireland) Ltd. and Hannover Life Reassurance (Ireland) Ltd. were rendered immaterial by cancellation notices dated 8 February 2011 and 31 March 2011 respectively. Subsequent assessment notices regarding corporation tax were issued for Hannover Re and E+S Rück in the year under review. The trade tax effects were offset in the third quarter of 2011 by the controlling company HDI Haftpflichtverband der Deutschen Industrie V.a.G. In total, the refund of taxes and interest resulted in an improvement of EUR 128.0 million in Group net income in the year under review.

Availability of non-capitalised loss carry-forwards

Unused tax loss carry-forwards of EUR 286.9 million (EUR 161.9 million) existed as at the balance sheet date. Making allowance for local tax rates, EUR 151.5 million (EUR 156.5 million) thereof was not capitalised since realisation is not sufficiently certain.

In addition, tax credits of EUR 4.4 million (EUR 5.9 million) which were not capitalised are still available. There were no other temporary differences which had not been capitalised (previous year: none).

No deferred taxes were established on taxable temporary differences in connection with interests in Group companies amounting to EUR 73.2 million (EUR 50.7 million) because the Hannover Re Group can control their reversal and will not reverse them in the foreseeable future.

Availability of loss carry-forwards and tax credits that have not been capitalised:

Expiry of non-capitalised loss carry-forwards					in EUR thousand
	One to five years	Six to ten years	More than ten years	Unlimited	Total
Loss carry-forwards	3,527	–	–	147,937	151,464
Tax credits	4,425	–	–	–	4,425
Total	**7,952**	**–**	**–**	**147,937**	**155,889**

Notes

7. Other notes

7.1 Derivative financial instruments

Derivatives are financial instruments, the fair value of which is derived from an underlying instrument such as equities, bonds, indices or currencies. We use derivative financial instruments in order to hedge parts of our portfolio against interest rate and market price risks, optimise returns or realise intentions to buy/sell. In this context we take special care to limit the risks, select first-class counterparties and adhere strictly to the standards defined by investment guidelines.

The fair values of the derivative financial instruments were determined on the basis of the market information available at the balance sheet date. Please see Section 3.2 "Summary of major accounting policies" with regard to the measurement models used. If the underlying transaction and the derivative are not carried as one unit, the derivative is recognised under other financial assets at fair value through profit or loss or under the other liabilities.

Hannover Re holds derivative financial instruments to hedge interest rate risks from loans connected with the financing of real estate; these gave rise to recognition of other liabilities in an amount of EUR 3.2 million (EUR 2.3 million).

Hannover Re's portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange transactions predominantly taken out to hedge cash flows from reinsurance contracts. These transactions gave rise to recognition of other liabilities in an amount of EUR 20.7 million (other liabilities of EUR 34.9 million).

Hannover Re also holds derivative financial instruments to hedge inflation risks associated with the loss reserves in the technical account. These transactions resulted in the recognition of other liabilities amounting to EUR 32.5 million (EUR 31.4 million) and other financial assets at fair value through profit or loss in an amount of EUR 12.2 million (EUR 0.2 million).

The fair values and notional values of the hedging instruments described above can be broken down as follows according to the maturities of the underlying forward transactions.

Maturity structure of derivative financial instruments — in EUR thousand

	2011				
	Less than three months	Three months to one year	One to five years	Five to ten years	31.12.
Interest rate hedges					
Fair values	–	–	(3,158)	–	(3,158)
Notional values	–	–	84,179	–	84,179
Currency hedges					
Fair values	(870)	(2,735)	(12,015)	(5,037)	(20,657)
Notional values	11,348	7,830	39,339	21,574	80,091
Inflation hedges					
Fair values	–	–	(14,638)	(5,705)	(20,343)
Notional values	–	–	2,868,253	308,564	3,176,817
Total hedging instruments					
Fair values	(870)	(2,735)	(29,811)	(10,742)	(44,158)
Notional values	11,348	7,830	2,991,771	330,138	3,341,087

Maturity structure of derivative financial instruments					in EUR thousand
	2010				
	Less than three months	Three months to one year	One to five years	Five to ten years	31.12.
Interest rate hedges					
Fair values	–	–	(2,325)	–	(2,325)
Notional values	–	–	61,011	–	61,011
Currency hedges					
Fair values	(1,349)	(3,912)	(18,129)	(11,516)	(34,906)
Notional values	12,844	9,339	47,853	37,264	107,300
Inflation hedges					
Fair values	–	–	(31,227)	–	(31,227)
Notional values	–	–	2,535,120	–	2,535,120
Total hedging instruments					
Fair values	(1,349)	(3,912)	(51,681)	(11,516)	(68,458)
Notional values	12,844	9,339	2,643,984	37,264	2,703,431

The net changes in the fair value of these instruments improved the result of the financial year by EUR 19.8 million (charge of EUR 50.9 million).

Derivative financial instruments in connection with reinsurance

A small number of treaties in life and health reinsurance meet criteria which require application of the prescriptions in IFRS 4 "Insurance Contracts" governing embedded derivatives. These accounting regulations require that certain derivatives embedded in reinsurance contracts be separated from the underlying insurance contract ("host contract"), reported separately at fair value in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" and recognised under investments. Fluctuations in the fair value of the derivative components are to be recognised in income in subsequent periods.

Within the scope of the accounting of "modified coinsurance" and "coinsurance funds withheld" (ModCo) reinsurance treaties, under which securities deposits are held by the ceding companies and payments rendered on the basis of the income from certain securities of the ceding company, the interest-rate risk elements are clearly and closely related to the underlying reinsurance arrangements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio.

Hannover Re calculates the fair value of the embedded derivatives in ModCo treaties using the market information available on the valuation date on the basis of a "credit spread" method. Under this method the derivative is valued at zero on the date when the contract commences and its value then fluctuates over time according to changes in the credit spreads of the securities. The derivative had a negative value of EUR 12.9 million as at the balance sheet date and was recognised under other liabilities (EUR 45.2 million under other financial assets at fair value through profit or loss).

Owing to the widening of credit spreads in the course of the year, the change in the fair value of the derivative gave rise to a negative profit contribution of EUR 55.4 million before tax (improvement of EUR 10.7 million in income).

The derivative components of another group of contracts in the area of life and health reinsurance were measured on the basis of stochastic considerations. The measurement produced a positive derivative value of EUR 8.2 million (EUR 9.3 million) on the balance sheet date. The derivative was recognised under other financial assets at fair value through profit or loss. The valuation resulted in a charge against income of EUR 1.1 million (EUR 0.6 million) as at 31 December 2011.

Pursuant to IAS 39 "Financial Instruments: Recognition and Measurement" the "Eurus II" transaction gives rise to a derivative, the fair value of which as at 31 December 2011 was –EUR 0.1 million (–EUR 6.8 million) and which we recognised under other liabilities as at the balance sheet date. Measure-

ment resulted in an improvement of EUR 6.7 million in income in the year under review (charge against income of EUR 5.3 million). We would refer the reader to the explanatory remarks in Section 4. "Consolidation" regarding the securitisation of reinsurance risks.

All in all, application of the standards governing the carrying of derivatives in connection with the technical account led to recognition of assets totalling EUR 8.8 million (EUR 54.5 million) as well as recognition of liabilities from the derivatives resulting from technical items in an amount of EUR 13.0 million (EUR 8.5 million) as at the balance sheet date. Increases in income amounting to EUR 8.8 million (EUR 11.0 million) as well as charges to income of EUR 56.4 million (EUR 22.2 million) were recognised in the year under review from all separately measured derivatives in connection with the technical account.

7.2 Related party disclosures

IAS 24 "Related Party Disclosures" defines related parties as group entities of a common parent, associated entities, legal entities under the influence of key management personnel and the key management personnel of the entity itself. Transactions between Hannover Re and its subsidiaries, which are to be regarded as related parties, were eliminated through consolidation and are therefore not discussed in the notes to the consolidated financial statement. In the year under review the following significant business relations existed with related parties.

HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI) holds an unchanged majority interest of 50.22% in Hannover Re through Talanx AG.

With effect from the 1997 financial year onwards all new business and renewals written on the German market have been the responsibility of E+S Rück, while Hannover Re has handled foreign markets. Internal retrocession arrangements ensure that the percentage breakdown of the business applicable to the previously existing underwriting partnership is largely preserved between these companies.

Within the contractually agreed framework Talanx Asset Management GmbH (formerly AmpegaGerling Asset Management GmbH) performs investment and asset management services for Hannover Re and some of its subsidiaries. Assets in special funds are managed by AmpegaGerling Investment GmbH. Talanx Immobilien Management GmbH (formerly AmpegaGerling Immobilien Management GmbH) performs services for Hannover Re under a management contract. All transactions were effected at usual market conditions.

Companies belonging to the Talanx Group granted the Hannover Re Group insurance protection inter alia in the areas of public liability, building, group accident and business travel collision insurance. In addition, divisions of Talanx AG performed services for us in the areas of taxes and general administration. All transactions were effected at usual market conditions.

The Hannover Re Group provides reinsurance protection for the HDI Group. To this extent, numerous underwriting business relations exist with related parties in Germany and abroad which are not included in Hannover Re's consolidation. This includes business both assumed and ceded at usual market conditions.

Talanx Reinsurance Broker AG (formerly: Protection Reinsurance Intermediaries AG) grants Hannover Re and E+S Rück a preferential position as reinsurers of cedants within the Talanx Group. In addition, Hannover Re and E+S Rück are able to participate in the protection covers on the retention of Group cedants and share in the protection afforded by them. In certain circumstances Hannover Re and E+S Rück are obliged to assume unplaced shares of the reinsurance of Group cedants from Talanx Reinsurance Broker AG.

Business assumed and ceded in Germany and abroad				in EUR thousand
	31.12.2011		31.12.2010	
	Premium	Underwriting result	Premium	Underwriting result
Business assumed				
Non-life reinsurance	408,359	54,912	381,281	107,621
Life and health reinsurance	246,051	23,748	276,418	(6,502)
	654,410	78,660	657,699	101,119
Business ceded				
Non-life reinsurance	(23,341)	31,749	(19,215)	(21,903)
Life and health reinsurance	(48,389)	(10,015)	(8,789)	(4,038)
	(71,730)	21,734	(28,004)	(25,941)
Total	**582,680**	**100,394**	**629,695**	**75,178**

The reinsurance relationships with related parties in the year under review are shown with their total amounts in the table.

In the 2007 financial year Hannover Re (Bermuda) Ltd. extended a loan due on 31 May 2012 with a coupon of 4.98% to Talanx AG, the volume of which as at the balance sheet date was unchanged at EUR 51.5 million (EUR 51.5 million). The carrying amount includes accrued interest of EUR 1.5 million (EUR 1.5 million). This instrument was recognised under other invested assets.

The Group companies E+S Rück, Hannover Finance (Luxembourg) S.A., Hannover Reinsurance (Ireland) Limited and Hannover Re (Bermuda) Ltd. invested in a nominal amount of EUR 150.0 million in a bearer debenture of Talanx AG with a term until 8 July 2013 and a coupon of 5.43%. The carrying amount of the instrument, which is recognised under fixed-income securities held to maturity, was EUR 153.9 million (EUR 153.9 million) and included accrued interest of EUR 3.9 million (EUR 3.9 million) as at the balance sheet date.

In the 2011 financial year Hannover Re and E+S Rück each acquired 50% interests in HAPEP II Komplementär GmbH from Talanx Asset Management GmbH.

As part of long-term lease arrangements companies belonging to the Hannover Re Group rented out business premises in 2011 to HDI Direkt Versicherung AG, Hannover. In addition, lease agreements exist with Talanx Service AG, Hannover, Talanx Asset Management GmbH, Cologne, and HDI-Gerling Leben Betriebsservice GmbH, Brühl, for use of a portion of the space in our data-processing computer centre.

Furthermore, IT and management services were performed for Talanx Reinsurance Broker AG, Hannover, under service contracts.

Actuarial opinions with respect to the pension commitments given to staff are drawn up for Hannover Re and E+S Rück by HDI-Gerling Pensionsmanagement AG under an actuarial service contract.

Remuneration and shareholdings of the management boards of the parent company

The remuneration of the Executive Board of Hannover Re amounted to altogether EUR 9.4 million (EUR 5.8 million). The total remuneration (excluding pension payments) of former members of the Executive Board and their surviving dependants stood at EUR 0.1 million (EUR 0.9 million). The pension payments to previous members of the Executive Board and their surviving dependants, for whom 13 (13) pension commitments existed, totalled EUR 1.2 million (EUR 1.3 million) in the year under review; altogether, a provision of EUR 15.8 million (EUR 16.6 million) has been set aside for these commitments.

The total remuneration of the Supervisory Board of Hannover Re amounted to EUR 0.9 million (EUR 0.8 million). There are no pension commitments to former members of the Supervisory Board or their surviving dependants.

The members of the governing bodies did not receive any advances or loans in the year under review.

Furthermore, above and beyond the aforementioned remuneration as Supervisory Board members at Group companies, the members of the Supervisory Board were not in receipt of

any remuneration or benefits for personally rendered services as defined by Item 5.4.6 Para. 3 of the German Corporate Governance Code.

All other information on the remuneration of the governing bodies, directors' dealings and shareholdings as well as the structure of the remuneration system for the Executive Board is contained in the remuneration report from page 87 onwards. This remuneration report is based on the recommendations of the German Corporate Governance Code and contains information which also forms part of the notes to the 2011 consolidated financial statement as required by IAS 24 "Related Party Disclosures". 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 (§ 314 HGB) and the management report (§ 315 HGB). These details are discussed as a whole in the remuneration report. Consequently, we have not provided any further explanation in the notes.

7.3 Share-based payment

Stock Appreciation Rights Plan

With effect from 1 January 2000 the Executive Board of Hannover Re, with the consent of the Supervisory Board, introduced a virtual stock option plan that provides for the granting of stock appreciation rights to certain managerial staff. The content of the stock option plan is based solely on the Conditions for the Granting of Stock Appreciation Rights. All the members of the Group's management are eligible for the award of stock appreciation rights. Exercise of the stock appreciation rights does not give rise to any entitlement to the delivery of Hannover Re stock, but merely to payment of a cash amount linked to the performance of the Hannover Re share. Recognition of transactions involving share-based remuneration with cash settlement is governed by the requirements of IFRS 2 "Share-based Payment".

For the year under review the Conditions for the Granting of Stock Appreciation Rights were cancelled by a resolution of the Supervisory Board dated 8 November 2010, insofar as the members of the company's Executive Board could be granted stock appreciation rights on the basis of these Conditions (partial cancellation). Awarded stock appreciation rights continue to be exercisable until the end of their period of validity. For all other eligible recipients the Conditions continue to apply in the year under review.

Stock appreciation rights were first granted for the 2000 financial year and are awarded separately for each subsequent financial year (allocation year), provided the performance criteria defined in the Conditions for the Granting of Stock Appreciation Rights are satisfied.

The internal performance condition is achievement of the target performance defined by the Supervisory Board, which is expressed in terms of the diluted earnings per share calculated in accordance with IAS 33 "Earnings Per Share" (EPS). If the target EPS is surpassed or undershot, the provisional basic number of stock appreciation rights initially granted is increased or reduced accordingly to produce the EPS basic number. The external performance criterion is the relative development of the share price in the allocation year. The benchmark used in this regard is the (weighted) RBS Global Reinsurance Index. This index encompasses the performance of listed reinsurers worldwide. Depending upon the outperformance or underperformance of this index, the EPS basic number is increased – albeit by at most 400% of the EPS basic number – or reduced – although by no more than 50% of the EPS basic number.

The maximum period of the stock appreciation rights is ten years, commencing at the end of the year in which they are awarded. Stock appreciation rights which are not exercised by the end of the 10-year period lapse. Stock appreciation rights may only be exercised after a waiting period and then only within four exercise periods each year. For 40% of the stock appreciation rights (first tranche of each allocation year) the waiting period is two years; for each additional 20% of the stock appreciation rights (tranches two to four of each allocation year) the waiting period is extended by one year. Each exercise period lasts for ten trading days, in each case commencing on the sixth trading day after the date of publication of the quarterly report of Hannover Re.

On 4 November 2009 the Supervisory Board of Hannover Re decided to extend the waiting period applicable to members of the Executive Board from two to four years for stock appreciation rights granted from the 2010 allocation onwards; on 23 November 2009 the Executive Board decided to extend the waiting period accordingly for the other members of the

Group's management. Upon expiry of this waiting period a maximum 60% of the stock appreciation rights awarded for an allocation year may be exercised. The waiting period for each additional 20% of the stock appreciation rights awarded for this allocation year to a member of the managerial staff is one year.

Upon exercise of a stock appreciation right the amount paid out to the entitled party is the difference between the basic price and the current market price of the Hannover Re share at the time of exercise. In this context, the basic price corresponds to the arithmetic mean of the closing prices of the Hannover Re share on all trading days of the first full calendar month of the allocation year in question. The current market price of the Hannover Re share at the time when stock appreciation rights are exercised is determined by the arithmetic mean of the closing prices of the Hannover Re share on the last twenty trading days prior to the first day of the relevant exercise period.

The amount paid out is limited to a maximum calculated as a quotient of the total volume of compensation to be granted in the allocation year and the total number of stock appreciation rights awarded in the year in question.

In the event of cancellation of the employment relationship or termination of the employment relationship as a consequence of a termination agreement or a set time limit, a holder of stock appreciation rights is entitled to exercise all such rights in the first exercise period thereafter. Stock appreciation rights not exercised in this period and those in respect of which the waiting period has not yet expired shall lapse. Retirement, disability or death of the member of management shall not be deemed to be termination of the employment relationship for the purpose of exercising stock appreciation rights.

The allocations for the years 2002 to 2004 as well as 2006, 2007, 2009 and 2010 gave rise to commitments in the 2011 financial year shown in the following table. No allocations were made for 2001, 2005 or 2008.

Stock appreciation rights of Hannover Re — Allocation year

	2010	2009	2007	2006	2004	2003	2002
Award date	08.03.2011	15.03.2010	28.03.2008	13.03.2007	24.03.2005	25.03.2004	11.04.2003
Period	10 years	10 years	10 years	10 years	10 years	10 years	10 years
Waiting period	4 years	2 years	2 years	2 years	2 years	2 years	2 years
Basic price (in EUR)	33.05	22.70	34.97	30.89	27.49	24.00	23.74
Participants in year of issue	129	137	110	106	109	110	113
Number of rights granted	1,681,205	1,569,855	926,565	817,788	211,171	904,234	710,429
Fair value at 31.12.2011 (in EUR)	5.09	7.65	6.93	7.57	12.49	8.99	8.79
Maximum value (in EUR)	8.92	8.76	10.79	10.32	24.62	8.99	8.79
Weighted exercise price	–	–	5.85	9.93	12.40	8.99	n. a.
Number of rights existing at 31.12.2011	1,665,960	1,495,890	844,231	252,443	119,439	2,714	–
Provisions at 31.12.2011 (in EUR million)	1.72	8.35	5.59	1.91	1.49	0.02	–
Amounts paid out in the 2011 financial year (in EUR million)	–	–	0.24	4.34	0.09	0.01	0.02
Expense in the 2011 financial year (in EUR million)	1.72	4.45	(0.27)	(0.23)	(0.47)	–	–

The existing stock appreciation rights are valued on the basis of the Black-Scholes option pricing model.

The calculations were based on the price of the Hannover Re share of EUR 35.985 as at the reference date of 14 December 2011, expected volatility of 41.33% (historical volatility on a five-year basis), a dividend yield of 5.56% and risk-free interest rates of 0.27% for the 2003 allocation year, 0.51% for the 2004 allocation year, 1.05% for the 2006 allocation year, 1.31% for the 2007 allocation year, 1.79% for the 2009 allocation year and 1.99% for the 2010 allocation year.

In the 2011 financial year the waiting period expired for 100% of the stock appreciation rights awarded in 2002 to 2004, 80% of those awarded in 2006 and 60% of those awarded in 2007.

The stock appreciation rights of Hannover Re have developed as follows:

Development of the stock appreciation rights of Hannover Re							Allocation year
Number of options	2010	2009	2007	2006	2004	2003	2002
Granted in 2003	–	–	–	–	–	–	710,429
Exercised in 2003	–	–	–	–	–	–	–
Lapsed in 2003	–	–	–	–	–	–	23,765
Number of options at 31.12.2003	**–**	**–**	**–**	**–**	**–**	**–**	**686,664**
Granted in 2004	–	–	–	–	–	904,234	–
Exercised in 2004	–	–	–	–	–	–	–
Lapsed in 2004	–	–	–	–	–	59,961	59,836
Number of options at 31.12.2004	**–**	**–**	**–**	**–**	**–**	**844,273**	**626,828**
Granted in 2005	–	–	–	–	211,171	–	–
Exercised in 2005	–	–	–	–	–	–	193,572
Lapsed in 2005	–	–	–	–	6,397	59,834	23,421
Number of options at 31.12.2005	**–**	**–**	**–**	**–**	**204,774**	**784,439**	**409,835**
Granted in 2006	–	–	–	–	–	–	–
Exercised in 2006	–	–	–	–	–	278,257	160,824
Lapsed in 2006	–	–	–	–	14,511	53,578	22,896
Number of options at 31.12.2006	**–**	**–**	**–**	**–**	**190,263**	**452,604**	**226,115**
Granted in 2007	–	–	–	817,788	–	–	–
Exercised in 2007	–	–	–	–	12,956	155,840	110,426
Lapsed in 2007	–	–	–	8,754	13,019	38,326	10,391
Number of options at 31.12.2007	**–**	**–**	**–**	**809,034**	**164,288**	**258,438**	**105,298**
Granted in 2008	–	–	926,565	–	–	–	–
Exercised in 2008	–	–	–	–	1,699	121,117	93,747
Lapsed in 2008	–	–	–	3,103	1,443	2,162	944
Number of options at 31.12.2008	**–**	**–**	**926,565**	**805,931**	**161,146**	**135,159**	**10,607**
Granted in 2009	–	–	–	–	–	–	–
Exercised in 2009	–	–	–	–	1,500	79,262	560
Lapsed in 2009	–	–	17,928	16,158	3,192	–	–
Number of options at 31.12.2009	**–**	**–**	**908,637**	**789,773**	**156,454**	**55,897**	**10,047**
Granted in 2010	–	1,569,855	–	–	–	–	–
Exercised in 2010	–	–	10,399	95,380	29,832	52,581	7,682
Lapsed in 2010	–	34,255	8,380	2,642	–	–	–
Number of options at 31.12.2010	**–**	**1,535,600**	**889,858**	**691,751**	**126,622**	**3,316**	**2,365**
Granted in 2011	1,681,205	–	–	–	–	–	–
Exercised in 2011	–	–	41,583	437,491	7,183	602	2,365
Lapsed in 2011	15,245	39,710	4,044	1,817	–	–	–
Number of options at 31.12.2011	**1,665,960**	**1,495,890**	**844,231**	**252,443**	**119,439**	**2,714**	**–**

2,365 stock appreciation rights from the 2002 allocation year, 602 stock appreciation rights from the 2003 allocation year, 7,183 stock appreciation rights from the 2004 allocation year, 437,491 stock appreciation rights from the 2006 allocation year and 41,583 stock appreciation rights from the 2007 allocation year were exercised. The total amount paid out stood at EUR 4.7 million.

On this basis the aggregate provisions – included in the sundry non-technical provisions – amounted to EUR 19.1 million for the 2011 financial year (EUR 18.6 million). The expense totalled altogether EUR 5.2 million (EUR 9.4 million).

Share Award Plan

With effect from the 2011 financial year the Supervisory Board of Hannover Re resolved to implement a "Share Award Plan" for the members of the Executive Board of Hannover Re; this provides for the granting of stock participation rights in the form of virtual shares (referred to as "share awards") and encompasses 20% of the defined variable remuneration. The Share Award Plan replaces the Stock Appreciation Rights Plan that was cancelled with effect from the year under review. Please see our remarks under "Stock Appreciation Rights Plan" in this section. With effect from the 2012 financial year the Executive Board of Hannover Re has resolved that this plan shall also be adopted for certain managerial levels at Hannover Re.

The share awards do not establish any claim against Hannover Re to the delivery of stock, but merely to payment of a cash amount in accordance with the conditions set out below.

The members of the Executive Board of Hannover Re who are eligible recipients under the Share Award Plan are those who have been allowed an entitlement to the granting of share awards pursuant their contract of employment and whose employment relationship exists at the time when the share awards are granted and does not end through cancellation or a termination agreement on an effective date prior to expiry of the vesting period.

Share awards are granted separately to the members of the Executive Board for the first time for the 2011 financial year and then for each financial year (allocation year) thereafter.

The total number of share awards granted is based on the value per share of Hannover Re. The value per share 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 for the financial year just-ended. The total number of share awards granted is established by dividing the amount available for the granting of share awards to the relevant member of the Executive Board (20% of the defined variable remuneration) by the value per share, rounded up to the next full share.

The share awards are granted automatically without any requirement for a declaration by Hannover Re or the member of the Executive Board. 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. This value is calculated according to the provisions of the preceding paragraph.

The member of the Executive Board shall be paid an amount that corresponds to the sum total of the values of the share awards calculated at the disbursement date for which the vesting period of four years has expired. The amount is to be paid in the month after expiry of the determinative period for calculating the value per share according to the preceding paragraphs. Any taxes and social security contributions payable shall be deducted.

In addition, upon payment of the value of the share awards, a sum shall be paid out in the amount of the dividend insofar as dividends were distributed to shareholders. The amount of the dividend 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 due for disbursement to the eligible recipient at the disbursement date. In the event of early disbursement of the share awards, the value of the dividends shall only be paid out for the period until occurrence of the event that triggers early disbursement. No pro rata allowance shall be made for dividends that have not yet been distributed.

If the Board mandate or the employment relationship with the member of the Executive Board ends, the member of the Executive Board shall retain his claims to payment of the value of already granted share awards after expiry of the vesting period, unless the termination of the Board mandate or contract of employment is based on (i) resignation of office/voluntary termination on the part of the Board member with the

exception of resignation/termination by the Board member for a compelling reason, (ii) non-acceptance by the Board member of a contract extension offered on at least the same contract terms (exception: the Board member has reached the age of 60 and served as a member of the Executive Board for two terms of office), (iii) extraordinary termination without notice of the Board member's contract of employment by Hannover Re for a compelling reason, or (iv) dismissal of the Board member for a compelling reason within the meaning of § 84 Para. 3 German Stock Corporation Act (exception: withdrawal of confidence).

In the event of death the claims arising out of the already granted and/or still to be granted share awards pass to the heirs. All share awards including the dividend shall be paid out to the eligible party irrespective of any remaining vesting period at a disbursement date to be determined once the status as heir has been documented to Hannover Re. The value of all share awards shall be determined by the value per share of Hannover Re calculated as at this disbursement date.

Any entitlement to the granting of share awards after leaving the company is excluded. This shall not apply with respect to claims to variable remuneration acquired (pro rata) in the last year of service of the member of the Executive Board in the event of exit from the company on account of non-reappointment, occurrence of the pensionable event or death.

If a change occurs in the share capital of Hannover Re or restructuring measures are carried out during the period of the Share Award Plan which directly impact the share capital of Hannover Re or (as in the case of a stock split or reverse stock split) the total number of shares issued by Hannover Re (in each case referred to as a "structural measure"), and if this results in a (positive or negative) change in the value of the share awards of cumulatively 10% or more, Hannover Re shall appropriately adjust the method of calculating the value of the individual share awards or the number of share awards in order to offset the change in value of the share awards caused by the structural measure.

The adjustment shall be made by the Supervisory Board of Hannover Re in such a way that the total value of the share awards granted to a Board member immediately after implementation of the structural measure corresponds as closely as possible to the total value of the share awards immediately before implementation of the structural measure.

The Share Award Plan is recognised as share-based payment with cash settlement.

The provisional fair value amounts to EUR 38.325 per share with a probable allocation of altogether 24,390 shares plus the total present value of the dividend entitlements acquired until the end of the period. No allowance is made for expected dividend payments. No entitlements from dividends in the year under review had arisen as at the balance sheet date. The fair value is measured according to the market price of the share on the valuation date (30 December 2011). In this context, the share price is multiplied by the probable number of shares to be allocated. The regular determination of the value per share 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 for the financial year just-ended gives rise to an adjustment of the fair value recognised in the present consolidated financial statement and of the number of share awards to be granted; this adjustment is recognised in the year subsequent to the balance sheet date.

The personnel expense from share awards is spread on an accrual basis across the period of the contracts of employment of the Board members. Personnel expenses of EUR 0.2 million were allocated to the provision for share awards for the first time in the year under review in the context of the proportionate write-up of fair values. The amount is shown under the sundry provisions.

7.4 Staff and expenditures on personnel

Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group during the reporting period was 2,210 (2,130).

As at the balance sheet date altogether 2,217 (2,192) staff were employed by the Hannover Re Group, with 1,110 (1,089) employed in Germany and 1,107 (1,103) working for the consolidated Group companies abroad.

Personnel information	2011					2010	
	31.03.	30.06.	30.09.	31.12.	Average	31.12.	Average
Number of employees (excluding Board members)	2,211	2,230	2,200	2,217	2,210	2,192	2,130

Nationality of employees	2011								
	German	US	South African	UK	Swedish	Australian	Irish	Other	Total
Number of employees	1,040	283	169	184	88	65	35	353	2,217

Expenditures on personnel

The expenditures on insurance business, claims expenses (claims settlement) and expenditures on the administration of investments include the following personnel expenditures:

Personnel expenditures in EUR thousand	2011	2010
a) Wages and salaries	171,362	155,124
	171,362	**155,124**
b) Social security contributions and expenditure on provisions and assistance		
ba) Social security contributions	20,750	18,787
bb) Expenditures for pension provision	17,585	16,404
bc) Expenditures for assistance	3,254	2,530
	41,589	**37,721**
Total	**212,951**	**192,845**

Notes

7.5 Earnings per share and dividend proposal

Calculation of the earnings per share	2011	2010
Group net income in EUR thousand	605,973	748,890
Weighted average of issued shares	120,596,999	120,596,877
Basic earnings per share in EUR	5.02	6.21
Diluted earnings per share in EUR	5.02	6.21

Neither in the year under review nor in the previous reporting period were there any dilutive effects. The weighted average of the issued shares was, as in the previous year, slightly lower than the value of the shares in circulation on the balance sheet date. In the context of the employee share option plan Hannover Re acquires treasury shares and sells them at a later date to eligible employees. For further details please see our comments in Section 5.13 "Shareholders' equity, non-controlling interests and treasury shares".

There were no other extraordinary components of income which should have been recognised or disclosed separately in the calculation of the earnings per share.

The earnings per share could potentially be diluted in future through the issue of shares or subscription rights from the authorised or conditional capital.

Dividend per share

A dividend of EUR 277.4 million (previous year: EUR 253.3 million) was paid in the year under review for the 2010 financial year.

The Annual General Meeting on 3 May 2012 will propose that a dividend of EUR 2.10 per share should be paid for the 2011 financial year. This corresponds to a total distribution of EUR 253.3 million. The dividend proposal does not form part of this consolidated financial statement.

7.6 Lawsuits

In the context of the acquisition of Lion Insurance Company, Trenton/USA, by Hannover Finance, Inc., Wilmington/USA – a subsidiary of Hannover Re –, a legal dispute existed with the former owners of Lion Insurance Company regarding the release of a trust account in an amount of around USD 14 million that served as security for liabilities of the former owners in connection with a particular business segment. The proceedings were terminated by way of a partial settlement and court decision of August 2011 under which the trust account was divided between the parties involved.

With the exception of the aforementioned proceedings, 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.

7.7 Contingent liabilities and commitments

Hannover Re has placed three subordinated debts on the European capital market 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 amounts to EUR 750.0 million, and the debts from the 2005 and 2010 financial years in amounts of EUR 500.0 million each.

The subordinated debt issued in 2001 by Hannover Finance (Luxembourg) S.A. in an amount of EUR 350.0 million had a first scheduled call option as at 14 March 2011 and a remaining volume of EUR 138.1 million after the offer made in 2005 to exchange the existing issue for holdings in a new bond. This remaining debt volume was called and repaid in full by the issuer on the aforementioned date. For further details please see Section 5.12 "Debt and subordinated capital".

The guarantees given by Hannover Re for the subordinated debts attach if the issuer fails to render payments due under the bonds. The guarantees cover the relevant bond volumes as well as interest due until the repayment dates. Given the fact that interest on the bonds is partly dependent on the capital market rates applicable at the interest payment dates (floating rates), the maximum undiscounted amounts that can be called cannot be estimated with sufficient accuracy. Hannover Re does not have any rights of recourse outside the Group with respect to the guarantee payments.

As security for technical liabilities to our US clients, we have established two trust accounts (master trust and supplemental trust) in the United States. They amounted to EUR 2,756.1 million (EUR 2,576.3 million) and EUR 12.1 million (EUR 9.5 million) respectively as at the balance sheet date. The securities held in the trust accounts are shown as available-for-sale investments. In addition, we furnished further collateral to ceding companies in an amount of EUR 367.4 million (EUR 298.6 million) in the form of so-called "single trust funds".

As part of our business activities we hold collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the Group's major companies was EUR 2,017.4 million (EUR 1,851.4 million) as at the balance sheet date.

As security for our technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount as at the balance sheet date was EUR 3,097.8 million (EUR 2,766.6 million). The standard market contractual clauses contained in some of the underlying letter of credit facilities regarding compliance with stipulated conditions are explained in greater detail in the "Financial position" section of the management report, page 57, on the information pursuant to § 315 Para. 4 German Commercial Code (HGB) as well as in Section 5.12 "Debt and subordinated capital" on other financial facilities.

In addition, we keep own investments with a book value of EUR 37.4 million (EUR 107.6 million) in blocked custody accounts as collateral provided under existing derivative transactions. We received collateral with a fair value of EUR 5.2 million (EUR 0.0 million) for existing derivative transactions.

For liabilities in connection with participating interests in real estate companies and real estate transactions Hannover Re Real Estate Holdings has furnished the usual collateral under such transactions to various banks, the amount of which totalled EUR 309.3 million (EUR 257.5 million) as at the balance sheet date.

Outstanding capital commitments with respect to alternative investments exist on the part of the Group in an amount of EUR 451.9 million (EUR 272.6 million). These primarily involve as yet unfulfilled payment obligations from participations entered into in private equity funds and venture capital firms.

7.8 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.

Several Group companies are members of the association for the reinsurance of pharmaceutical risks and the association for the insurance of German nuclear reactors. In the event of one of the other pool members failing to meet its liabilities, an obligation exists to take over such other member's share within the framework of the quota participation.

7.9 Rents and leasing

Leased property

Future leasing commitments in EUR thousand	Payments
2012	6,598
2013	5,809
2014	4,717
2015	4,150
2016	3,401
Subsequent years	7,572

Operating leasing contracts produced expenditures of EUR 6.6 million (EUR 8.2 million) in the year under review.

Rented property

Altogether, non-cancellable contracts will produce the rental income shown below in subsequent years:

Rental income in EUR thousand	Payments to be received
2012	38,866
2013	38,283
2014	36,455
2015	33,797
2016	31,486
Subsequent years	74,176

Rental income totalled EUR 28.6 million (EUR 29.3 million) in the year under review. The rental income resulted principally from the renting out of properties by the Group's real estate companies.

7.10 Fee paid to the auditor

The fee paid to the appointed auditor of the consolidated financial statement as defined by § 318 German Commercial Code (HGB) totalled EUR 2.0 million (EUR 2.5 million). This included a fee of EUR 1.3 million (EUR 1.9 million) for the auditing of the financial statement and a minimal amount (EUR 0.1 million) for tax consultancy services. Expenditure of EUR 0.6 million (EUR 0.5 million) was incurred for assurance and other services performed for the parent or subsidiary companies in the year under review.

7.11 Events after the balance sheet date

The fire on the KS Endeavor drilling rig off the coast of Nigeria on 16 January 2012 will result in an estimated loss for Hannover Re in the very low double-digit million euros.

On 16 and 23 January 2012 we reported on the implications for Hannover Re of the incident involving the Costa Concordia cruise liner, which will result in a major loss for our company. The net loss from the marine hull insurance is in the order of EUR 30 million, while the liability claims are difficult to estimate at this point in time. Given that Hannover Re is one of the world's leading marine reinsurers, the total loss for the company could run into the mid-double-digit millions of euros.

In a press release dated 26 January 2012 we announced that Hannover Re had again enabled the capital market to participate in (natural) catastrophe risks by increasing the proportional retrocession programme referred to as the "K Cession" (previously "K6") by an amount equivalent to roughly EUR 15 million to EUR 270 million. The transaction, which complements the traditional retrocession programme used to protect against peak exposures such as natural disasters, was placed with institutional investors worldwide and is fully collateralised. The cession rate is roughly 37% and applies to a portfolio comprised of non-proportional reinsurance treaties from the six main zones for natural catastrophe risks as well as the aviation and marine (including offshore business) lines.

Hannover, 8 March 2012

Executive Board

Wallin

Arrago

Chèvre

Gräber

Dr. Miller

Dr. Pickel

Vogel

Notes

Auditors’ report

We have audited the consolidated financial statements prepared by Hannover Rückversicherung AG, Hannover – comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, notes to the consolidated financial statements, consolidated cash flow statement, consolidated statement of changes in equity and segmental report – as well as the group management report for the business year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Para 1 HGB are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated 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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group 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 consolidated financial statements comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Hannover, 8 March 2012

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Responsibility statement

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

Hannover, 8 March 2012

Executive Board

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Vogel

Report by the Supervisory Board

of Hannover Re for the Hannover Re Group

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

Key points of deliberation

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

§ 87 Para. 1 Sentence 1 German Stock Corporation Act, the full Supervisory Board again considered the definition of the performance bonuses of the members of the Executive Board. One new member of the Executive Board was appointed, two Board members were reappointed and the schedule of Executive Board responsibilities was updated.

Committees of the Supervisory Board

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

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

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

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

Corporate Governance

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

Audit of the annual financial statements and consolidated financial statements

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

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

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

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

We have examined

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

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

Changes on the Supervisory Board and the Executive Board

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

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

Word of thanks to the Executive Board and members of staff

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

Hannover, 13 March 2012

For the Supervisory Board
Herbert K. Haas
Chairman

Supervisory Board of Hannover Re

Herbert K. Haas[1,2,4]
Burgwedel
Chairman
Chairman of the Board of Management of Talanx AG
Chairman of the Board of Management of HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Dr. Klaus Sturany[1,4]
Dortmund
Deputy Chairman
Member of various supervisory boards

Wolf-Dieter Baumgartl[1,2,4]
Berg
Chairman of the Supervisory Board of Talanx AG
Chairman of the Supervisory Board of HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Uwe Kramp[5]
Hannover

Karl Heinz Midunsky[4]
Gauting
(until 3 May 2011)
Former Corporate Vice President and Treasurer Siemens AG

Ass. jur. Otto Müller[5]
Hannover

Dr. Andrea Pollak
Vienna, Austria
(from 3 May 2011)
Independent management consultant

Dr. Immo Querner
Hannover
Member of the Board of Management of Talanx AG
Member of the Board of Management of HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Dr. Erhard Schipporeit[2,3]
Hannover
Member of various supervisory boards

Gert Wächtler[5]
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 Staff representative

Details of memberships of legally required supervisory boards and comparable control boards at other domestic and foreign business enterprises are contained in the individual report of Hannover Rückversicherung AG.

Branch offices and subsidiaries of the Hannover Re Group abroad

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Glossary

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

Acquisition cost, deferred (DAC): cost of an insurance company that arises from the acquisition or the renewal of an insurance contract (e.g. commission for the closing, costs of proposal assessment and underwriting etc.). Capitalisation results in a distribution of the cost over the duration of the contract.

Aggregate excess of loss treaty: a form of excess of loss treaty reinsurance under which the reinsurer responds when a ceding insurer incurs losses on a particular line of business during a specific period (usually 12 months) in excess of a stated amount.

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

American Depositary Receipt (ADR): share certificates written by US banks on foreign shares deposited there. Instead of trading the foreign shares directly, US stock exchanges trade the ADRs.

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

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

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

Capital asset pricing model (CAPM): the CAPM is used to explain the materialisation of prices/returns on the capital market based on investor expectations regarding the future probability distribution of returns. Under this method, the opportunity cost rate for the shareholders' equity consists of three components – a risk-averse interest rate, a market-specific risk loading and an enterprise-specific risk assessment, the beta coefficient. The cost of shareholders' equity is therefore defined as follows: risk-averse interest rate + beta * enterprise-specific risk assessment.

Cash flow statement: statement on the origin and utilisation of cash and cash equivalents during the accounting period. It shows the changes in liquid funds separated into cash flows from operating, investing and financing activities.

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

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

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

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

Coinsurance Funds Withheld- (CFW) Treaty: type of coinsurance contract where the ceding company retains a portion of the original premium at least equal to the ceded reserves. Similar to a → Modco contract the interest payment to the reinsurer reflects the investment return on an underlying asset portfolio.

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

Confidence (also: probability) level: the confidence level defines the probability with which the defined amount of risk will not be exceeded.

Contribution margin accounting level 5 (DB 5): this level of contribution margin accounting constitutes the clear profit after earning the discounted claims expenditure plus all external and internal costs including the cost of capital.

Corporate Governance: serves to ensure responsible management and supervision of enterprises and is intended to foster the trust of investors, clients, employees and the general public in companies.

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

Creditworthiness: cf. → credit status

Critical illness coverages: cf. → dread disease coverages

DB 5: cf. → contribution margin accounting level 5

Deposit accounting: an accounting method originating in US accounting principles for the recognition of short-term and multi-year insurance and reinsurance contracts with no significant underwriting risk transfer. The standard includes inter alia provisions relating to the classification of corresponding contract types as well as the recognition and measurement of a deposit asset or liability upon inception of such contracts.

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

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

Direct business: business focused on narrowly defined → portfolios of niche or other non-standard risks.

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

Discounting of loss reserves: determination of the present value of future profits through multiplication by the corresponding discount factor. In the case of the loss reserves this is necessary because of the new profit calculation methods for tax purposes applicable to German joint-stock corporations.

Diversification: orientation of business policy towards various revenue streams in order to minimise the effects of economic fluctuations and stabilise the result. Diversification is an instrument of growth policy and risk policy for a company.

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

Due diligence: activity generally performed as part of a capital market transaction or in the case of mergers and acquisitions, covering inter alia an examination of the financial, legal and tax situation.

Earnings per share, diluted: ratio calculated by dividing the consolidated net income (loss) by the weighted average number of shares outstanding. The calculation of the diluted earnings per share is based on the number of shares including subscription rights already exercised or those that can still be exercised.

Earnings retention: non-distribution of a company's profits leading to a different treatment for tax purposes than if profits were distributed.

EEV: cf. → European Embedded Value

European embedded value (EEV): present value of shareholders' interests in the earnings distributable from assets allocated to the covered business after sufficient allowance for the aggregate risks in the covered business.

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

Excess return on capital allocated (xRoCA): describes the → IVC in relation to the allocated capital and shows the relative excess return generated above and beyond the weighted cost of capital.

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

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

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

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

FASB Accounting Standards Codification, FASB ASC: since 15 September 2009 the single source of authoritative → US GAAP. It is a codification of all previous standards.

Financial Accounting Standards Board (FASB): committee in the USA whose task is to determine and improve upon the standards of accounting and reporting.

Financial Accounting Standards (FAS): cf. → Statement of Financial Accounting Standards (SFAS)

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

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

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

Goodwill: the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed.

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

Hybrid capital: debt structure which because of its subordination bears the character of both debt and equity

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

Impairment: extraordinary amortisation taken when the present value of the estimated future cash flow of an asset is less than its book value.

International Accounting Standards (IAS): cf. → International Financial Reporting Standards (IFRS)

International Accounting Standards Board (IASB): committee in the EU whose task is to determine and improve upon the international standards of accounting and reporting.

International Financial Reporting Standards (IFRS): standards published by the International Accounting Standards Board on accounting and reporting (until 2002 they were named International Accounting Standards, IAS).

International Securities Identification Number (ISIN): ten-character universal code used to identify securities internationally. It is prefixed by a country code that specifies the country where the issuer entity is legally registered or in which it has legal domicile, e.g. DE = Germany.

Intrinsic value creation (IVC): the IVC is calculated according to the following formula: real operating value creation = adjusted operating profit (EBIT) – (capital allocated x weighted cost of capital). IVC is a tool of value-based enterprise management used to measure the accomplishment of long-term targets on the level of the Group, the individual business groups and the operating units (profit centres).

Investment grade: investment grade ratings are awarded to companies and assigned to securities that have a low risk profile. They contrast with non-investment-grade ratings, which by definition include speculative elements and therefore entail a significantly higher risk.

IVC: cf. → Intrinsic Value Creation

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

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

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

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

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

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

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

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

Market Consistent Embedded Value (MCEV): a refinement and closer specification of the previous principles of → European Embedded Value (EEV). In particular, the market-consistent calculation method is intended to bring about better comparability. The MCEV is established using risk-neutral assumptions in relation to the expected investment income and the discounting approach. In addition, the swap curve is adopted as a risk-neutral interest rate structure.

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

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

Modified Coinsurance- (Modco) Treaty: type of reinsurance treaty where the ceding company retains the assets supporting the reinsured reserves by withholding a fund, thereby creating an obligation to render payments to the reinsurer at a later date. Such payments include a proportional share of the gross premium plus a return on the assets.

Net: cf. → Gross/Retro/Net

Non-life business: by way of distinction from business activities in our life and health reinsurance business group, we use this umbrella term to cover our business groups of property and casualty reinsurance, financial reinsurance and specialty insurance.

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

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

Other securities, available-for-sale: securities that are not classified as "trading" or "held-to-maturity"; these securities can be disposed of at any time and are reported at their market value at the balance sheet date. Changes in market value do not affect the statement of income.

Other securities, held-to-maturity: investments in debt securities intended to be held to maturity. They are measured at amortised cost.

Other securities, trading: securities that are held principally for short-term trading purposes. They are measured at their market value at the balance sheet date.

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

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

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

Present value of future profits (PVFP): intangible asset primarily arising from the purchase of life and health insurance companies or portfolios. The present value of expected future profits from the portfolio assumed is capitalised and amortised according to schedule.

Price earnings ratio (PER): ratio of the market value of a share to the earnings per share of a publicly traded corporation.

Primary insurer: cf. → direct insurer

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

Probability level: cf. → confidence level

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

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

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

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

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

Purchase cost, amortised: the cost of acquiring an asset item including all ancillary and incidental purchasing costs; in the case of wasting assets less scheduled and/or special amortisation.

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

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

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

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

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

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

Retrocession (also: Retro): ceding of risks or shares in risks which have been reinsured. Retrocessions are ceded to other reinsurers in exchange for a pro-rata or separately calculated premium (cf. → Gross/Retro/Net).

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

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

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

Special Purpose Entity (SPE): legal structure with specific characteristics not bound to a certain form of organisation used to conduct defined activities or to hold assets.

Specialty insurance: a specialty form of non-life primary insurance that focuses on narrowly defined, homogenous portfolios of niche or other non-standard risks (specialty business), whereby the typical insurer functions (acquisition, underwriting, policy issuing, premium collection, policy administration, claims settlement, etc.) can be outsourced to specialized managing general agents (MGAs) or third-party administrators (TPAs).

Statement of Financial Accounting Standards, SFAS (also: Financial Accounting Standards, FAS): the accounting and reporting standards published by the → Financial Accounting Standards Board; since 15 September 2009 superseded by → FASB ASC.

Spread loss treaty: treaty between an insurer and a reinsurer that covers risks of a defined portfolio over a multi-year period.

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

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

Surplus relief treaty: a portfolio reinsurance contract under which an admitted reinsurer assumes (part of) a ceding company's business to relieve stress on the cedant's policyholders' surplus.

Survival ratio: reflects the ratio of loss reserves to paid losses under a specific contract or several contracts in a balance sheet year.

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

Treaty reinsurance: cf. → obligatory reinsurance

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

Unearned premium reserve: cf. → provision for unearned premiums

US GAAP (United States Generally Accepted Accounting Principles): internationally recognised US accounting principles. Not all the provisions which together constitute US GAAP have been codified. In addition to the authoritative standards of the → FASB ASC, US GAAP also includes, for example, standard accounting practices in specific industries.

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

Variable Interest Entity: legal entity not bound to a certain form of organisation for which the traditional approach to consolidation based on voting rights is ineffective in identifying where control of the entity really lies, or in which the equity investors do not bear the economic risks and rewards of the entity. The definition is broader than the previously used term → special-purpose entity (SPE).

Volatility: measure of the variability of stock prices, interest rates and exchange rates. Standard practice is to measure the volatility of a stock price by calculating the standard deviations of relative price differences.

xRoCA: cf. → Excess Return on Capital Allocated

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14 March 2012

Annual Results Press Conference
Start 10:30 a.m.
Hannover Re
Karl-Wiechert-Allee 50
30625 Hannover, Germany

15 March 2012

DVFA Analysts' Meeting, Frankfurt
Analysts' Meeting, London

3 May 2012

Annual General Meeting
Start 11:00 a.m.
Hannover Congress Centrum
Theodor-Heuss-Platz 1-3
30175 Hannover, Germany

3 May 2012

Interim Report 1/2012

10 August 2012

Interim Report 2/2012

6 November 2012

Interim Report 3/2012

6 February 2013

Conference Call: Non-life treaty renewals

7 May 2013

Annual General Meeting
Hannover Congress Centrum
Theodor-Heuss-Platz 1-3
30175 Hannover, Germany

7 May 2013

Interim Report 1/2013

Strategic business groups of the Hannover Re Group

hannover re®

Non-life reinsurance

hannover re®

- **E+S Rück**
  Hannover
- **Hannover Rück**
  Hannover
- **Hannover Re Africa**
  Johannesburg
- **Hannover Re Bermuda**
  Hamilton
- **Hannover Re Ireland**
  Dublin
- **Hannover ReTakaful**
  Manama
- **Inter Hannover**
  London
- **Compass Ins. Co**
  Johannesburg

Life and health reinsurance

hannover life re®

- **Hannover Life Re Africa**
  Johannesburg
- **Hannover Life Re America**
  Orlando/Florida
- **Hannover Life Re Australasia**
  Sydney
- **Hannover Life Re Bermuda**
  Hamilton
- **Hannover Life Re Germany**
  (E+S Rück), Hannover
- **Hannover Life Re International**
  Hannover
- **Hannover Life Re Ireland**
  Dublin
- **Hannover Life Re UK**
  Virginia Water/London

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A printed version of the Hannover Re Group's Annual Report 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:

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