somewhat different

12

Annual Report

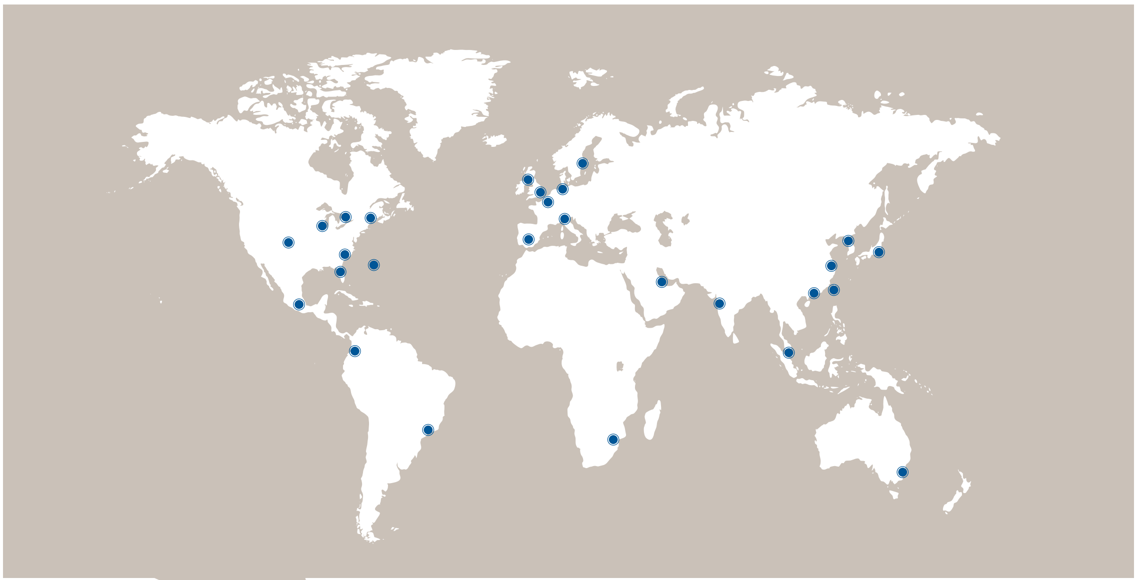
hannover re®

Key figures

Figures in EUR million	2012	+/– previous year	2011	2010	2009	2008
Results						
Gross written premium	13,774.2	+13.9%	12,096.1	11,428.7	10,274.8	8,120.9
Net premium earned	12,279.2	+14.2%	10,751.5	10,047.0	9,307.2	7,061.6
Net underwriting result	(84.3)		(535.8)	(185.1)	(100.4)	69.6
Net investment income	1,655.7	+19.6%	1,384.0	1,258.9	1,120.4	278.5
Operating profit (EBIT)	1,406.5	+67.2%	841.4	1,177.9	1,142.5	148.1
Group net income (loss)	858.3	+41.6%	606.0	748.9	733.7	(127.0)
Balance sheet						
Policyholders´ surplus	8,973.3	+22.3%	7,338.2	6,987.0	5,621.6	4,708.4
Equity attributable to shareholders of Hannover Re	6,055.8	+21.8%	4,970.6	4,509.0	3,714.4	2,830.1
Non-controlling interests	684.5	+7.6%	636.0	608.9	542.1	501.4
Hybrid capital	2,233.0	+29.0%	1,731.6	1,869.1	1,365.1	1,376.9
Investments (excl. funds withheld by ceding companies)	31,874.4	+12.5%	28,341.2	25,411.1	22,507.0	20,137.2
Total assets	54,811.7	+9.9%	49,867.0	46,725.3	40,837.6	37,490.2
Share						
Earnings per share (basic and diluted) in EUR	7.12	+41.6%	5.02	6.21	6.08	(1.05)
Book value per share in EUR	50.22	+21.8%	41.22	37.39	30.80	23.47
Dividend	361.8 [1,2]	+42.9%	253.3	277.4	253.3	–
Dividend per share in EUR	2.60 [1]+0.40 [2]	+42.9%	2.10	2.30	2.10	–
Share price at year-end in EUR	58.96	+53.8%	38.325	40.135	32.71	22.50
Market capitalisation at year-end	7,110.4	+53.8%	4,621.9	4,840.2	3,944.7	2,713.4
Ratios						
Combined ratio (non-life reinsurance) [3]	95.8%		104.3%	98.2%	96.6%	95.4%
Large losses as percentage of net premium earned (non-life reinsurance) [4]	7.0%		16.5%	12.3%	4.6%	10.7%
Retention	89.8%		91.2%	90.1%	92.6%	89.1%
Return on investment (excl. funds withheld by ceding companies)	4.3%		3.9%	3.9%	4.0%	0.4%
EBIT margin [5]	11.5%		7.8%	11.7%	12.3%	2.1%
Return on equity (after tax)	15.6%		12.8%	18.2%	22.4%	-4.1%

1 Proposed dividend
2 Proposed bonus
3 Including funds withheld
4 Hannover Re Group's net share for natural catastrophes and other major losses in excess of EUR 10 million gross as a percentage of net premium earned (until 31 December 2011: in excess of EUR 5 million gross)
5 Operating result (EBIT)/net premium earned

The Group worldwide



A complete list of our shareholdings is provided on page 132 et seq. of the notes. The addresses of the Hannover Re Group's branch offices and subsidiaries abroad are to be found in the section "Further information" on page 212 et seq.

Strategic business groups

Hannover Re Group

Non-life reinsurance

Target markets
- Germany
- North America

Specialty lines
- Marine
- Aviation
- Credit and surety
- Structured reinsurance/ Advanced solutions
- Insurance-linked securities
- United Kingdom, London market and direct business

Global reinsurance
- Treaty reinsurance worldwide
- Facultative reinsurance
- Global catastrophe business

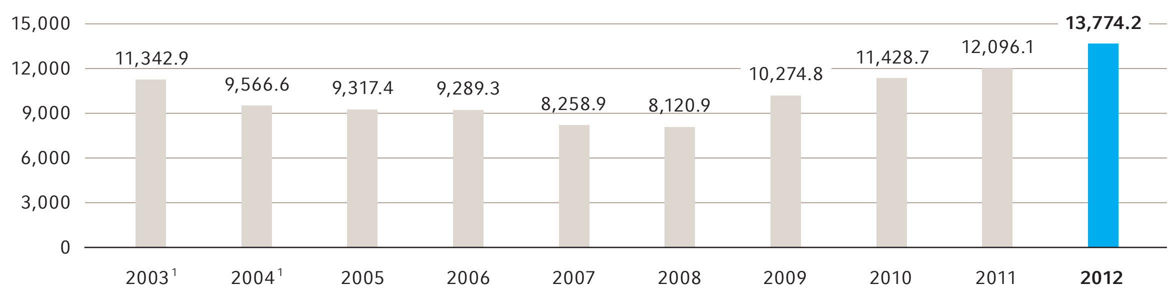
Life and health reinsurance

Financial solutions

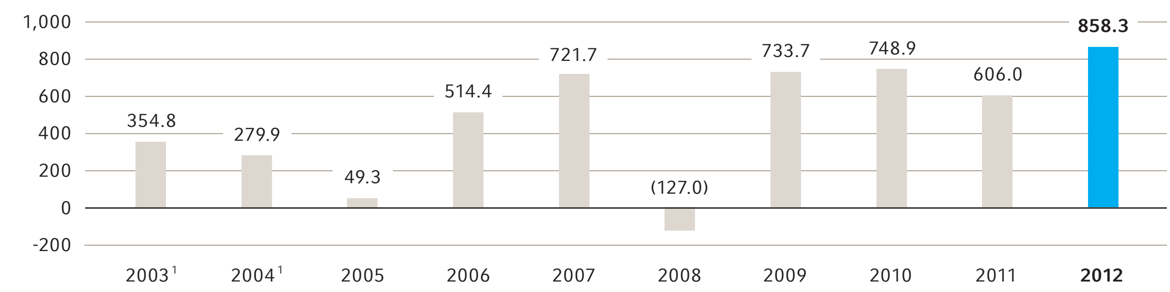
Risk solutions
- Longevity
- Mortality
- Morbidity

An overview

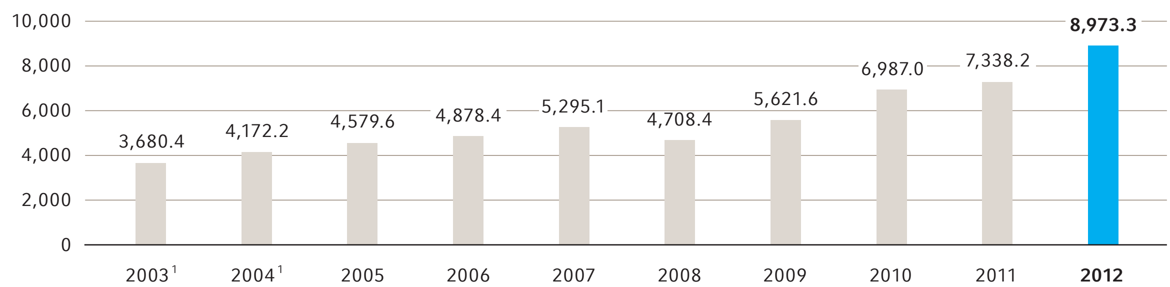
Gross premium
in EUR million



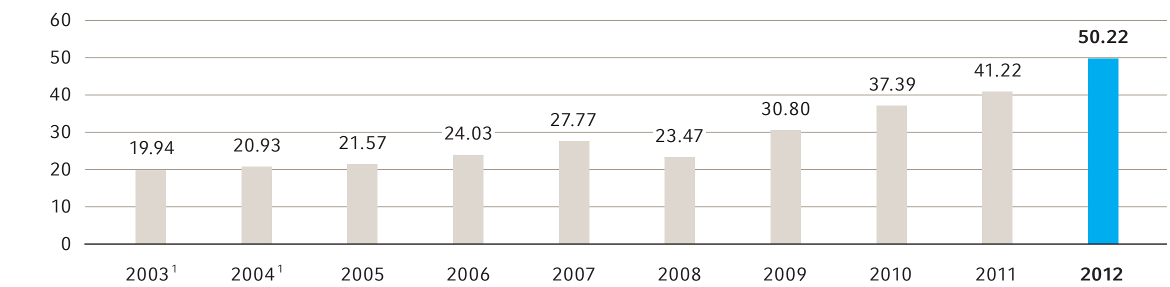
Group net income (loss)
in EUR million



Policyholders' surplus
in EUR million



Book value per share
in EUR



[1] Based on US GAAP

About us

Hannover Re, with a gross premium of around EUR 13.8 billion, is the third-largest reinsurer in the world.

We transact all lines of non-life and life and health reinsurance and are present on all continents with around 2,300 staff. The German business of the Hannover Re Group is transacted by our subsidiary E+S Rück.

The rating agencies most relevant to the insurance industry have awarded both Hannover Re and E+S Rück very good financial strength ratings: Standard & Poor's "AA-" (Very Strong); A.M. Best "A+" (Superior).

Contents

Wasco County is named after a local tribe of Native Americans, the Wasco, part of the Chinook tribe

United States

The United States is the largest and hence the most significant reinsurance market. The 2012 business year in the US was most notable for natural disasters such as Hurricane Sandy and the protracted drought.

Ulrich Wallin
Chairman of the
Executive Board

Dear shareholders,

The 2012 financial year was a highly successful one for your company. We largely accomplished our strategic objective of consolidating and expanding our position as one of the world's leading reinsurers through profitable growth. Gross written premium was boosted by some 14 percent (10 percent adjusted for currency effects) to EUR 13.8 billion. Even more importantly, however, Group net income increased to EUR 858 million. This is the best result in our company's history.

This good performance was driven, above all, by a good underwriting result in non-life reinsurance and exceptionally pleasing investment income. The result in life and health reinsurance was also satisfactory overall, even though it was adversely affected by a higher than expected mortality for some underwriting years of our risk-oriented life reinsurance business in the United States.

The financial strength of Hannover Re, which we were able to substantially reinforce in 2012, also showed a pleasing increase. The book value per share rose by more than 20 percent to EUR 50.22. Not only that, based on another highly positive cash flow from operating activities and the favourable development of valuation reserves, the volume of investments under own management grew by more than 10 percent to EUR 31.9 billion. Despite considerably higher shareholders' equity we generated a very healthy return on equity of 15.6 percent.

The good performance of Hannover Re's business combined with the fact that our shareholders' equity exceeds the requirements of the rating agencies Standard & Poor's and A.M. Best for the ratings "AA-" and "A+" respectively as well as those of our own capital model have prompted us to distribute a bonus in addition to the dividend. The Supervisory Board and Executive Board will therefore propose to the Annual General Meeting that you should be paid a dividend of EUR 2.60 and a bonus of EUR 0.40 per share.

A number of significant events also occurred in 2012 for Hannover Re, all of them positive. For example, we moved forward well with the process for converting your company into a European limited company (Societas Europaea, SE). It is our expectation that this transformation can be completed in 2013. As we have already reported, this step reflects the increasingly international dimension of our company and our workforce. What is more, the transformation will give us greater flexibility in relation to your company's choice of location, thereby enabling us to respond to regulatory developments if the need were to arise. It should, however, be noted that we currently have no intention of relocating your company's home base from Hannover.

We used the low level of interest rates in the year under review to further optimise our capital structure. In November we successfully placed a EUR 500 million subordinated bond on the European capital market at a very favourable coupon rate. Such debt instruments qualify as hybrid capital and enable us to keep our cost of capital low.

Special mention should also be made of the decision by rating agency A.M. Best to upgrade our already very good rating of "A" (Excellent) to "A+" (Superior). A.M Best thereby recognised not only your company's outstanding capitalisation, but also its excellent risk management and consistently good results in a challenging environment. In the reinsurance industry top marks from the rating agencies continue to be vitally important for reinsurers seeking to be offered and awarded the entire spectrum of reinsurance cessions as a preferred partner for primary insurers.

The high esteem in which your company is held on global reinsurance markets was also underscored in the year under review when the highly respected UK insurance daily "Insurance Day" crowned Hannover Re as Reinsurance Company of the Year in September. In its citation the jury highlighted the fact that in the difficult and costly 2011 financial year Hannover Re had recorded the lowest ratio of catastrophe losses among all professional reinsurers at 14 percent of net premium.

The favourable development of Hannover Re in 2012 was similarly reflected in the share price, which gained more than 50 percent in the year under review. This performance was significantly more positive than had been forecast by virtually all analysts at the beginning of the year. We also achieved our strategic objective of beating the Global Reinsurance Index and can therefore point to a better-than-average performance in the sector comprised of reinsurance undertakings.

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

The state of the market in our largest business group, non-life reinsurance, was favourable for our company. Not least owing to the losses incurred from the natural disasters of 2011, reinsurers were able to push through price increases in most segments. As a result, we enjoyed a level of rates in 2012 that was considerably better than in the previous year. Along with the major losses of 2011, the adjustments made to natural catastrophe models – raising the assessment of risks in North America and Europe, in particular – helped to drive these rate increases. In the case of long-tail liability lines, another decisive factor is that the requirements placed on underwriting profitability – allowing for the cost of capital and administrative expenses – have risen sharply on account of the low level of interest rates.

Gross premium in non-life reinsurance grew by 13 percent year-on-year to EUR 7.7 billion. Adjusted for currency effects, this is equivalent to a pleasing increase of 9 percent. Growth was driven principally by markets in Asia and Australia that had suffered losses in 2011. We also recorded gratifying growth rates in our North American business and in our portfolio of facultative reinsurance. The combined ratio improved markedly from 104.3 percent to a good 95.8 percent, assisted not least by the substantially smaller burden of major losses than in 2011.

The largest single loss for the international insurance and reinsurance industry in the year under review was Hurricane Sandy, which caused extensive damage not so much because of its wind speeds but because of its vast diameter and the storm surges that it triggered. There are still some uncertainties surrounding the amount of insured damages, but they may exceed USD 20 billion – a figure that would make Sandy the second-largest insured hurricane event of all time in the United States. The net loss expenditure for Hannover Re was roughly EUR 258 million. However, given the additional premiums of around EUR 24 million booked for our net account due to experience-based treaty conditions, the strain is reduced to EUR 234 million. Major loss expenditures in the year under review nevertheless remained well below the expected level of EUR 560 million calculated at the beginning of the year.

The operating profit (EBIT) improved on the previous year by 82 percent, surging past the one billion euro threshold for the first time in Hannover Re's history to reach EUR 1.1 billion. Net income in non-life reinsurance also came in at a thoroughly pleasing EUR 686 million, an increase of 51 percent compared to the previous year.

In our second business group, life and health reinsurance, we also continued to chart our expansionary course. Gross written premium climbed 15 percent to EUR 6.1 billion (10 percent adjusted for currency effects). Above-average growth was generated most notably in the United States, where we were able to make the most of the platform acquired from Scottish Re in 2009 in the context of the ING transaction. In addition, we booked very strong growth in Australia and in emerging markets, above all China and Latin America.

In life and health reinsurance 2012 was the first year in which we conducted business under two areas of Board responsibility. This reflects the increased importance that we attach to the life and health reinsurance business group. Not least on account of this change at Board level, the structure of the business group was modified in 2012. By creating a "Longevity" business center and the newly established "Asia" business center, we are focusing even more closely on the markets offering the greatest new business potential.

As already mentioned, profitability in life and health reinsurance was overshadowed in the year under review by a higher than expected mortality experience for some underwriting years in our risk-oriented US life reinsurance portfolio. The fact that we were still able to generate satisfactory Group net income can be attributed not only to a better than anticipated underwriting result in some markets – such as Europe – but also to a positive performance of the so-called ModCo derivatives. The latter contributed around EUR 52 million to the operating profit (EBIT) of EUR 291 million, which came in 34 percent higher than in the previous year. IFRS accounting requires us to establish ModCo derivatives in relation to the credit risk associated with certain securities deposits held by US clients on our behalf. Group net income grew by 27 percent to EUR 231 million.

The development of our investment income was especially pleasing. Although interest rates continued to fall in the year under review, ordinary investment income climbed 13 percent to EUR 1.1 billion. This was attributable in part to the enlarged asset portfolio, driven particularly by the unchanged highly positive cash flow from operating activities, and partly to the planned expansion of corporate debt securities over the past two years. In this context we have paid close attention to the high quality and broad diversification of the risk as well as a below-average allocation of bank bonds.

We further reduced our already low exposure to countries with high credit spreads. It remains the case that our portfolio does not contain any Greek-issued bonds.

Along with the strong ordinary income, the good investment performance was also boosted by higher realised gains. Yet the valuation reserves in our portfolio of fixed-income securities also increased appreciably. This is ultimately due to the fact that in 2012 the current interest rate level was again well below the average interest rate level of previous years. In addition to realising gains through regrouping within our bond portfolio, we realised some substantial increases in value in our US real estate portfolio in the third quarter. Despite this, we moved forward with the strategic expansion of our real estate allocation.

The unrealised gains and losses recognised in the statement of income – amounting on balance to EUR 89 million – also made a positive contribution to the very healthy investment income. This derived principally from changes in the fair values of the aforementioned ModCo derivatives and the performance of our inflation swaps. As we have reported in the past, we purchased inflation swaps to partially hedge the loss reserves in our technical account against the inflation risk.

All in all, we generated very pleasing investment income of EUR 1.3 billion from assets under own management; this figure, which corresponds to a net return on our investments of 4.3 percent, thus came in 24 percent higher than in the previous year. Income from funds withheld and contract deposits also climbed by 5 percent to EUR 355 million, causing total net investment income to grow by almost 20 percent to EUR 1.7 billion.

I would now like to turn briefly to the current financial year: competition in non-life reinsurance has intensified sharply. This is partly because, owing to the good results generated by the reinsurance industry as a whole, the capital available to reinsurers and hence also the capacity on offer has continued to grow. The supply of reinsurance protection has consequently outstripped demand. This is especially true of mature markets, where in some cases demand for reinsurance has actually contracted as larger insurance groups run higher retentions. The situation is more favourable in many emerging markets, however, where the increased volume of primary insurance business is stimulating growth on the reinsurance side too.

Despite this increasingly challenging market climate, we were very largely able to maintain the good price level of 2012 in the treaty renewals as at 1 January 2013. Indeed, we even obtained further rate increases in certain areas – principally those that had suffered losses. This was especially true of non-proportional marine reinsurance, which was heavily impacted in 2012 both by the wreck of the "Costa Concordia" cruise ship and by marine losses resulting from Hurricane Sandy. It was also due to the latter that prices for property catastrophe business at least remained stable. Thanks to our low administrative expense ratio compared to rival providers as well as our long-standing good business relationships with primary insurance clients, we are well equipped for the prevailing competitive climate. In 2013, therefore, it is our expectation that we shall again be able to generate growth in non-life reinsurance (after adjustment for currency effects). Given the present state of the market, however, what is more crucial is that we maintain our disciplined focus on writing business that meets our margin requirements – also making allowance for the decline in the risk-free interest rate level.

In our assessment, the emerging markets of Asia as well as Central and Eastern Europe offer the greatest potential for further growth in life and health reinsurance. We shall also continue to grow our business in the United States and Australia. In addition, not least in light of demographic change, we see considerable growth opportunities in the reinsurance of longevity risks. With this in mind, we expect to generate growth of 5 to 7 percent (adjusted for currency effects) in 2013, with biometric results likely to improve on 2012.

In view of the protracted low level of interest rates, we must anticipate that the net return on our investments will fall to around 3.4 percent. On the other hand, we expect the portfolio of assets under own management to continue growing, which means that the reduced net return should not be entirely reflected in investment income. Overall, we are looking to post growth in the order of 5 percent (adjusted for currency effects) for 2013. Group net income is expected to come in around EUR 800 million.

I would like to thank you, our valued shareholders, most sincerely for your trust – also on behalf of my colleagues on the Executive Board. Furthermore, I would like to express my sincerest appreciation to all our employees for their successful efforts in the year under review. 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
Non-Life Reinsurance
- Facultative Reinsurance
- Global Catastrophe Business
- Treaty Reinsurance worldwide

Dr. Klaus Miller
Life and Health Reinsurance
- Longevity Solutions
- North America
- Northern, Eastern and Central Europe
- United Kingdom and Ireland

Claude Chèvre
Life and Health Reinsurance
- Africa
- Asia
- Australia and New Zealand
- Latin America
- Western and Southern Europe

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

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

Roland Vogel
Asset Management
Facility Management
Finance and Accounting
Information Technology

Standing from left to right: Dr. Klaus Miller,
Jürgen Gräber, André Arrago, Dr. Michael Pickel

Seated from left to right: Claude Chèvre,
Ulrich Wallin, Roland Vogel

Along with Copacabana Beach to the northeast, Ipanema is the most important beach in Rio de Janeiro

Latin America

In South America population growth and rising prosperity are creating greater demand for life insurance and retirement provision products.

The Hannover Re share

Volatile capital market environment

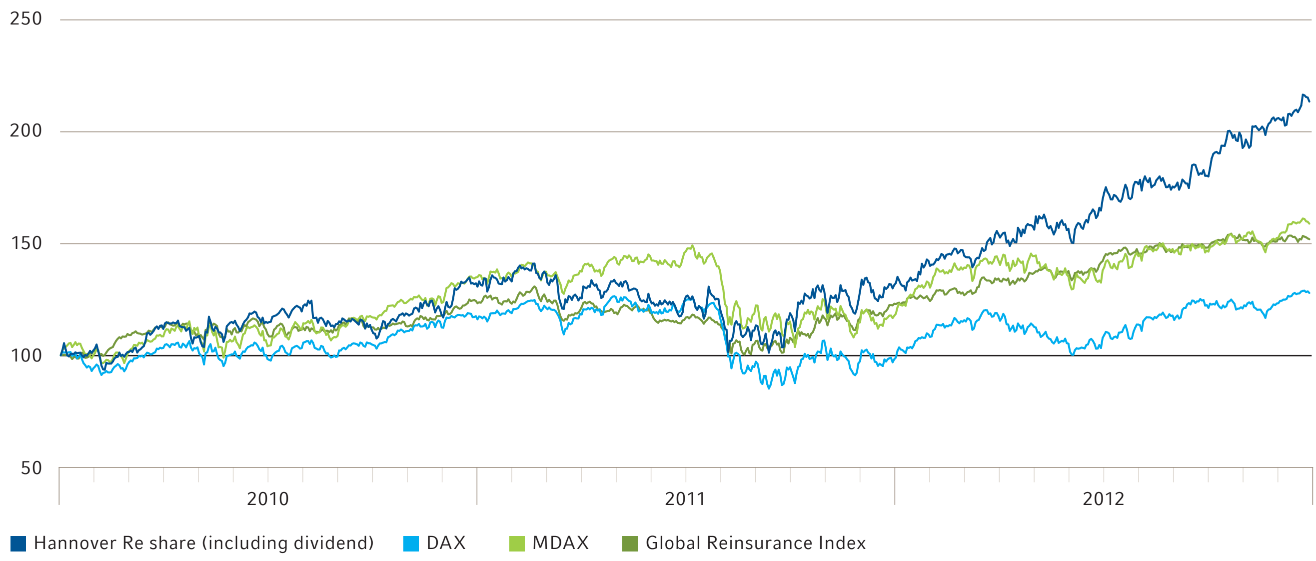
Capital markets in 2012 were again heavily under the shadow of the unfolding sovereign debt crisis in the European Monetary Union and found themselves at the mercy of political decisions to an extent seldom seen before. The German DAX share index started the year at 5,898 points and climbed to 7,100 points by the beginning of April. In the second quarter, however, speculation surrounding the outcome of Greek elections – with potentially critical implications for the Euro – and a swing to the left in France fanned new doubts about the single currency, as a consequence of which the DAX had slipped to below 6,000 points by June. It was only the announcement by the European Central Bank (ECB) to the effect that it would henceforth support countries in distress through unlimited bond purchases that brought quick relief to the financial markets. The DAX made good lost ground in the following months and closed the year with a gain of 29.1% at 7,612 points. The MDAX improved even more strongly over the same period, ending the year at 11,914 points – a twelve-month gain of 33.9%. The Japanese Nikkei index also closed the year in comfortably positive territory, rising by a somewhat more modest 22.9% to 10,395 points. Only the Dow Jones, dogged by the protracted depressed state of the US economy, had to settle for a significantly poorer performance. The Dow ended the year at 13,104 points, a gain of 7.3%.

Continuously strong performance

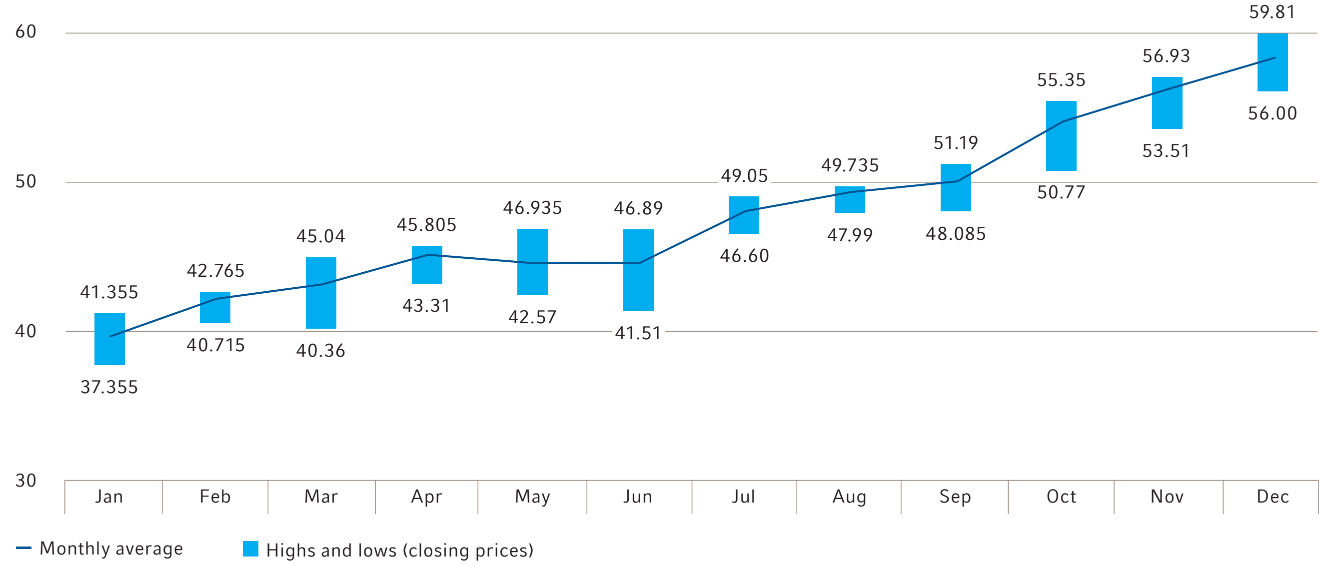
The Hannover Re share began 2012 at a price of EUR 38.325. After some volatile trading days early in January, the share touched its lowest point of the year on 9 January at EUR 37.355. In the days and weeks that followed, building on a broadly favourable round of renewals and a year of hitherto light losses, the price trended clearly higher. As early as 19 March the share broke through its historic all-time high of EUR 43.55. In the following months, which were overshadowed by concerns about the continued existence of the European Monetary Union, the share price tended to move sideways. It was only when the ECB announced that it would do everything necessary to stabilise the financial markets that they were able to breathe a huge sigh of relief. From July onwards the Hannover Re share enjoyed a consistently positive performance. Shortly before year-end, on 19 December, the share climbed to its highest point of the year at EUR 59.81 and at the same time set a new record high.

At the end of the financial year the Hannover Re share was listed 53.8% higher at EUR 58.96. It thus comfortably outperformed the DAX and MDAX benchmark indices as well as the Global Reinsurance Index, which posted a gain of 23.6%. In a three-year comparison (see chart below) the Hannover Re share delivered a performance (including reinvested dividends) of 113.2%, again clearly beating the DAX (27.8%), MDAX (58.7%) and Global Reinsurance Index (51.8%).

Relative performance of the Hannover Re share
in %



Highs and lows of the Hannover Re share
in EUR



Based on the year-end closing price of EUR 58.96, the market capitalisation of the Hannover Re Group totalled EUR 7.1 billion at the end of the 2012 financial year, an increase of EUR 2.5 billion or 53.8% compared to the previous year's figure of EUR 4.6 billion. According to the rankings drawn up by Deutsche Börse AG, the company placed sixth in the MDAX at the end of December with a free float market capitalisation of EUR 3,468.7 million. Measured by trading volume over the past twelve months, the share came in at number 11 in the MDAX with a volume of EUR 2,673.7 million. The Hannover Re Group thus continues to rank among the 40 largest listed companies in Germany.

With a book value per share of EUR 50.22 the Hannover Re share showed a price-to-book (P/B) ratio of 1.2 at the end of the year under review; compared to the average MDAX P/B ratio of 1.8 as at year-end the share thus continues to be very moderately valued.

Proposed dividend on an attractive level

The Executive Board and Supervisory Board intend to propose to the Annual General Meeting on 7 May 2013 that a dividend of EUR 2.60 and a bonus of EUR 0.40 per share be distributed. For the second year in succession the proposed distribution of 42% therefore exceeds the strategically planned payout ratio of 35% to 40% of Group net income after tax. Based on the year-end closing price of EUR 58.96, this produces a dividend yield of 5.1%.

Annual General Meeting approves change of legal form

The Annual General Meeting of Hannover Re was held on 3 May 2012 at the HCC - Hannover Congress Centrum. Shareholders, shareholder and bank representatives as well as guests took up the invitation of the Executive Board and Supervisory Board in large numbers. Altogether, 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 2011 financial year, in which Hannover Re had still been able to generate a pleasing result despite heavy major losses from floods in Australia and Thailand, earthquakes in New Zealand and the devastating seaquake off the coast of Japan and subsequent tsunami.

For the first time Hannover Re offered its shareholders the opportunity to exercise their voting rights at the Annual General Meeting by postal vote – in addition to the normally available options of personal voting on site as well as voting through an authorised representative or through a proxy nominated by the company. 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 Annual General Meeting approved the resolution to convert Hannover Re into a European limited company (SE). By taking this decision Hannover Re is not only modernising its legal form, it is also giving clearer expression to the company's international dimension. At the same time, it will enjoy greater flexibility in being able to respond to future legal or regulatory requirements.

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

Strong capital market interest, in part because of Talanx IPO

Despite relatively light losses and a rather unspectacular year overall, Hannover Re attracted strong interest from the capital market in 2012. This was due not least to the initial public offering announced by the parent company Talanx AG at the beginning of the year, which, as the year progressed, prompted a considerable need on the part of investors for dialogue about the implications for Hannover Re. Responding to these calls, we took part in altogether 14 capital market conferences (previous year: 14) and met locally with interested investors at 15 roadshows (previous year: 21). Our travel activities in 2012 were again focused on the financial centres of Frankfurt, London and New York, which we visited at least once a quarter. Along with Paris, Munich, Copenhagen, Geneva, Zurich, Lugano and Milan, our itinerary also included Toronto and San Francisco. Our 15th Investors' Day, held on a rotating basis in London in 2012, was very well received. In total, some 60 analysts and institutional investors took the opportunity to engage in an intensive exchange of views with the Executive Board on current and future business prospects. The discussions focused on, among other things, management of our assets in the prevailing low interest rate environment as well as enterprise management based on the economic capital model and IVC (intrinsic value creation).

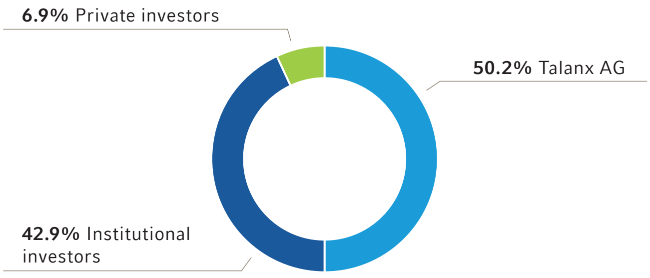
We devoted special attention to the topic of sustainability in the year under review: Hannover Re drew up its first sustainability report in accordance with the internationally recognised reporting standards of the Global Reporting Initiative (GRI). The report covered altogether 42 Profile Disclosures, 6 Management Approaches to 34 Aspects and 84 Performance Indicators as well as the requirements specific to the financial services sector. Right from the outset, Hannover Re thereby fulfilled the medium Transparency Level B defined by the GRI.

Not only that, in the year under review our Investor Relations website was chosen for the second consecutive time as the best in the MDAX and the industry by the company NetFederation. We received thoroughly positive feedback from IR Global Rankings, which rated our HTML Annual Report as the third-best in Europe (previous year: second-best) and number four (previous year: number two) worldwide on account of its extensive functionality.

Stable shareholding structure

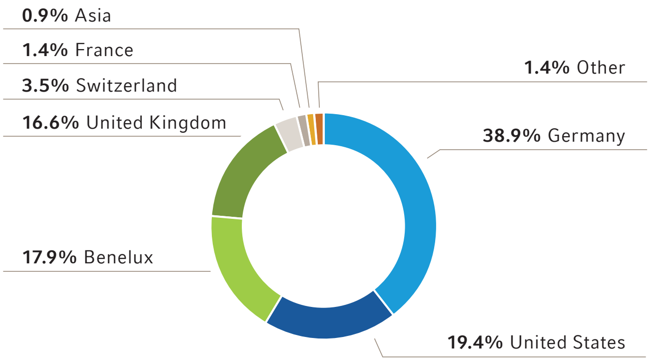
The shareholding structure of Hannover Re was stable in the year under review. The interest held by Talanx AG remained at 50.2% both before and after its successful IPO. The stake held by private investors shrank marginally by 1.2 percentage points to 6.9%, whereas the proportion in the hands of institutional investors increased to 42.9%.

Shareholding structure as at 31.12.2012



There were significant geographical shifts within our free float in the course of the year under review. The proportionate holdings in the Benelux countries grew from 8.6% to 17.9%, while the holdings in Germany and the United States contracted by 3.6% and 4.2% respectively, falling from 42.5% to 38.9% and from 23.6% to 19.4%. The proportionate holding in the United Kingdom similarly decreased by a modest 1.2 percentage points to 16.6%. Although the percentage shares attributable to the countries of Switzerland and France remained relatively constant at 3.5% and 1.4% respectively, the total shareholding in Asia for the first time added up to just about 1%.

Shareholding structure by countries/regions as at 31.12.2012[1]



[1] shares outstanding less Talanx holding

Year of light losses prompted higher analyst expectations

Continuing restructuring efforts on the part of banks brought about further changes among our analysts in 2012. During the year altogether four banks and brokers, namely the Royal Bank of Canada, Redburn, WestLB and UniCredit, ceased their research activities in relation to the Hannover Re share. On the other hand, two brokers – Raymond James and Primavenue – began to cover our share. With this in mind, and against the backdrop of a year of relatively light losses, around 300 analyst recommendations – some 50 fewer than in the previous year – were published for Hannover Re and the insurance sector in the year under review. As at the end of the financial year 34 analysts had handed down opinions on Hannover Re: ten analysts recommended the Hannover Re share as "buy" or "overweight"; altogether seventeen opinions were a "hold", making this the most common, while "underweight" or "sell" recommendations were issued a total of seven times. The analysts' average price target according to Bloomberg climbed steadily in the course of the year from EUR 42.52 at the outset to EUR 56.01 by year-end.

Basic information

Securities identification number	840 221
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)
United States	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 2012)	120,597,134
Common shares (as at 31 December 2012)	120,597,134.00 EUR
Share class	No-par-value registered shares

Key figures

in EUR	2012	2011	2010	2009	2008
Number of shares in million	120.6	120.6	120.6	120.6	120.6
Annual low [1]	37.355	29.31	30.61	20.64	15.70
Annual high [1]	59.81	43.29	41.38	34.65	35.79
Year-opening price [1]	38.325	40.135	32.71	22.50	31.55
Year-ending price [1]	58.96	38.325	40.135	32.71	22.50
Market capitalisation at year-end in EUR million	7,110.4	4,621.9	4,840.2	3,944.7	2,713.4
Equity attributable to shareholders of Hannover Re in EUR million	6,055.8	4,970.6	4,509.0	3,714.4	2,830.1
Book value per share	50.22	41.22	37.39	30.80	23.47
Earnings per share (basic and diluted)	7.12	5.02	6.21	6.08	(1.05)
Dividend per share	2.60 [2]+0.40 [3]	2.10	2.30	2.10	–
Cash flow per share	21.87	20.92	13.94	14.53	12.10
Return on equity (after tax) [4]	15.6%	12.8%	18.2%	22.4%	(4.1%)
Dividend yield (after tax) [5]	5.1%	5.5%	5.7%	6.4%	–
Price-to-book (P/B) ratio [6]	1.2	0.9	1.1	1.1	1.0
Price/earnings (P/E) ratio [7]	8.3	7.6	6.5	5.4	–
Price-to-cash flow (P/CF) ratio [8]	2.7	1.8	2.9	2.3	1.9

[1] Xetra daily closing prices from Bloomberg
[2] Proposed dividend
[3] Proposed 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


The Wachau Valley in Lower Austria was for many years home to a Bavarian enclave

Europe

Europe is both the oldest and one of the most important reinsurance markets.

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 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

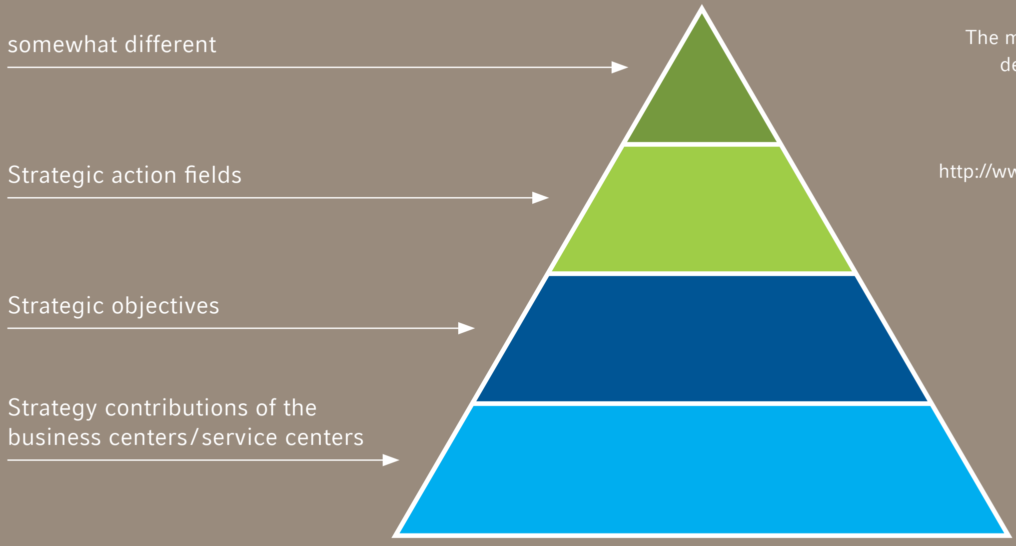
Our strategy in practice

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.

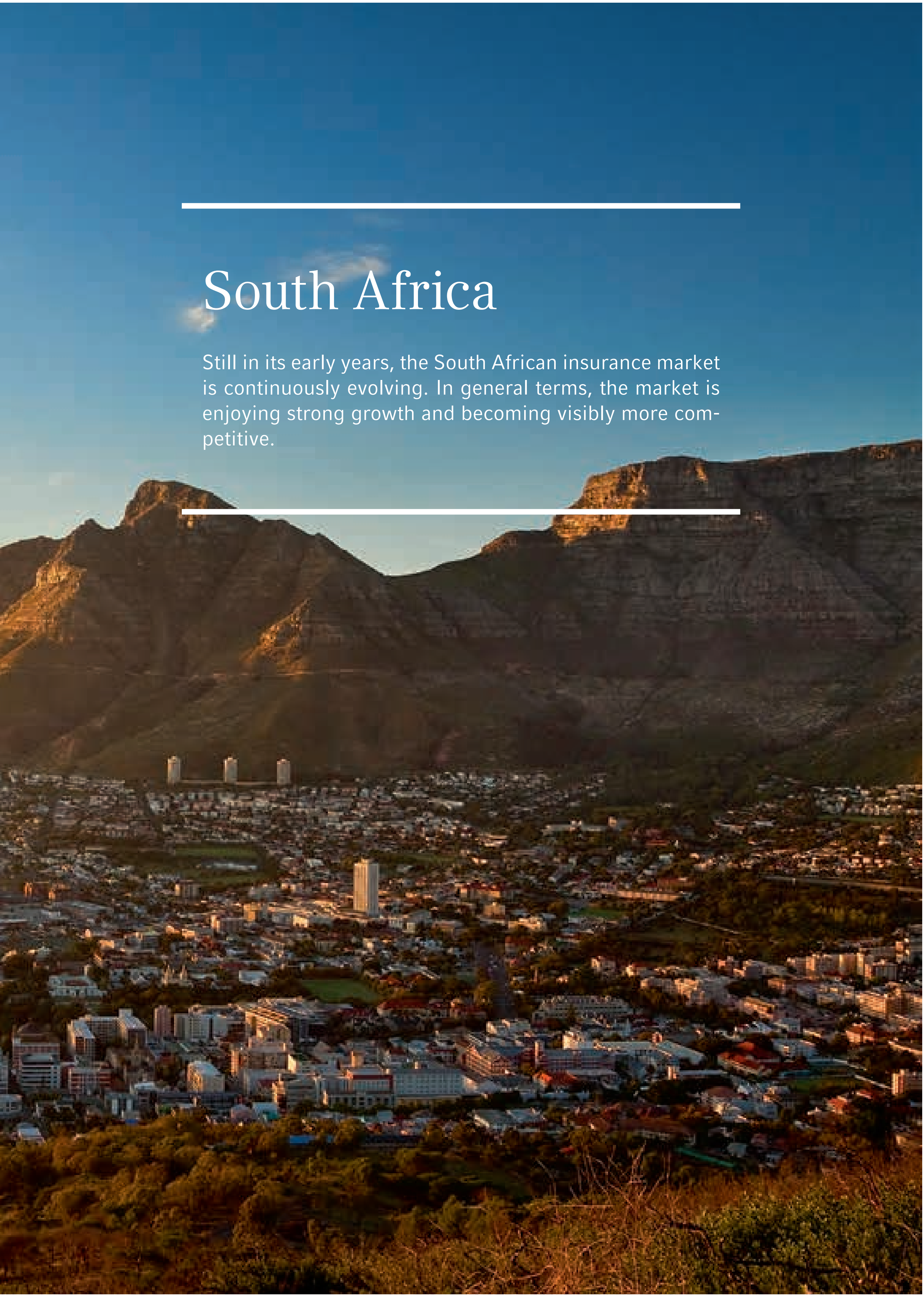
Strategy cascade of Hannover Re



The model enables us to ensure rigorous derivation of the strategic objectives.

For more details of our strategy see our website at: http://www.hannover-re.com/about/strategy

Cape Town took its name from the Cape of Good Hope, a major peril on the sea route to India



South Africa

Still in its early years, the South African insurance market is continuously evolving. In general terms, the market is enjoying strong growth and becoming visibly more competitive.

Management report

Macroeconomic climate

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

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

USA

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

Europe

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

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

Germany

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

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

Asia

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

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

Capital markets

The mood on capital markets in 2012 was once more dominated by the Euro debt crisis. For detailed remarks on the development of capital markets please see the "Investments" section on page 48 et seq.

Industry-specific environment

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

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

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

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

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

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

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

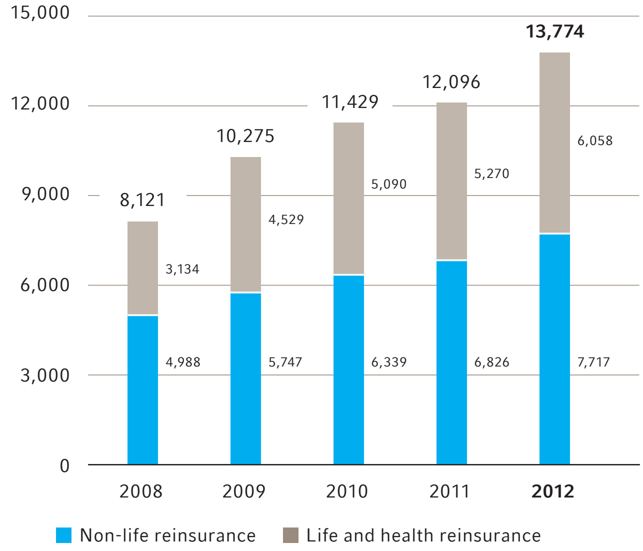
Business development

We are thoroughly satisfied with the development of our business in the 2012 financial year. For a financially strong reinsurer such as Hannover Re, the market offered attractive opportunities for profitable growth – both in non-life and life and health reinsurance. Despite a challenging capital market climate we generated very good investment income. The result for the year was also helped by the fact that major loss expenditure – unlike in the previous year – was rather moderate.

Our premium volume in total business showed further pleasing growth in the year under review. Gross premium increased by 13.9% to EUR 13.8 billion (EUR 12.1 billion). At constant exchange rates – especially against the US dollar – the increase would have been 9.5%. Growth thereby actually surpassed our guidance of 7% to 8%, which we had revised upwards during the year. The level of retained premium decreased slightly to 89.8% (91.2%). Net premium earned increased by 14.2% to EUR 12.3 billion (EUR 10.8 billion). At unchanged exchange rates, growth would have come in at 9.9%.

We are satisfied with the development of our non-life reinsurance business. Demand for reinsurance covers remained brisk in the year under review, driven in part by the increased importance of risk-based models and the requirements placed on the capital resources of primary insurers. Given the heavy loss expenditures from natural catastrophes in the previous year, premium increases – particularly for property catastrophe business – were as expected appreciable. Yet the outcome of the treaty renewals in our domestic market was also gratifying. In US property business it was broadly possible to push through rate increases, while the rate erosion in casualty business was halted. Developments in our specialty lines, under which we include inter alia marine and aviation reinsurance as well as credit and surety business, were satisfactory. The picture in our global reinsurance segment was a mixed one: while the portfolio remained largely stable in developed markets, further substantial growth was recorded in Asia. Total gross premium volume in non-life reinsurance grew by 13.1% (9.3% at constant exchange rates) to EUR 7.7 billion, thereby exceeding our forecast target of 5% to 7%.

Gross premium by business group
in EUR million



As anticipated, our second business group – life and health reinsurance – also fared well in the year under review. It now contributes 44.0% of the total premium volume. Both mature insurance markets, such as the United States and the United Kingdom, and emerging countries in Asia – first and foremost China – offered attractive opportunities for profitable growth. Our reporting structures were adjusted and refined to focus even more closely on our growth markets. We now divide our business into Financial Solutions and Risk Solutions; the latter is further subdivided into Mortality, Longevity and Morbidity.

Hannover Re completed several block assumption transactions for longevity risks in the 2012 financial year, including for example pension obligations for a UK industrial enterprise with a volume in the order of EUR 1 billion. We succeeded in enlarging our gross premium volume in total life and health reinsurance. With an increase of 14.9% (9.8% at constant exchange rates) or EUR 6.1 billion, we surpassed our growth target of 5% to 7%.

We are also highly satisfied with developments on the investment side. Our portfolio of assets under own management grew to EUR 31.9 billion (31 December 2011: EUR 28.3 billion). Ordinary investment income excluding income on funds withheld and contract deposits comfortably surpassed the previous year's figure to reach EUR 1,088.4 million (EUR 966.2 million), despite the protracted low level of interest rates. This produced an annual return of altogether 3.6% (3.6%).

We also significantly boosted our total net investment income from assets under own management relative to the previous year: it came in at EUR 1.3 billion (EUR 1.0 billion) as at 31 December 2012. Along with the pleasing rise in ordinary income, this increase was driven by realised gains of EUR 227.5 million (EUR 179.6 million). For the most part, these derived from three sources: firstly, strategic shifting of funds to stabilise allocation ratios within our credit portfolio; secondly, the implementation of our Corporate Social Responsibility strategy within our holdings of fixed-income securities; thirdly, our real estate portfolio, in which we partially realised some substantial increases in value in the third quarter. Unrealised gains on our asset holdings recognised at fair value through profit or loss also contributed to the pleasing result in an amount of EUR 89.3 million (-EUR 38.8 million). These resulted primarily from the gratifying fair value development of the ModCo derivatives and inflation swaps.

Once again, only very minimal impairments had to be taken in the reporting period. Income on funds withheld and contract deposits climbed from EUR 338.5 million to EUR 355.5 million.

Thanks to the pleasing developments in non-life and life and health reinsurance as well as on the investment side, the operating profit (EBIT) for the Hannover Re Group surged by 67.2% to EUR 1.4 billion (EUR 0.8 billion) as at 31 December 2012. The increase on the previous year was assisted by substantially lower major loss expenditure of EUR 477.8 million (EUR 980.7 million). Group net income improved significantly to EUR 858.3 million (EUR 606.0 million), a new record result for Hannover Re. Earnings per share amounted to EUR 7.12 (EUR 5.02).

Similarly, the equity attributable to shareholders of Hannover Re developed very favourably in the year under review, climbing from EUR 5.0 billion to EUR 6.1 billion. The book value per share was correspondingly positive at EUR 50.22 (EUR 41.22). The return on equity reached 15.6% (12.8%). The policyholders' surplus, consisting of shareholders equity, non-controlling interests and hybrid capital, rose sharply to EUR 9.0 billion (EUR 7.3 billion).

In November 2012 Hannover Re issued a subordinated bond with a volume of EUR 500 million through its subsidiary Hannover Finance (Luxembourg) S. A. The purpose of this bond issue was to take advantage of the very attractive interest rate level in order to further optimise the company's capital structure. Together with this new issue Hannover Re has four outstanding hybrid bonds in the capital markets.

In view of Hannover Re's very healthy capitalisation and consistently good results, the rating agency A.M. Best upgraded our rating from "A" (Excellent) to "A+" (Superior) in September 2012.

We also received a very special mark of distinction in the month of September. The highly respected UK insurance daily "Insurance Day" crowned Hannover Re "Reinsurance Company of the Year" in recognition of the company's successful business performance.

In the year under review we merged our two Irish subsidiaries, Hannover Reinsurance (Ireland) Ltd. and Hannover Life Reassurance (Ireland) Ltd., and transformed the resulting entity into a new legal form. All activities in the areas of non-life and life and health reinsurance are now concentrated at the new company Hannover Re (Ireland) Plc. This merger was intended, in particular, to facilitate better use of the available capital base and to streamline business processes such as financial reporting.

In addition, we decided to convert our subsidiary Hannover Life Re UK Ltd. into a branch with effect from 1 January 2013. This step was designed to make more efficient use of the underlying capital as well as to profit from synergistic benefits over the long term.

The resolution adopted by the Executive Board to transform Hannover Re into a European limited company (Societas Europaea, SE) was approved by the Ordinary General Meeting in May 2012. This change is intended to reflect the increasingly international dimensional of Hannover Re's business operations and workforce. The necessary steps proceeded according to plan in the year under review. The transformation is expected to become legally effective in the first quarter of 2013.

Overall assessment of the business position

The Executive Board of the Hannover Re Group assesses the development of business in 2012 as highly satisfactory. The Group improved significantly on the previous year in all key indicators – premium income, investment income, operating result (EBIT) and Group net income. Especially given the challenging situation on international capital markets and the overall decline in interest rates, we are exceptionally satisfied with our investment income. On account of the favourable net income the development of the Hannover Re Group's shareholders' equity was very pleasing, pushing the total policyholders' surplus to a new record high. At the time of preparing the management report the favourable business position of the Hannover Re Group remains unchanged; the Group's financial strength is on a high level and has been further reinforced.

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 and health reinsurance. Supplementary to the information provided here, Section 5 of the notes to this Annual Report entitled "Segment reporting" shows the key balance sheet items and profit components broken down into the two business groups.

Non-life reinsurance

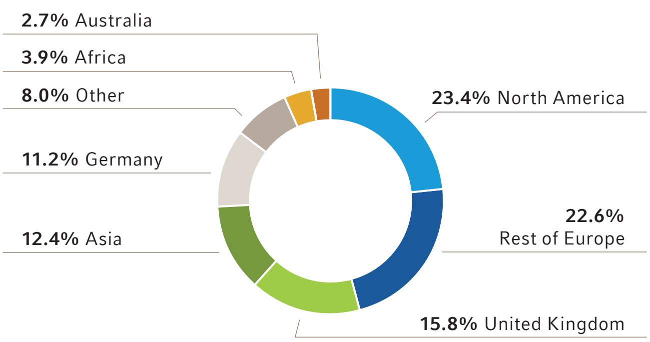
Accounting for 56.0% of our premium volume, non-life reinsurance is Hannover Re's largest business group and one in which we are striving for further profitable growth. The strategy guiding our actions is active cycle management: we expand our business in individual lines if the rate situation is favourable and reduce it if we consider the prices to be inadequate.

In the non-life reinsurance renewals as at 1 January 2012 – the date when around two-thirds of our treaties in traditional reinsurance were renegotiated – we achieved better conditions and rates on average than in the previous year. Overall, the renewed premium volume grew by 6%; the increase in the comparable period of the previous year had been 2%.

The treaty renewals again showed the considerable importance attached by ceding companies to a reinsurer's financial strength. A very good rating is indispensable for a reinsurer if it is to be offered and awarded the entire spectrum of business – a situation from which Hannover Re again benefited thanks to its excellent ratings.

The most appreciable price increases were obtained, as expected, in property catastrophe business. In view of the substantial losses incurred from natural catastrophes in the previous year, prices for reinsurance covers improved markedly. Further positive adjustments followed in the rounds of renewals that took place within the year.

Non-life reinsurance: Geographical breakdown of gross written premium



Business in Germany fared better than expected for our company. The sustained price erosion in motor insurance was halted. The treaty renewals also passed off satisfactorily overall in our second target market, North America. In US casualty business, for example, it was possible to stop the rate erosion.

We were similarly satisfied with the treaty renewals in specialty lines. Rates in marine business were broadly stable, while increases were recorded in the offshore energy sector. Aviation reinsurance experienced rate erosion on account of good underwriting results, although the business remains attractive. In credit and surety business, too, rates declined modestly owing to the pleasing loss ratios of recent years.

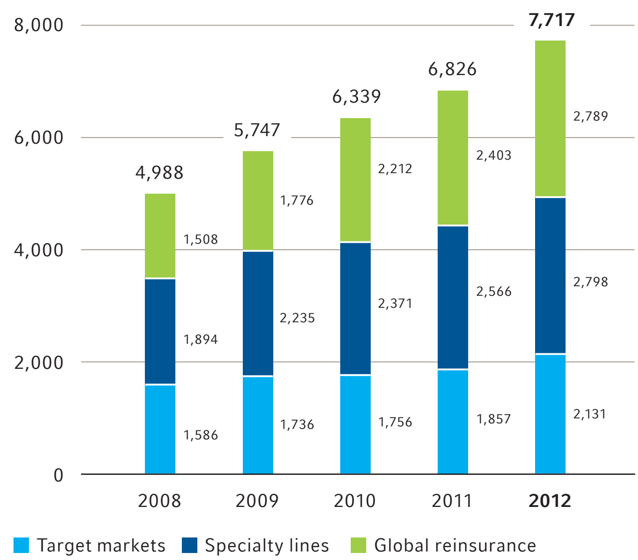
In global reinsurance business we booked sizeable growth, above all in the markets of Asia and the Middle East. As planned, we enlarged our portfolio of facultative reinsurance and stepped up our writing of agricultural risks.

All in all, non-life reinsurance offered attractive market opportunities; we achieved profitable growth and extended our market share. Details of developments in the individual markets are provided on the following pages.

Hannover Re once again enabled the capital market to participate in (natural) catastrophe risks. The cover ("K" quota share), a proportional retrocession programme, was renewed with a volume of USD 350 million. This transaction complements our traditional programme of protection covers that we use to protect against peak exposures.

The gross premium volume for our non-life reinsurance business group increased by 13.1% in the year under review to EUR 7.7 billion (EUR 6.8 billion). At constant exchange rates, especially against the US dollar, growth would have come in at 9.3%. The level of retained premium retreated slightly to 90.2% (91.3%). Net premium earned grew by 15.0% to EUR 6.9 billion (EUR 6.0 billion); growth would have been 11.4% at constant exchange rates. The increase in premium volume (at unchanged exchange rates) was thus stronger than anticipated; in our original forecast for 2012 we had anticipated growth in the range of 5% to 7%.

Non-life reinsurance:
Gross written premium in non-life reinsurance
in EUR million

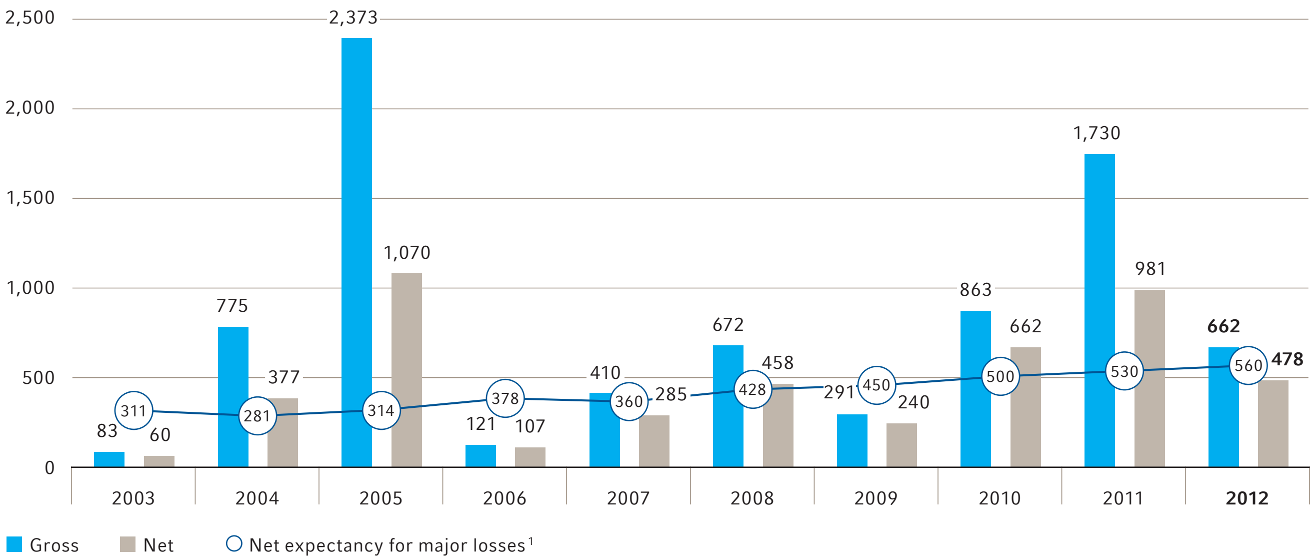


Key figures for non-life reinsurance

in EUR million	2012	+/− previous year	2011	2010	2009	2008
Gross written premium	7,717.5	+13.1%	6,825.5	6,339.3	5,746.6	4,987.8
Net premium earned	6,854.0	+15.0%	5,960.8	5,393.9	5,229.5	4,276.7
Underwriting result	272.2		(268.7)	82.4	143.5	184.7
Net investment income	944.5	+11.7%	845.4	721.2	563.2	11.1
Operating result (EBIT)	1,091.9	+82.2%	599.3	879.6	731.4	2.3
Group net income	685.9	+50.6%	455.6	581.0	472.6	(160.9)
Earnings per share in EUR	5.69	+50.6%	3.78	4.82	3.92	(1.33)
Retention	90.2%		91.3%	88.9%	94.1%	88.9%
Combined ratio [1]	95.8%		104.3%	98.2%	96.6%	95.4%

[1] Including expenses on funds withheld and contract deposits

Non-life reinsurance: Major loss trend[1]
in EUR million



[1] Natural catastrophes and other major losses in excess of EUR 10 million gross (until 31 December 2011: in excess of EUR 5 million gross)

Unlike in the previous year, the major loss situation was comparatively moderate in the year under review. The largest single loss event for the international insurance industry – at a cost of more than USD 20 billion – was Hurricane Sandy, which caused death and considerable devastation along the East Coast of the United States. Our net strain from this event was EUR 257.5 million. Severe damage also resulted from two earthquakes in Italy, which produced a total loss of EUR 66.5 million for net account. Our marine business incurred a net loss of EUR 53.3 million from the wreck of the "Costa Concordia" cruise ship. Our portfolio of agricultural risks also suffered a large loss: the most severe period of drought in decades in the United States resulted in a net strain for our account of EUR 43.3 million. These events, together with other less sizeable major losses, combined to produce net expenditure for the year under review of EUR 477.8 million; the previous year's figure had been EUR 980.7 million. We thus came in well below our expected level for 2012 of roughly EUR 560 million. Against this backdrop, the combined ratio improved from 104.3% in the previous year to 95.8%.

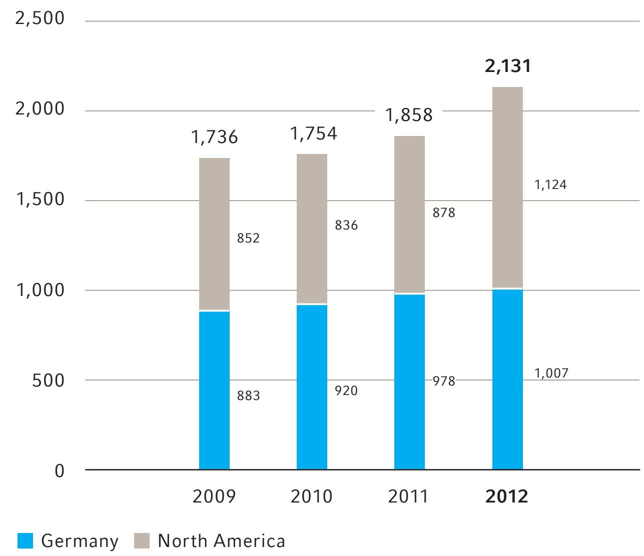
The underwriting result improved sharply from -EUR 268.7 million to EUR 272.2 million. Investment income posted thoroughly gratifying growth of 11.7% to reach EUR 944.5 million (EUR 845.4 million). The operating profit (EBIT) for non-life reinsurance surged from EUR 599.3 million in the previous year to EUR 1,091.9 million as at 31 December 2012, while Group net income increased sharply to EUR 685.9 million (EUR 455.6 million). Earnings per share stood at EUR 5.69 (EUR 3.78).

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 developed satisfactorily in the year under review in our target markets of Germany and North America. The premium volume grew by 14.8% to EUR 2,131.1 million (EUR 1,857.6 million). The combined ratio stood at 101.3%, after 106.1% in the previous year. The operating profit (EBIT) for the target markets totalled EUR 270.4 million (EUR 184.0 million).

Non-life reinsurance:
Breakdown of gross written premium in target markets
in EUR million

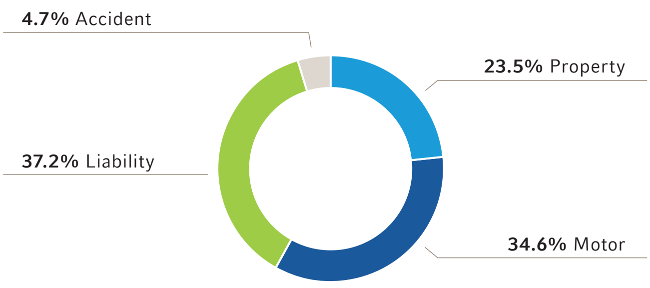


Germany

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 superbly 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.

Property/casualty insurance in Germany continued to expand in 2012. This pleasing growth was driven principally by motor insurance, which showed a gain of around 5% after years of premium erosion. Nevertheless, the property insurance lines also posted appreciable growth, boosted in particular by comprehensive homeowners insurance. General liability lines, on the other hand, were under considerable competitive pressure – especially in commercial and industrial business.

Non-life reinsurance: Breakdown of gross written premium in Germany by line of business



The loss experience in the year under review was considerably less troubled than the previous year. In the absence of large natural perils events, such as the hailstorms of 2011, motor own damage insurance saw an appreciable decline in the number of claims. This factor, in conjunction with the premium hikes that were obtained, served to improve the combined ratio, although it is still not adequate. The situation in motor liability insurance was more favourable: including the run-off of claims from prior years, it was possible to bring the combined ratio here back below 100% for the first time. While the average expenditure per claim was higher at around EUR 3,500, this increase was significantly less than the rise in premium.

The industrial property insurance lines were again the scene of fierce competition in the year under review. In addition, sizeable major losses were incurred in the chemical industry, which appreciably impacted industrial fire and fire loss of profits insurance. A number of mid-sized fire losses were also reported.

Contrary to the stagnant premium volume in the market as a whole, the personal accident insurance business in our portfolio posted vigorous growth, as a consequence of which we were once again highly satisfied with the development of this line. In this area we offer our cedants not only reinsurance covers, but also services such as training programmes and a Web-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. Not only that, we offer comprehensive services for the management of bodily injury claims as well as enhanced accident products on the pricing side.

The claims situation in the engineering lines was satisfactory in the 2012 financial year. Despite its highly international orientation overall, engineering business is exhibiting growing potential domestically too – especially in the field of renewable energies: we work together here with our partners on solutions that enable the insurability of energy-efficient technologies. Through our cooperation with a primary insurer we have brought to market covers against weather-related losses of revenue and profit; 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 true not least of highly complex offshore wind farms. Our premium volume in this new area of business is still relatively modest given the difficulty of assessing the risks.

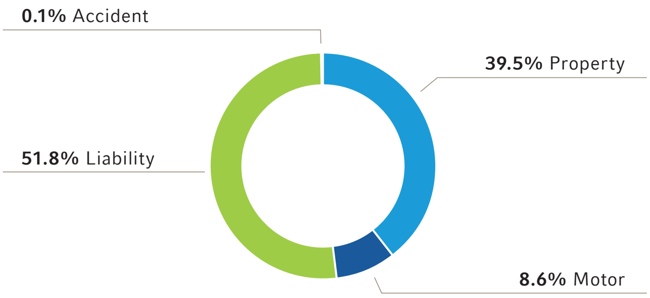
Overall, we cemented our position as one of the leading reinsurers in the profitable German market in the year under review. Gross premium volume increased by 2.9% (6.5%), leaving us thoroughly satisfied with developments on our domestic market.

North America

The North American (re)insurance market is the largest single market both worldwide and for Hannover Re. Our business is written through brokers.

The economic environment for our clients in North America was broadly advantageous in the year under review. Insured values continued to grow and premiums increased. For many of our clients the rise in premium volume points the way forward and puts in place the foundation for further positive earnings trends. Yet the continued low level of interest rates was an adverse factor, as was the so-called "Superstorm Sandy" loss event in the fourth quarter of 2012. Returns on equity in the primary insurance market consequently only came in around 4% to 6% for the fourth consecutive year. In view of these tendencies, the pressure to achieve a combined ratio significantly below 95% mounted on all major risk carriers. The rate increases in the original market that could be observed from mid-2011 onwards gathered momentum in the 2012 financial year. The most appreciable price increases were in industrial property lines and for workers' compensation covers. Nevertheless, the attractive profitability level of the last hard market phase has by no means been achieved as yet.

Non-life reinsurance: Breakdown of gross written premium in North America by line of business



Premium income in the reinsurance market again climbed disproportionately strongly in the year under review. There were scarcely any new market players, while the process of consolidation progressed apace thanks to a number of takeovers. Although capital resources are higher, the market can be described as disciplined.

Against this backdrop Hannover Re boosted its premium income in the original currency by 15% in the year under review; our expectation last year had been just 2%.

Thanks to our excellent credit rating we are a valued partner for our clients, who therefore attach considerable importance to the fact that almost all their casualty placements are submitted to our company. The upgrading of our rating from "A" to "A+" by A.M. Best served to reinforce our clients' trust, enabling us to further enlarge our shares in their reinsurance coverage.

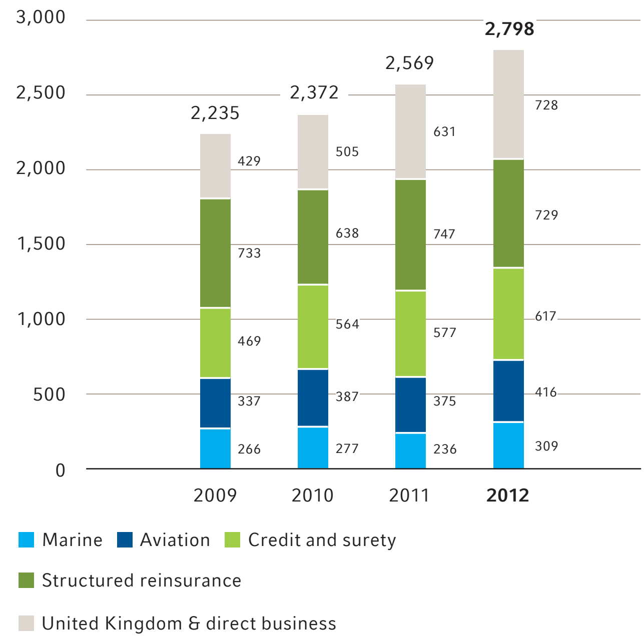
Access to the entire portfolio of our clients and brokers also puts us in a position to optimally diversify our own portfolio. This is illustrated by the following figures: we maintain some 2,500 treaties with almost 600 clients. Time and again our clients voice their considerable appreciation of our broad product range and our willingness to participate in all lines as long as the price is commensurate with the risk. As a result, for more than ten years now relevant surveys have regularly ranked us as number 1 in the broker market.

Responding to an improved pricing climate, we further expanded our business in the year under review. We succeeded in doing this despite the fact that many insurers increased their retentions. In property lines, we achieved rate increases averaging between 5% and 10% in the catastrophe sector and in per risk reinsurance. On the casualty side prices rose in virtually all lines – for the second year in succession in workers' compensation business.

Hannover Re is also active in agency business. Both in the United States and Canada we have significantly expanded this segment with the aid of our Group companies and their extended licences.

The major loss situation in the 2012 financial year was crucially dominated by Hurricane Sandy, which ensured that losses from the hurricane season were not as light as in the previous year. Hannover Re incurred loss expenditure of EUR 258 million from this event. For further information please see the section entitled "Global catastrophe business" on page 41. The combined ratio stood at 102.5% after 110.8% in 2011. Essentially, we are thoroughly satisfied with the result of our business in North America.

Non-life reinsurance:
Breakdown of gross written premium in specialty lines
in EUR million



Specialty lines

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

The premium volume climbed from EUR 2,569.2 million to EUR 2,797.7 million in the year under review. The combined ratio increased slightly from 95.0% to 96.5%. The operating profit (EBIT) for the specialty lines fell slightly short of the previous year at EUR 314.3 million (EUR 327.9 million).

Marine

Hannover Re ranks among the market leaders in marine reinsurance.

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

Market capacities are in some cases exhausted owing to large-volume construction projects in the offshore sector and their considerable risk exposure. Reinsurers, too, are coming up against the limits of their capacity on account of the increases in value associated with existing oil platforms and the high exposures for construction risks arising out of the building of new platforms.

On the claims side the marine line was significantly impacted in the year under review. Particularly important here was the wreck of the "Costa Concordia" cruise ship, which resulted in an insured market loss in excess of EUR 1 billion. The burden from this loss event for Hannover Re amounted to EUR 53 million. Reactions on the original markets to these events were mixed: while hull insurers were restrained in their rate adjustments, very marked price increases are to be expected for Protection & Indemnity (P&I) covers on both the insurance and reinsurance side. We also incurred sizeable losses from Hurricane Sandy.

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

Rates in cargo insurance held stable or slipped back slightly in the year under review. This was also true of marine liability insurance, with the exception of special P&I covers. In view of the heavy losses incurred by reinsurers from shipping accidents, we were able to obtain significant pricing and structural changes for P&I reinsurance arrangements under the loss-impacted programmes effective 1 January 2013. It was also possible in 2012 to push through structural changes in relation to prices and retentions for offshore risks – as a consequence of the incident involving a large FPSO (floating production, storage and offloading) unit as well as a number of smaller loss events.

The underwriting result for our marine business reflects the considerable strains from major losses. The combined ratio consequently rose from 73.6% to 114.8%.

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 continued to stabilise in the year under review. Passenger numbers picked up slightly, which also benefited the (re)insurance industry. With deliveries of new large airliners on the rise, 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 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 as well as to further diversify our portfolio. We successfully achieved these aims.

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. By entering into strategic partnerships we were able to expand our portfolio in aviation reinsurance.

Claims expenditure in the aviation line has benefited from the use of aircraft fitted with state-of-the-art technology. The burden of losses has been below average for three years now. The major loss experience in the year under review proved to be better than expected. The largest single event for our portfolio was a satellite loss, resulting in a net strain of around EUR 9 million for our account.

The combined ratio was virtually unchanged at 81.8% (78.7%).

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 traditional core business of the credit and surety lines.

With economic growth softening across a broad front, the number of insolvencies began to climb again. Whereas two to three years ago loss ratios were still below average, they rose in original business to a level that can be considered average over the cycle. The increase was particularly appreciable in surety business, where market consolidation began to set in either on account of declining earnings or due to overheating of the market. In the area of political risks, on the other hand, claims rates remained stable year-on-year at a good level.

On the reinsurance side there has been a significant capacity surplus since 2009 owing to the sharp improvement in claims rates. All the companies that had scaled back their exposures in 2009 and 2010 have returned to the market. Not only that, more than ten new providers have moved into the credit and surety reinsurance business over the past two years.

In view of the prevailing capacity surplus further expansion of our market share was not a priority. We maintained our position in the credit sector. Only in cases where our required margins were met did we undertake measured expansion of our portfolio. In surety reinsurance our goal was to consolidate existing positions. In contrast to the credit line, we have not continued to enlarge our volume here, as a consequence of which the proportion of surety reinsurance in our total portfolio contracted from around 42% in 2008 to 35% in 2012. In business with political risks we continued the moderate expansion of our portfolio in the year under review.

Losses incurred in the year under review, including for example the insolvency of a large pharmacy chain in Germany, had a stabilising effect and served to minimise rate erosion. There were also indications that the decline in rates, especially in credit business, has at least been halted. In some countries, such as Spain and Italy, and in certain branches of industry that are under strain, rate increases could already be observed.

All in all, we are satisfied with developments in credit and surety reinsurance and in political risks business. The premium volume grew modestly in the year under review.

The combined ratio nudged slightly higher in the 2012 financial year from 87.7% to 90.4%.

Structured reinsurance/Advanced Solutions

Hannover Re is one of the two largest providers of structured reinsurance solutions in the world. Such products are designed, among other things, to reduce and optimise the cost of capital for our ceding companies. Thanks to our many years of experience and our actuarial, balance sheet, accounting and underwriting expertise, we were once again a sought-after partner in 2012 for innovative and tailored reinsurance solutions.

Demand for alternative reinsurance covers remains lively. This is prompted by the more exacting requirements placed on the capital resources of insurers in Europe as part of the preparations for adoption of Solvency II as well as by the implementation of risk-based capital requirements in various countries around the world. This trend includes aggregate excess of loss covers, which protect the net retention of our clients against significant loss scenarios with a low probability of occurrence.

The 2012 financial year was another successful one for our company. We boosted our volume and enlarged our customer base. We pressed ahead with our strategy geared to further regional diversification of our portfolio.

There were no major losses with a significant impact on our portfolio. We are satisfied with the result achieved for our alternative solutions business in the year under review.

Insurance-Linked Securities

Demand for ILS products on the capital market and among investors from the traditional reinsurance and primary insurance market remained unabated. Thus, for example, we were able to increase our "K" quota share – a modelled quota share cession consisting of non-proportional reinsurance treaties in the property, catastrophe, aviation and marine (including offshore) lines that we have placed inter alia on the ILS market for almost 20 years – by around USD 20 million for 2012 to USD 350 million.

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, the prices for which moved slightly higher at the beginning of the year under review in expectation of a lively US hurricane season. However, they softened sharply again in the course of the year for demand reasons and on account of the moderate – leaving aside "Superstorm Sandy" – hurricane season. While Sandy prompted price increases for US catastrophe bonds, it had little effect on the rest of the market.

The volume of new issues in the year under review was stable relative to the previous year; an increase had originally been anticipated. However, uncertainty surrounding the development of the Hurricane Sandy loss event resulted in fewer new instruments being brought to market at the end of the year than had been initially anticipated.

The year under review brought another strong inflow of cash into the ILS market. Investors find this market interesting because it has scarcely any correlation to the other risks associated with the traditional capital market, such as interest rate risks, and it therefore promotes diversification of asset portfolios. The available funds comfortably exceed the opportunities for new investments in catastrophe bonds. This prompts investors to search for further investment possibilities in the reinsurance sector, for example by way of industry loss warranties and collateralised reinsurance programmes. In the latter case the investor assumes reinsurance risks that are normally collateralised in the amount of the limit of liability.

Through its product range Hannover Re enables investors to enjoy optimised and customised access. We substantially expanded our collateralised reinsurance business in the year under review. In addition, we played a successful part in structuring a catastrophe bond for Japanese earthquake risks with a volume of USD 300 million.

Our premium volume in the area of insurance-linked securities rose sharply in the year under review. Profitability was pleasing.

United Kingdom, London market and direct business

Traditional reinsurance

We are satisfied with the business that we write in the United Kingdom and on the London market. Particularly attractive market conditions opened up to us in non-proportional motor reinsurance. With US and Bermudan players partially withdrawing owing to changes in accounting requirements, capacity for middle and higher layers contracted. Rates consequently climbed sharply. We used this as an opportunity to substantially expand our portfolio.

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 Company Limited, a subsidiary of Hannover Reinsurance Africa Limited, we write direct business that complements our principal commercial activity as a reinsurer. This essentially involves acceptances concentrated on tightly defined portfolios of niche or other non-standard business.

In 2012 the state of the UK economy again failed to show any significant improvement on the previous year. For the reinsurance industry it was another year of fierce competition. Owing to reduced spending on infrastructure projects, covers for risks in the construction industry were particularly hard hit. Yet this was also true of professional indemnity insurance, aviation insurance, motor insurance and property lines. Still, market conditions in individual segments varied. Rate increases were obtained, for example, for policies with natural catastrophe exposures and in the area of commercial motor insurance.

After appreciable price increases in the previous year, premiums in private motor business lost momentum in the year under review – prompting us to scale back our premium volume in this sector. In industrial property business our involvement is concentrated on mid-sized clients, since in these cases we are able to exert a stronger influence on the structuring of the programmes.

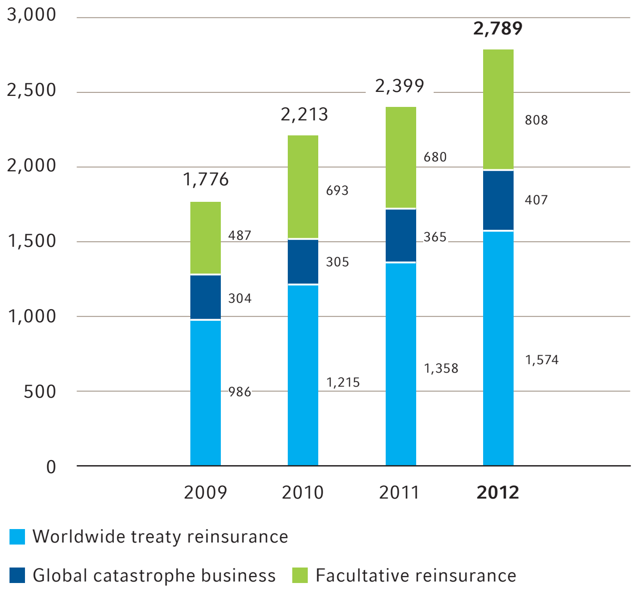
Our second company writing specialty lines, Compass Insurance Limited, is one of the leading players in this field in South Africa. The year under review was one of unusually heavy losses for the company. In addition to several hailstorms, a blaze destroyed more than 100 thatched homes in a residential area and caused considerable losses for the local insurance industry. We were also impacted by this event because one of our local partner underwriting managers has specialised in thatched houses. The resulting loss expenditure for our account amounted to EUR 10.4 million.

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 global catastrophe business, facultative reinsurance, the reinsurance of agricultural risks and Sharia-compliant retakaful business.

The premium volume grew by 16.1% in the year under review to EUR 2,788.7 million (EUR 2,398.7 million). The combined ratio retreated from 112.3% in the previous year – which had been impacted by exceptionally heavy loss expenditure – to 90.9%. The operating profit (EBIT) surged from EUR 19.2 million to EUR 507.1 million.

Non-life reinsurance:
Breakdown of gross written premium in global reinsurance
in EUR million



Worldwide treaty reinsurance

Western and Southern Europe

In France there has been no easing in the intensity of competition. Faced with this challenging market climate, our strategy is to preserve the profitability of our portfolio through a selective underwriting policy. We were largely successful in accomplishing this goal in the year under review.

Our underwriting policy remains concentrated on the casualty sector, especially medical malpractice. 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.

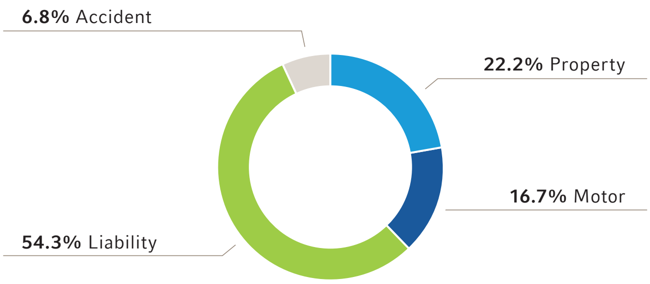
We slightly increased our premium volume in France.

The primary insurance market in the Netherlands was notable in the year under review for further mergers between smaller companies. Yet more sizeable providers – who received government assistance during the financial crisis – are also up for sale. Overall, clients purchased less reinsurance protection. In some lines, such as motor business, we were nevertheless able to enlarge our market share and expand our premium volume.

Covers for major risks such as natural catastrophes continued to attract growing demand. The stimulus here was provided by the more exacting requirements placed on risk management systems in connection with the preparations for Solvency II. Against this backdrop, rates for catastrophe business rose.

In contrast to the previous year, the loss situation on the Dutch market was moderate and we were therefore able to improve the result of our business.

Non-life reinsurance: Breakdown of gross written premium in global reinsurance by line of business



Northern Europe

The markets of Northern Europe are served by our branch in Stockholm. Thanks to the reinsurance capacities that we are able to offer as well as our very good ratings, we are one of the most prominent providers of reinsurance coverage in this region.

Whereas the previous year had been overshadowed by several natural disasters, the year under review was spared major losses for our company. All in all, we are satisfied with the development of our business in the markets of Northern Europe. Reinsurance rates were broadly stable, with price increases attainable under loss-impacted programmes. Our portfolio remained stable.

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. As a result, competition remains fierce and original rates are declining in most countries and lines of business. On the reinsurance side, by contrast, rates and conditions were by and large stable.

Hannover Re regards the countries of Central and Eastern Europe as strategic growth markets. As forecast, we booked double-digit growth in premium income here in the 2012 financial year.

In the 35 countries of Central and Eastern Europe we rank among the three largest providers of reinsurance protection. We quote business in all lines and markets. Our underwriting policy remains opportunistic, i. e. we are guided by the relevant profitability considerations. In the case of loyal clients, we are willing to extend our margin requirements over a longer period of time.

The 2012 financial year passed off successfully for our company, with rates reflecting the associated risks. Thanks to our selective underwriting policy and a favourable loss experience we were again able to generate satisfactory margins in the year under review.

Latin America

Hannover Re is well-positioned in Latin America and a market leader in some countries. The most important markets for our company are Brazil – where a study found us to be one of the three most highly regarded reinsurers –, Mexico, Argentina, Colombia, Venezuela and Ecuador.

Latin American markets have enjoyed very vigorous growth in recent years. The Brazilian government, for example, again implemented a number of programmes in 2012 to stimulate the economy – including cutting taxes on new vehicle purchases. With an eye to the two upcoming major sporting events, namely the FIFA World Cup in 2014 and the 2016 Olympic Games, the country is investing heavily in its infrastructure and in power generation. These growth incentives continued to fan rising demand for (re)insurance covers in the year under review.

We ensure close business ties with our clients through our representative office in Brazil. We operate in this market as an "admitted reinsurer". Although competition here is intensifying, this did not adversely affect our business. Thanks to our excellent financial standing we are a highly valued partner, especially for casualty covers. In view of the attractive opportunities we continued to expand our portfolio in this line and in motor business. No major losses were incurred in the year under review; the loss ratio came in lower than in the previous year and an improved result was posted for 2012.

New supervisory regulations introduced in Argentina placed limitations on the business opportunities available to foreign reinsurers that do not have a local branch. As a result, companies such as Hannover Re are now only able to assume covers for local reinsurers. We exceeded our target of preserving 70% of the existing portfolio in the year under review. We boosted our premium volume in Central America, Chile and the Caribbean. The most attractive line in these Latin American markets continues to be casualty business.

Owing to the limited scope to transact business in Argentina, our total premium volume in Latin America contracted in 2012. No major losses were incurred in the year under review. All in all, we are satisfied with the development of our business in Latin America.

Japan

For Hannover Re Japan is an important market – one in which business relations are traditionally of a long-term nature. Our relationships with clients became even closer as a consequence of the commitment that we showed to our Japanese cedants in the aftermath of the devastating earthquake of March 2011.

Along with catastrophe covers we transact our business in Japan across all lines of property and casualty insurance; especially in casualty business and in personal accident insurance, we enjoy a leading position. Having been heavily impacted by the earthquake and subsequent tsunami in the previous year, the Japanese market was spared major losses in the year under review.

Following on from already marked increases in 2011, rates again surged sharply higher in the aftermath of the earthquake. Since the flood events in Thailand had also inflicted sizeable losses on Japanese insurers, covers for flood risks similarly showed significant price increases. Overall, rates and conditions moved in a very favourable direction across most lines of business.

The premium volume for our portfolio in Japan grew appreciably in the year under review. Results were thoroughly satisfactory.

Southeast Asia

Hannover Re's main markets in Southeast Asia are Malaysia, Thailand, the Philippines, Indonesia and India. 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 low-income individuals to purchase insurance protection. This market has grown particularly strongly in India.

Given the ever-greater importance attached to risk-based models and the requirements placed on insurers' capital resources in Southeast Asia, ceding companies prefer to approach reinsurers with very good ratings for placement of their reinsurance covers. Against this backdrop, demand continued to grow in proportional motor business.

Our goal was to reduce the proportion of catastrophe business and to regroup the portfolio away from treaty reinsurance and more heavily towards facultative coverage concepts. We successfully accomplished this objective. Vigorous growth was recorded in Thailand, where prices rose sharply owing to the severe floods of 2011. Conditions here also improved significantly. Limits of liability were implemented in proportional treaties across virtually all markets.

Prices in other regions remained stable, however, albeit on a level commensurate with the risks.

The development of our business in Southeast Asian markets was highly satisfactory. Our premium volume rose sharply in the year under review. In contrast to the previous year, no major losses were incurred in 2012, enabling us to generate a thoroughly pleasing result.

China

The pace of the Chinese economy's growth slowed appreciably in the year under review. Nevertheless, at around 15% growth rates in the insurance industry were still strong. In view of the relatively low insurance density as well as more stringent requirements governing the capital resources of insurance companies, we anticipate further vigorous growth here in the years ahead. With this in mind, all major reinsurers consider this country to be a target market – prompting an oversupply of reinsurance capacity in many lines of business.

Overall, business developed satisfactorily in the year under review. Conditions remained broadly stable and the major loss experience was unremarkable. Against this backdrop we booked a satisfactory underwriting result.

The dominant line in China continues to be motor insurance. Impending deregulation in this area – which means that foreign companies too will now be able to offer their own tariffs – is likely to result in softer market conditions in the profitable motor line. 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 close support given to clients by our branch in Shanghai.

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

Australia / New Zealand

Hannover Re still ranks third in the Australian and New Zealand non-life reinsurance market. We write the entire spectrum of reinsurance in this region. For more than 25 years Hannover Re has been represented by a branch in Sydney, at which we have concentrated all our treaty reinsurance activities since November 2012. Our offerings in Australia are complemented by a primary insurance licence held by our subsidiary Inter Hannover.

Following on from 2011, which was a year of heavy losses for Australia and even more so for New Zealand, no major losses were recorded in the year under review. As a consequence of the strains incurred in the previous year, appreciable rate increases and improvements in conditions were observed for catastrophe covers in 2012. Prices in the casualty sector remained unchanged.

All in all, we are satisfied with the development of our portfolio in Australia and New Zealand. Our premium volume increased in the year under review.

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.

The economic development of this region was more muted than in previous years, although it began to pick up again from the second quarter onwards. The primary insurance market was highly competitive, exacerbating the pressure on rates. On the reinsurance side new players forced their way into the markets with additional capacities. Prices for non-proportional motor and catastrophe business were particularly hard hit by this excess supply.

Hannover Re is strongly positioned in the Islamic world. The largest single market for our company continues to be Saudi Arabia, followed by Malaysia. Our strategy is to generate further profitable growth. The premium volume in treaty reinsurance climbed more than 10%, driven principally by extensive government spending on infrastructure and construction projects. In facultative reinsurance growth rates for property lines were even higher. On the other hand, prices for casualty covers fell sharply in a fiercely competitive environment. Nevertheless, we successfully maintained the leading position in our most important markets without neglecting our profitability requirements.

The otherwise exceptionally vigorous premium growth was curtailed by various special effects in the year under review. These included the slowdown in economic growth associated with the Arab Spring and the termination of business relations with Syrian companies as sanctions entered into force. Despite this, further dynamic expansion is to be anticipated in retakaful business. Since 2009 we had enjoyed an average growth rate of around 25%.

The loss situation in the year under review was satisfactory. The largest single loss was a fire at a shopping centre in Qatar's capital city. The resulting strain for our company was in the mid-single-digit million euros.

Agricultural risks

Demand for the insurance of agricultural land and livestock continues to grow, especially in view of a steadily rising need for food and the effects of climate change. This is especially true of developing countries, where micro-insurance programmes – which protect individuals with minimal financial means against crop failures – are taking on added importance. Given the expanding premium volume written by primary insurers, the premium for reinsurance covers also increased worldwide. Hannover Re is one of the largest reinsurers of agricultural risks.

The focus of our underwriting policy in 2012 was on further optimising our portfolio. We systematically scaled back our shares in cases where we no longer considered the rates to be commensurate with the risks. In addition, we are working towards even more balanced diversification of our portfolio – both in terms of the geographical spread and the breakdown by lines of business. In this respect we are stepping up our involvement in livestock covers. The premium income for our total portfolio increased once again in the year under review.

The year under review brought heavy losses for business with agricultural risks. Most notable was the catastrophic drought in the United States, which caused enormous damage to the farming sector. Our result, too, was impacted by this loss event in an amount of EUR 43 million.

The loss events that occurred in the agricultural risks sector will – as was already the case last year – lead to rate increases and improved conditions.

Global catastrophe business

The bulk of Hannover Re's catastrophe business is written out of Bermuda, which has established itself as the worldwide centre of competence for this line. Our financial strength and excellent ratings have made us a preferred and sought-after partner for ceding companies and brokers for quite some years now.

All in all, we are satisfied with the development of catastrophe reinsurance. Responding to the heavy losses incurred in 2011, rates showed a very promising trend in the renewals as at 1 January 2012. We were able to secure appreciable price increases, particularly for loss-impacted programmes. This tendency was sustained as at the 1 April 2012 renewal date. It was only as the year progressed that the price increases began to lose impetus. Although this was principally applicable to North America, original rates here continued to move clearly higher.

The rate increases on the reinsurance side were driven in part by the losses incurred in the previous year but also by adjustments made to natural catastrophe models.

After the two previous years had seen exceptionally heavy losses, the 2012 financial year essentially passed off moderately for the worldwide (re)insurance industry; this was especially true of the first six months. Nevertheless, small to mid-sized loss events were recorded, including for example the earthquakes in Italy and hailstorms in the United States. Other events were for the most part carried by primary insurers in their retentions. In contrast to early expert assessments, Hurricane Sandy in the US took a substantial toll on the insurance industry: the market loss is put at more than USD 20 billion. The net strain from Sandy for Hannover Re's account totalled EUR 258 million.

Our strategy for underwriting catastrophe business remained largely unchanged in the year to review.

We are satisfied with our result in global catastrophe business. The combined ratio improved to 50.9% after 119.4% in the previous year. Our gross premium volume grew by 11% in the year under review to EUR 407 million (EUR 364 million).

Facultative reinsurance

In contrast to obligatory reinsurance, 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.

In view of broad-ranging demand for facultative covers, we made the most of the available business opportunities in the year under review to generate further profitable growth. We continued to optimise our portfolio structure and withdrew from business segments that did not meet our criteria. The latter include a number of casualty lines such as professional indemnity for lawyers and medical malpractice covers.

In the United States we scaled back our motor liability portfolio and increased the share of agency and niche business. We also stepped up our involvement in personal accident insurance. With market conditions broadly stable, we successfully boosted our premium volume in the US.

For the most part, we are similarly satisfied with the development of our business in Latin America. This market is served primarily from our office in Bogotá. Although in some markets we have withdrawn from casualty covers with exposure to basic losses, we were able to enlarge our premium volume overall in Latin America. We also grew in Central Europe, where we are confident of further good business opportunities going forward.

For years Hannover Re has been active in sports insurance – a sector which encompasses not only disability coverage for professionals engaged in a broad range of sporting careers but also liability and cancellation covers for large sporting events. In the year under review – with perfect timing for the European Football Championship – we wrote the lead share in the coverage taken out by FIFA for footballers playing on their national team. Clubs receive financial compensation if one of their players misses games after being injured playing for their country. This innovative insurance solution closed the previous gap in coverage existing between club sides and national teams.

As was also the case in the traditional reinsurance sector, rate increases in facultative business were attainable in those markets that had seen heavy losses in the previous year – such as Thailand or Japan.

Appreciable price increases could generally be obtained in the energy sector, especially in the mining industry.

The 2012 financial year was essentially spared major losses. Even Hurricane Sandy failed to have any dramatic repercussions on our facultative portfolio. The result for our facultative business was satisfactory.

Premium volume rose slightly as planned in the year under review.

Life and health reinsurance

The business model

As one of the five largest, internationally operating and established life and health reinsurers we offer our clients worldwide reinsurance protection in all lines of life and health insurance. With 23 units in 19 countries, we have an outstanding international network at our disposal and are present on all five continents.

Our operational market cultivation is organised into seven regional and three worldwide business centers. Hannover, Ireland and Bermuda are the main risk carriers in life and health reinsurance, ensuring efficient capital utilisation that benefits from the diversification effects of a broadly spread risk profile. We put special emphasis on our expertise in the longevity sector; for this reason we have set up a stand-alone "Longevity" Business Center in Hannover with global responsibility so as to concentrate the indepth experience that we have gathered worldwide over several decades. In order to cater even better to the considerable potential offered by Asia we have also created an "Asia" Business Center, which is extensively supported by our local offices.

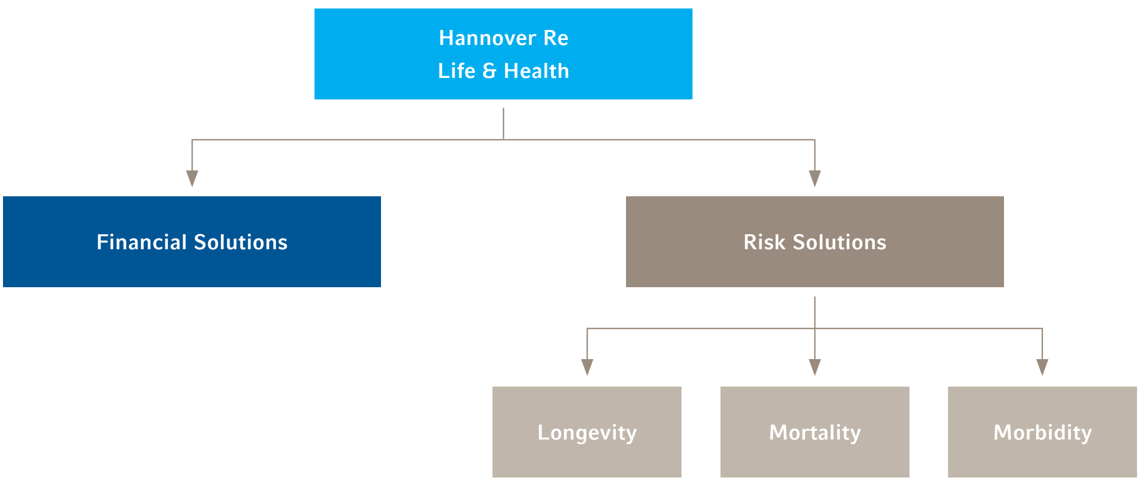
Our business model is geared to current market conditions and customer needs, and is therefore subject to change over time. As a first step, therefore, we have refined our reporting structure and are henceforth dividing the business into Financial Solutions and Risk Solutions; further differentiation is made between Longevity, Mortality and Morbidity under the umbrella of Risk Solutions.

Financial Solutions covers all treaties in which the primary emphasis is on financing or capital management components. Reinsurance treaties focused first and foremost on the transfer of mortality risks are allocated to the Mortality category. Allocation to the Longevity and Morbidity categories is similarly determined by the underlying risks. In this context, Morbidity encompasses not only health business but also other "survival risks" such as disability and critical illness. This means that the reporting structure now puts the focus on the individual risk types.

Our clients value us not simply as a financially strong partner but also because of our customer orientation and flexible service. Customer needs are diverse and extremely varied in their nature. These needs range – along with conventional business – from financially oriented solutions through ideas on how to optimise their risk management to manifold forms of reinsurance service, including for example innovative product concepts, underwriting systems, actuarial research studies and seminars.

Thanks to our decentralised approach, our employees are available directly on the spot and are equipped with superb knowledge of the local (re)insurance market. They are usually native speakers closely familiar with the region's culture. This local market know-how combined with our worldwide expertise enables us to deliver individually tailored and comprehensive customer support.

Life and health reinsurance: New reporting structure



Business development

Life insurers, too, are finding themselves increasingly affected by the economic climate and general legal environment. On the international financial markets investors struggled above all with the protracted low level of interest rates. The dominant topics in Europe continued to be the debt crisis and the new capital requirements for insurers that are to be implemented with Solvency II.

Initially planned for 2013, the adoption of Solvency II continues to be delayed, prompting debate as to whether uncontroversial parts of the new capital rules – such as those relating to risk management and reporting requirements – should be implemented earlier on a gradual basis in the intervening period. We have engaged intensively with all areas of the new Solvency II requirements and we believe that we and our clients are well prepared for their implementation. Going forward, we will be at our clients' side as an expert partner to assist them with individual reinsurance solutions.

Markets in the United States, United Kingdom, Germany, France and Australia continue to play a pivotal role for our company. In the US we remain focused first and foremost on the areas of mortality solutions and senior markets, together with financial solutions business – which enjoyed particularly vigorous growth in the year under review. In European markets we have concentrated increasingly on the area of longevity, retirement provision and long-term care, in which growing demand is evident.

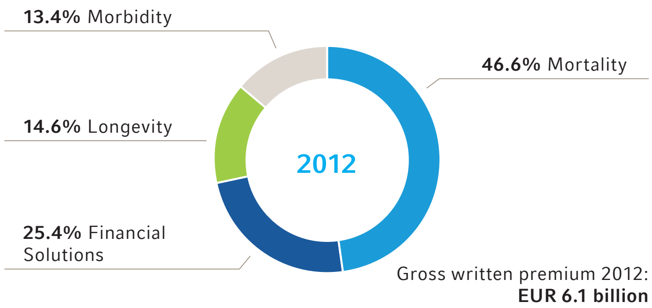
We continued to successfully expand our involvement in emerging markets. In this regard, we stepped up our activities above all in Central and Eastern Europe, Asia and Latin America and achieved pleasing portfolio growth.

Development of premium income

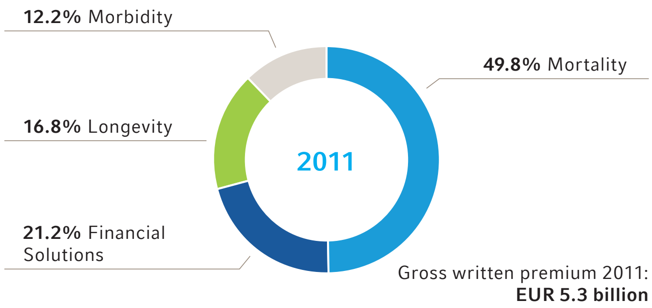
Gross premium income in the financial year just ended amounted to EUR 6.1 billion (EUR 5.3 billion). This represents a pleasing increase of 14.9%. Adjusted for exchange rate fluctuations, growth would have come in at 9.8% – hence comfortably beating our target of premium growth in the range of 5% to 7%. With net premium earned standing at EUR 5.4 billion (EUR 4.8 billion), our retention retreated slightly to 89.3% (91.0%).

Our Mortality business contributed the bulk of gross premium at EUR 2,824.6 million (EUR 2,623.6 million). The considerable strategic importance that we attach to Financial Solutions business is borne out by the premium volume of EUR 1,536.6 million (EUR 1,117.6 million). Premium of EUR 883.6 million (EUR 884.9 million) was booked in the Longevity sector in the year under review. Morbidity business generated gross premium of EUR 813.0 million (EUR 644.1 million).

Life and health reinsurance: Breakdown of gross premium by risk types



Life and health reinsurance: Breakdown of gross premium by risk types



Development of results

In view of the range and broad diversification of our portfolio, our result is subject to numerous influencing factors. In this context, the experience of the biometric risks of mortality, longevity and morbidity is one of the most significant. Rather along the lines of 2011, our risk experiences in the financial year just ended were shaped by contrasting effects. Our US portfolio fell short of our expectations owing to increased claims payments for major risks. The business is also impacted by elevated suicide rates, which peaked between 2008 and 2009 during the financial crisis and have since been falling. From a global perspective, the claims experiences were within the bounds of our expectations and indeed in some markets – most notably in Europe – biometric risks actually developed better than forecast.

In the case of reinsurance treaties geared towards prefinancing arrangements, the client-related counterparty risk is a vital factor. We therefore attach particular importance to a solid financial position and without exception a good credit standing, as reflected in the rating of our ceding companies. In this way we reduce to a minimum the likelihood of a business partner defaulting. Consequently, there were no adverse effects to report in the year under review.

Our result is further influenced by the following factors:

- risk associated with the persistency of the business in force
- to a modest extent, the investment performance of the assets under own management as well as the reserve deposits with ceding companies
- developments on international capital markets (fluctuations in exchange rates between EUR and the most relevant foreign currencies Australian dollar (AUD), pound sterling (GBP), US dollar (USD) and South African rand (ZAR))
- development of our own administrative expenses

Our active portfolio management ensures that we stay abreast of changes in our portfolio at all times and are able to respond immediately to emerging trends that do not correspond to our expectations.

Our portfolio of assets under own management is subject to appropriate currency and duration matching as well as asset liability management; we also attach considerable importance to the high quality and diversification of our investments. In the US reinsurance market we carry the investment risk associated with securities deposited with ceding companies to cover benefit reserves. The "mark-to-market" measurement of these reserves can give rise to sharp annual fluctuations that are directly reflected in our income statement. A valuation gain in the mid-double-digit million euro range was recognised in the year under review. If the securities perform as planned all valuation gains and losses are, however, entirely reversed upon maturity, which means that – provided there are no insolvency-related defaults – this item has no implications for profit or loss when looked at over the entire duration.

We do not normally carry any investment risk with respect to cedants outside the United States. In this case, a fixed interest rate is usually agreed for the deposited securities across the entire duration – irrespective of movements in market interest rates.

In order to keep exchange rate fluctuations to a minimum, we write most of our reinsurance treaties with ceding companies in the respective local currency and also furnish the required reserves in the individual currencies. In the financial year just ended such fluctuations in exchange rates significantly affected the growth scenario in life and health reinsurance: the extraordinarily strong growth in premium volume and profitability evident at first glance is to some extent normalised by a comparison with the figures after adjustment for exchange rate movements.

Altogether, we booked total investment income of EUR 685.1 million (EUR 512.6 million) in 2012; of this amount, EUR 343.4 million (EUR 188.3 million) derived from assets under own management and EUR 341.7 million (EUR 324.3 million) was attributable to deposits with ceding companies.

We generated an operating profit (EBIT) of EUR 291.1 million (EUR 217.6 million) in the financial year just ended, hence improving the EBIT margin to 5.4% (4.5%).

Key figures for life and health reinsurance

in EUR million	2012	+/– previous year	2011	2010	2009	2008
Gross written premium	6,057.9	+14.9%	5,270.1	5,090.1	4,529.3	3,134.4
Premium deposits	2,001.3	+17.4%	1,704.4	1,617.9	2,331.8	2,181.2
Gross premium incl. premium deposits	8,059.2	+15.6%	6,974.6	6,708.0	6,861.0	5,315.6
Net premium earned	5,425.6	+13.3%	4,788.9	4,653.9	4,078.7	2,784.9
Premium deposits	1,886.0	+16.4%	1,619.7	1,414.7	2,125.9	2,126.9
Net premium incl. premium deposits	7,311.6	+14.1%	6,408.6	6,068.6	6,204.5	4,911.8
Investment income	685.1	+33.7%	512.6	508.2	520.1	245.5
Claims expenses	4,010.9	+20.5%	3,328.6	3,135.8	2,743.0	1,674.7
Change in benefit reserves	529.4	-14.6%	619.7	653.5	563.7	421.3
Commissions	1,098.0	+11.4%	985.8	1,022.8	926.2	743.4
Own administrative expenses	144.1	+10.4%	130.6	118.7	98.3	70.1
Other income/expenses	(37.2)		(19.2)	53.0	107.1	(0.2)
Operating result (EBIT)	291.1	+33.7%	217.6	284.4	374.7	120.7
Net income after tax	230.9	+26.7%	182.3	219.6	298.1	78.3
Earnings per share in EUR	1.91	+26.7%	1.51	1.82	2.47	0.65
Retention	89.3%		91.0%	91.7%	90.7%	89.3%
EBIT margin [1]	5.4%		4.5%	6.1%	9.2%	4.3%

[1] Operating result (EBIT)/net premium earned

The EBIT margins delivered by Financial Solutions and Longevity business of 2.5% and 3.1% respectively beat the target mark of 2.0%. Mortality business also boosted our result with a superb EBIT margin of 10.6%. Morbidity business, which reported an EBIT margin of -4.2%, still has room for improvement. Going forward, it is our assumption that all reporting lines will generate positive results – in excess of the targeted return – and hence play their part in the profitability of life and health reinsurance.

After allowance for non-controlling interests, life and health reinsurance delivered Group net income of EUR 230.9 million (EUR 182.3 million) for the 2012 financial year. Earnings per share came in at EUR 1.91 (EUR 1.51).

Breakdown of regional markets

Germany

We traditionally write life and health reinsurance in the German market through our subsidiary E+S Rückversicherung AG. The focus of our activities here is on life and annuity business. We work closely with our customers to develop innovative insurance concepts that meet the constantly changing needs of this market.

An increasing focus on biometric risks is to be anticipated in the German life insurance market, which continues to be overshadowed by the challenging economic climate in Europe. This trend will be supported by the progressive ageing of the population. In particular, we have observed stronger demand for long-term care and disability covers. Greater awareness of the need to provide for retirement is reflected in the steadily increasing prominence of these products.

The changeover to unisex tariffs in primary insurance business occurred on 21 December 2012. The implications of this reform for policyholders and pricing were difficult to assess in advance. For new contracts taken out in the final months of 2012 many insurers are therefore offering an option to switch to one of the new unisex tariffs. This topic is also a preoccupation for the reinsurance industry, since the conditions in reinsurance treaties are normally aligned with the original rates on the primary side.

France and the Middle East

The business volume written by our life branch in Paris – which bears responsibility not only for France but also for other French-speaking countries and countries in the Middle East – surpassed the EUR 500 million mark for the first time in the year under review. The main growth driver in these regions continues to be protection against biometric risks in the area of consumer and mortgage credit. The quality of this premium volume was borne out by a very pleasing result.

United Kingdom

In the UK life reinsurance market we are an expert and sought-after business partner on account of our long-standing experience and extensive market knowledge. The environment was, however, extraordinarily challenging for the reinsurance industry in the year under review. This can be attributed not only to the high pressure and density of competition, but also to declining sales of traditional risk-oriented products. The development of our portfolio in the financial year just ended was exceptionally pleasing owing to extremely favourable claims experiences, and we are confident of being able to meet future requirements with our selective and targeted underwriting policy.

Longevity

In the Longevity segment the United Kingdom was once again our largest and most important market in the year under review. A pioneer in the field of enhanced annuities and large-volume pensions business, we continue to rank among the market's sought-after business partners. Although the initially brisk pace of growth in the UK market has slowed, further demand still exists – especially in the area of enhanced annuities. This means, among other things, that competition is becoming increasingly fierce as other market players recognise the business potential and force their way into the market.

Beyond the borders of the United Kingdom customers are increasingly taking an interest in longevity solutions. We are already hard at work on establishing the Longevity segment in other markets and countries. Initial enquiries from European neighbours generated positive responses to our quotations.

North America

We serve the North American market with units in Orlando (head office), Charlotte, Denver and New York. In contrast to the general development of the US risk-oriented life reinsurance market, which further contracted in the year under review, we have been able to increase our market share by double-digit percentages over four consecutive years. It is our expectation that this thoroughly positive trend will be sustained in 2013.

Last year Financial Solutions business offered us exceptionally attractive growth stimuli in the field of structured reinsurance products. We support our US clients here with individual reinsurance concepts designed to provide relief for their reserves and capital. In this sector we draw on our considerable expertise and operate as the market-leading provider.

We substantially boosted our premium volume and improved profitability in the financial year just ended. This was due in particularly large measure to the favourable development of the Financial Solutions market. The risk experience in the area of Mortality Solutions, on the other hand, again lagged behind our expectations. The underlying business is impacted by protracted elevated suicide rates, although these reached their highest point between 2008 and 2009 during the financial crisis and have since been falling. The business was also adversely influenced by unusually high expenditures on peak risks.

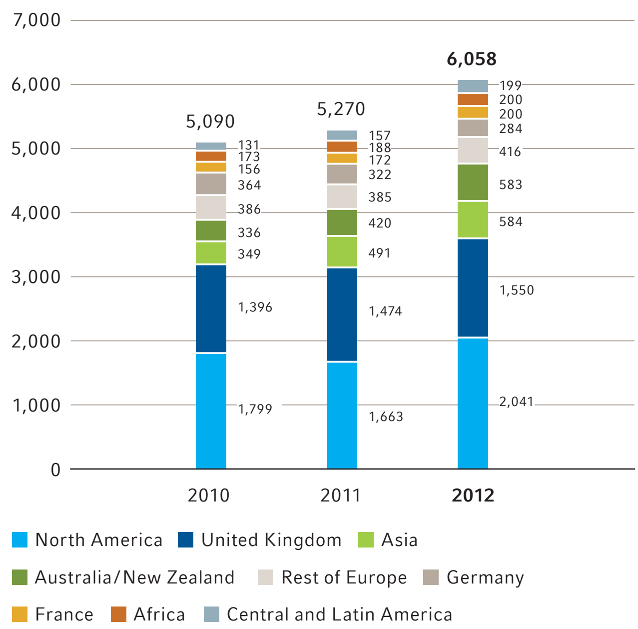
While the result in the previous year had been negatively affected by high valuation losses, the investments deposited with our US ceding companies to cover benefit reserves fared consistently well in the year under review. A valuation gain in the mid-double-digit million euro range was recognised for 2012. These valuation fluctuations are directly reflected in income under the item "unrealised gains/losses on investments". Given that the opposing effects this year virtually cancelled each other out, our net income after tax came in entirely within our expectations. In the year under review we therefore generated a thoroughly gratifying profit after the weak result recorded in the previous year.

Central and Latin America

International reinsurers are increasingly turning the focus of their attention to the reinsurance market in Central and Latin America, particularly due to the upbeat economic development of this region. Demand from local insurers spans a highly diversified product range, extending from traditional life insurance through pension insurance products to accident and health insurance solutions. We have been an established business partner for quite some years now and we have built up good customer relationships. The product diversity described above is similarly reflected in our portfolio, with group life business accounting for the lion's share.

Competition has heated up appreciably over the years as the number of market players increased. We nevertheless boosted our premium volume by almost one-third in the year under review and again improved our profit margin.

Life and health reinsurance:
Geographical breakdown of gross premium
in EUR million



Australia

Business in Australia and New Zealand is written by our Sydney-based life subsidiary. A special feature of our Australian unit is its primary insurance licence. We make successful use of the associated opportunities and have already built up a respectable portfolio of primary insurance. Primary business is an important component of our portfolio in the Australian market, as reflected in the level of premium income. It makes a major contribution to total business, delivering around half of the total premium volume.

In the year under review we generated pleasing double-digit percentage increases in premium income. The principal growth drivers were group covers and direct business. We thus generated gratifying net income after tax and see considerable potential for further growth in the coming year, especially in the primary market and group business.

Asia

Asia represents a promising market for our company going forward, not only due to its size and cultural diversity but also because of the population densities of individual countries and strong economic growth. We serve what is the world's largest continent by area through our local units in Hong Kong, Kuala Lumpur, Mumbai, Seoul, Shanghai, Taipei and Tokyo. Our Hannover-based "Asia" Business Center concentrates and coordinates all activities within this market. This centralised responsibility combines the structured and holistic cultivation of the market with the advantages of our local network.

India offers us promising opportunities most notably through online sales of insurance products and the health insurance market. These positive developments have, however, been put under a cloud by draft new regulations for life reinsurance business. These new requirements heavily restrict the scope available to life insurers for efficient risk management, which will detrimentally impact the (re)insurance industry in the future.

Business in China, Hong Kong and Japan has fared very well thanks to the continuous need for reinsurance solutions in the areas of capital and solvency management. Going forward, we continue to see thoroughly attractive prospects based on sustained strong demand for reinsurance solutions.

In the financial year just ended we systematically expanded our business in Asia by cultivating markets and acquiring new clients. In the Philippines, for example, microinsurance is enjoying particularly brisk demand. Over the past five years alone the number of policyholders there has more than doubled.

In the field of Sharia-compliant reinsurance – so-called retakaful business – we further stepped up our activities in Malaysia and Saudi Arabia.

Africa

Our African subsidiary in Johannesburg has a mandate for all countries south of the Sahara, a region in which it has been an established business partner for many years. Despite the large number of countries served, more than 90% of our premium in the 2012 financial year derived from ceding companies in South Africa. Our focus in this market is on life reinsurance for individual policies, an area in which we are the market-leading reinsurer. In addition, we use our resources to assist start-up companies.

The South African market is generally known for its power of innovation. We actively support our clients with new product solutions and the opening up of new sales channels. In so doing, they are able to benefit from both our local market knowledge and our worldwide expertise. This is something that our existing customers appreciate and is also a key factor in the acquisition of new accounts.

In the financial year just ended we again generated pleasing growth in our gross premium volume. Net income after tax was satisfactory despite sharply increased claims payments in the case of one client. The African market continues to offer favourable growth opportunities going forward and will remain an important reinsurance market for our company. Our goal is to enlarge our portfolio and cultivate new business sectors, especially in countries outside South Africa.

Investments

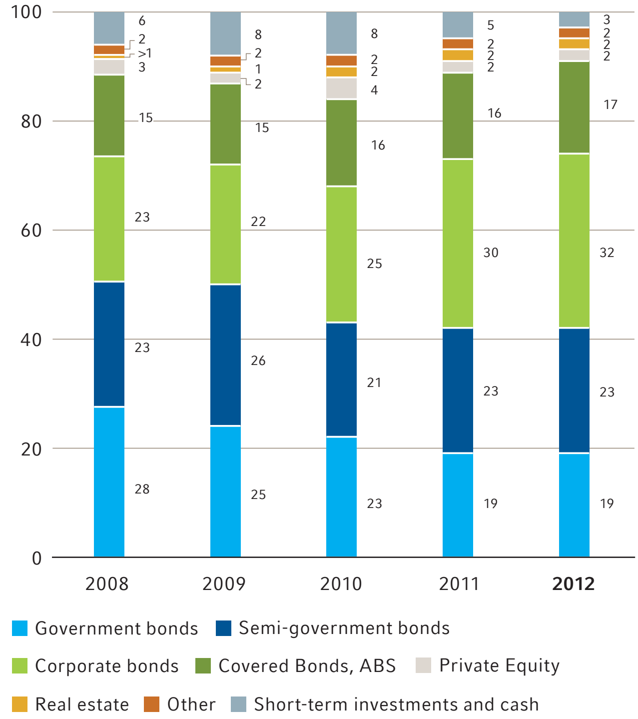
Market development

Capital markets in 2012 remained heavily under the shadow of the euro debt crisis and an expansionary monetary policy was again evident in our principal currency areas. The European Central Bank (ECB) further trimmed the key interest rate for the Eurozone in the middle of the year from 1.00% to its current level of 0.75%, while the US Federal Reserve (Fed) left the US dollar prime rate unchanged in the low range of 0.00% to 0.25%. Over the year US treasuries as well as German and UK government bonds experienced modest falls in yields in the maturity segments relevant to our company, while French government bonds saw more pronounced yield declines in some instances. The return on 10-year German government bonds, for example, fell to a historically low 1.16% as the year progressed and had rallied only slightly to 1.30% by year-end. This yield was facilitated not only by a monetary policy geared to a vigorous supply of liquidity, but also by the investor preference for government bonds of the highest quality. The government bonds issued by most European countries, which had come under increasing pressure in 2011 owing to the inadequate steps taken towards fiscal consolidation, posted gains in 2012. US treasuries also touched historic lows with yields of less than 1.4%. The United States continues to profit from the greenback's status as the global reserve currency and the reputation of US treasuries as a safe haven investment. Risk premiums on European and US corporate bonds also decreased across all rating categories, sometimes appreciably so.

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

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

Breakdown of investments under own management
in %



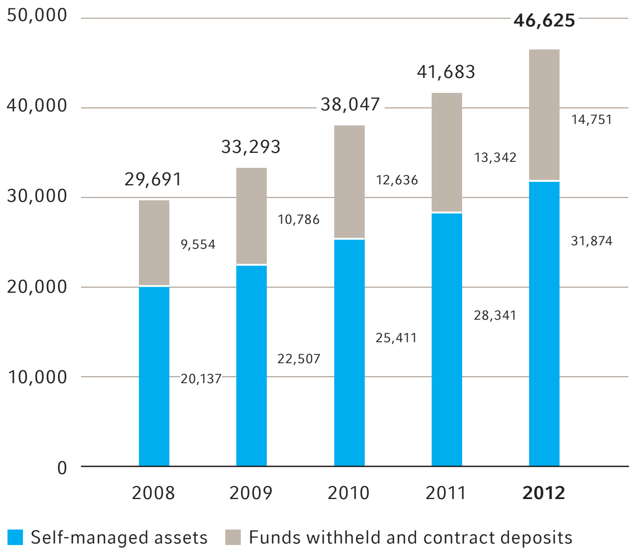
Investment policy

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

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

With these goals in mind we engage in active risk management on the basis of balanced risk/return analyses. In this context we observe centrally implemented investment guidelines and are guided by the insights of dynamic financial analysis. These measures are intended to safeguard the generation of an appropriate level of return while at the same time staying within our clearly defined risk appetite. In so doing, it must be ensured that we are able to meet our payment obligations at all times. Within the scope of our asset/liability management (ALM) the allocation of investments by currencies and maturities is determined by the technical liabilities. The modified duration of our bond portfolio is geared largely to the average maturity of the technical liabilities.

Investments
in EUR million



By adjusting the maturity pattern of our fixed-income securities to the expected payment patterns of our liabilities we reduce the economic exposure to the interest rate risk. In the current reporting period we slightly increased the modified duration of our fixed-income portfolio, as a result of which it reached 4.5 years (4.2 years) as at 31 December 2012. In addition, through active and regular management of the currency spread in our fixed-income portfolio we bring about extensive matching of currencies on the assets and liabilities sides of the balance sheet, as a consequence of which fluctuations in exchange rates have only a limited effect on our result.

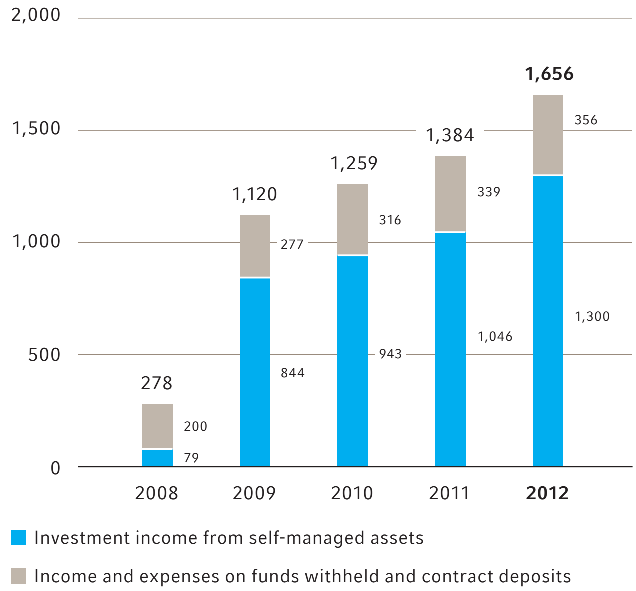
Investment performance

We are thoroughly satisfied with the development of our investments in the year under review. Thanks chiefly to a positive operating cash flow, our portfolio of assets under own management grew to EUR 31.9 billion; this is equivalent to an increase of 12.5% relative to the end of the previous year (EUR 28.3 billion).

Ordinary investment income excluding income from funds withheld and contract deposits comfortably surpassed the previous year at EUR 1,088.4 million (EUR 966.2 million) even though interest rates remained low. This was due principally to the growth in assets under own management, although the substantial expansion of the asset classes of corporate bonds and asset-backed securities over the past two years also played a part here. We have now almost reached the envisaged target allocation in these areas. Income from funds withheld and contract deposits improved on the previous year, rising to EUR 355.5 million (EUR 338.5 million).

Impairments totalling just 21.7 million (EUR 31.0 million) were taken. EUR 5.8 million thereof was attributable to alternative investments, while EUR 2.2 million was taken on equities. Scheduled depreciation taken on directly held real estate amounted to EUR 10.4 million (EUR 9.0 million). These write-downs contrasted with write-ups of EUR 2.7 million (EUR 36.8 million).

Investment income
in EUR million



We recognise a derivative for the credit risk associated with special life reinsurance treaties (ModCo) under which securities deposits are held by cedants for our account; the performance of this derivative in the period under review gave rise to unrealised gains of EUR 51.8 million recognised in investment income. These unrealised gains contrasted with unrealised losses of EUR 55.4 million in the previous year. The inflation swaps taken out in 2010 and 2011 to hedge part of the inflation risks associated with the loss reserves in our technical account produced unrealised gains of EUR 28.0 million (EUR 11.6 million) recognised in investment income. The changes in the fair values of the inflation swaps are recognised in income as a derivative pursuant to IAS 39. Altogether, the unrealised gains on our assets recognised at fair value through profit or loss amounted to EUR 89.3 million, contrasting with unrealised losses of EUR 38.8 million in the previous year.

With a view to protecting our future investment income against the effects of inflation, we took out inflation-linked USD and EUR government bonds – in addition to the inflation swaps – in the fourth quarter in a nominal amount of EUR 605 million.

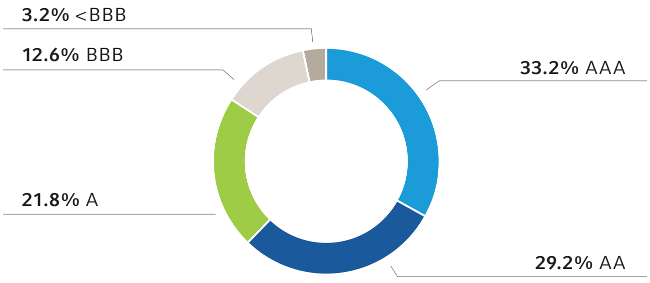
The net realised gain on disposals amounted to EUR 227.5 million (EUR 179.6 million); it derived primarily from regrouping moves out of government bonds and into corporate bonds and asset-backed securities. Additional amounts realised in the area of corporate bonds were due to application of the parameters set out in our Corporate Social Responsibility strategy.

We realised a portion of the considerable increases in value within our US real estate portfolio in the third quarter.

Principally thanks to the further rise in ordinary income, but also due to the increased unrealised gains recognised in investment income, our net investment income clearly surpassed the previous year's level. It stood at EUR 1,300.2 million (EUR 1,045.5 million) in the year under review. This produced an average return for our assets under own management (including effects from derivatives) of 4.3%.

The portfolio of fixed-income securities excluding short-term assets climbed again to EUR 29.0 billion (EUR 25.2 billion). Hidden reserves for available-for-sale fixed-income securities recognised in shareholders' equity totalled EUR 1,144.6 million (EUR 416.1 million). The spread of asset classes shifted as planned towards corporate bonds and asset-backed securities, while the share of short-term investments was reduced. As to the quality of the bonds – measured in terms of rating categories –, the increase in the proportion of corporate debt and asset-backed securities was barely perceptible in a decrease under the "AAA" category. Nevertheless, the proportion of securities rated "A" or better remained stable on a high level as at year-end at 84.2% (86.7%).

Rating of fixed-income securities



Holdings of alternative investment funds increased slightly. As at 31 December 2012 an amount of EUR 566.6 million (EUR 510.1 million) was invested in private equity funds, a further EUR 427.1 million (EUR 430.7 million) predominantly in high-return bond funds and loans and altogether EUR 178.8 million (EUR 162.4 million) in structured real estate investments. The uncalled capital with respect to the aforementioned alternative investments totalled EUR 575.9 million (EUR 451.9 million).

Despite the aforementioned disposals in our portfolio of US real estate, we were again able to slightly increase our real estate allocation in the course of the year. Various properties in Germany and the United States were acquired for this purpose; further projects are under review, and the real estate allocation will therefore keep rising steadily as planned. It currently stands at 2.2% (2.1%).

We held a total amount of EUR 1.1 billion (EUR 1.5 billion) in short-term investments and cash at the end of the year under review. Funds withheld amounted to EUR 14.8 billion (EUR 13.3 billion).

Net investment income

in EUR million	2012	+/– previous year	2011	2010	2009	2008
Ordinary investment income [1]	1,088.4	+12.7%	966.2	880.5	810.5	829.8
Result from participations in associated companies	10.4	+237.3%	3.1	3.9	(5.0)	4.2
Realised gains/losses	227.5	+26.7%	179.6	162.0	113.0	(113.6)
Appreciation	2.7	-92.7%	36.8	27.2	20.1	–
Impairments on investments [2]	21.7	-29.8%	31.0	23.8	142.5	480.4
Unrealised gains/losses [3]	89.3		(38.8)	(39.9)	100.6	(119.7)
Investment expenses	96.4	+37.0%	70.3	67.4	53.1	41.4
Net investment income from assets under own management	1,300.2	+24.4%	1,045.5	942.5	843.6	78.9
Net investment income from funds withheld	355.5	+5.0%	338.5	316.4	276.8	199.6
Total investment income	**1,655.7**	**+19.6%**	**1,384.0**	**1,258.9**	**1,120.4**	**278.5**

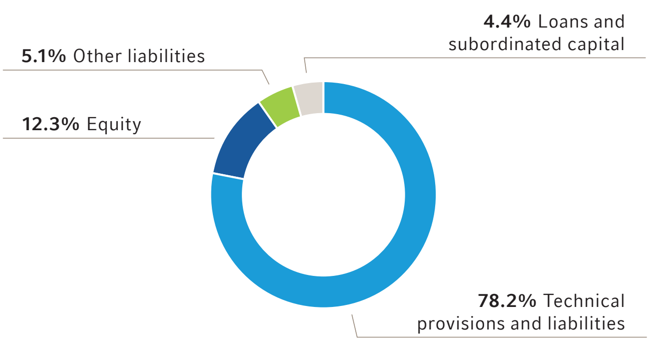
[1] Excluding expenses on funds withheld and contract deposits
[2] Including depreciation/impairments on real estate
[3] Portfolio at fair value through profit or loss and trading

Financial position

Analysis of our capital structure

The overall capital structure of Hannover Re and the composition of our liabilities are heavily determined 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 2012, 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 31.12.2012



The technical provisions and liabilities shown above, which include funds withheld/contract deposits and reinsurance payable, make up 78.2% (80.0%) 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 12.3% (11.2%) of the balance sheet total as well as the loans and – especially – subordinated capital at 4.4% (3.9%) 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 following section "Management of policyholders' surplus".

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 4.5 years (4.2 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 2012 we held 40.4% (39.9%) of our investments in euro, 37.1% (37.4%) in US dollars and 8.2% (7.6%) in pound sterling.

Management of policyholders' surplus

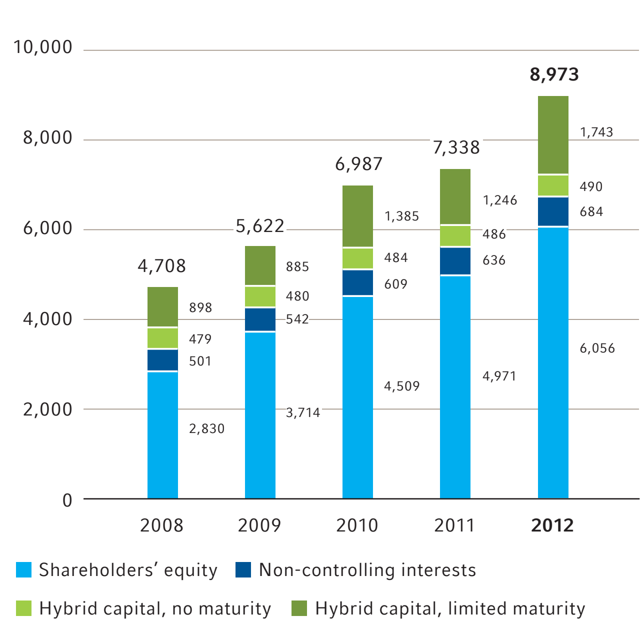
The preservation of its capital is a key strategic objective for Hannover Re. In the 2012 financial year and in recent years hybrid capital was issued as an equity substitute in order to keep the cost of capital on a low level. The policyholders' surplus is a key management ratio in the context of Hannover Re's comprehensive capital management. The policyholders' surplus is defined as follows:

- 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 8,973.3 million (EUR 7,338.2 million) as at the balance sheet date, an increase of 22.3% 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 76 et seq. of this report.

Development of policyholders' surplus
in EUR million



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 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 62 et seq. of the opportunity and risk report.

Group shareholders' equity

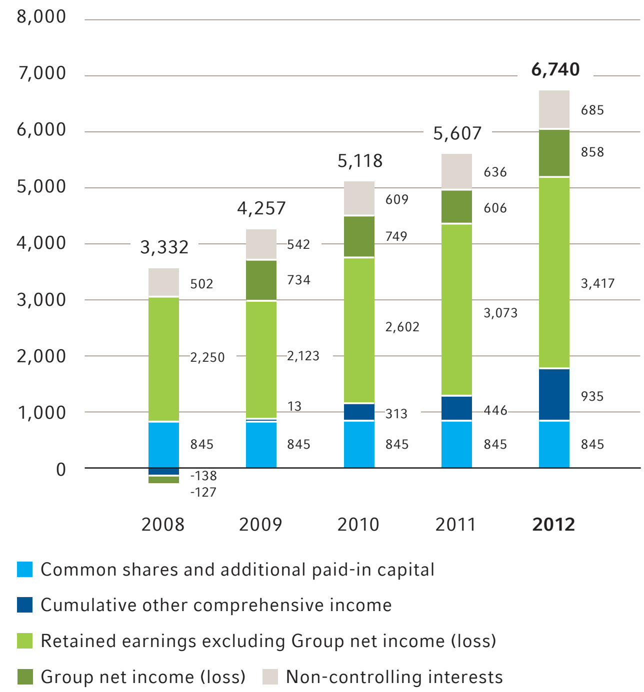
In view of the favourable result, the development of the shareholders' equity of the Hannover Re Group was pleasing. Compared to the position as at 31 December 2011, it increased by EUR 1,133.6 million in the year under review to EUR 6,740.3 million. After adjustment for non-controlling interests, it increased by EUR 1,085.2 million to EUR 6,055.8 million. The book value per share increased accordingly by 21.8% to EUR 50.22. The changes in shareholders' equity were shaped chiefly by the following developments:

Net unrealised gains on investments recognised in the other reserves reached EUR 987.9 million, a figure EUR 534.8 million higher than at the beginning of the year under review. This rise derived, on the one hand, 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. Most significantly, however, the sometimes appreciable narrowing of credit spreads on corporate bonds and asset-backed securities played a considerable part in the rise in hidden reserves, especially in view of the increased holdings of these asset classes in recent years.

The reserve for currency translation adjustment decreased by EUR 27.8 million from EUR 11.6 million to -EUR 16.2 million as a consequence of exchange rate fluctuations of foreign currencies against the euro in the year under review. The fall in the reserve for currency translation adjustment resulted principally from translation of the shareholders' equity of subsidiaries with a foreign functional currency; the depreciation of the US dollar and South African rand and, as an opposite effect, the appreciation of the pound sterling, were particularly significant here.

In addition, a change in equity from hedging instruments had to be recognised directly in equity for the first time in an amount of -EUR 9.5 million; this resulted from forward exchange contracts held in the year under review to hedge currency risks from long-term investments in foreign operations.

Development of Group shareholders' equity
in EUR million



Non-controlling interests in Group shareholders' equity grew by EUR 48.4 million to EUR 684.5 million as at 31 December 2012. This increase was attributable primarily to the non-controlling interests in E+S Rückversicherung AG in an amount of EUR 39.4 million and in Secquaero ILS Funds Ltd. in an amount of EUR 14.5 million. The non-controlling interest in Hannover Re Real Estate Holdings Inc., on the other hand, decreased by EUR 6.6 million.

The Group net income for 2012 attributable to the shareholders of the Hannover Re Group increased to EUR 858.3 million (EUR 606.0 million). The non-controlling interest in the profit generated in the year under review totalled EUR 75.4 million (EUR 70.8 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 2,400.8 million (EUR 1,934.4 million) as at the balance sheet date.

Our subordinated bonds supplement our equity with the aim of reducing the cost of capital and also help to ensure liquidity at all times. In the year under review we issued further subordinated debt with a nominal volume of EUR 500.0 million and a maturity of approximately 30 years. As at the balance sheet date four subordinated bonds had been placed on the European capital market through Hannover Finance (Luxembourg) S.A.

The table below summarises the carrying amounts of our subordinated bonds.

Several Group companies have also taken up long-term debt – principally in the form of mortgage loans – amounting to EUR 167.8 million (EUR 202.8 million).

For further explanatory information please see our remarks in the notes to this report, Section 6.12 "Debt and subordinated capital", page 176 et seq., and Section 6.13 "Shareholders' equity, non-controlling interests and treasury shares", page 178.

Sureties in the form of letters of credit have been furnished by various financial institutions as collateral for our technical liabilities. Both bilateral agreements and an unsecured syndicated guarantee facility existed as at the balance sheet date with a number of financial institutions for this purpose. We report in detail on existing contingent liabilities in the notes, Section 6.12 "Debt and subordinated capital" in our remarks on other financial facilities, page 176 et seq., and Section 8.7 "Contingent liabilities and commitments", page 199.

Subordinated bonds

in EUR million	Issue date	Coupon in %	2012	2011
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 500 million; 2012/2043	20.11.2012	5.00	496.6	–
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 500 million; 2010/2040	14.9.2010	5.75	498.0	497.9
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 500 million; 2005/undated	1.6.2005	5.00	489.6	485.7
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 750 million; 2004/2024	26.2.2004	5.75	748.8	748.0
Total			**2,233.0**	**1,731.6**

Analysis of the consolidated cash flow statement

Liquidity

We generate liquidity primarily 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 116 et seq.

Hannover Re does not conduct any automated internal cash pooling within the Group. Liquidity surpluses are managed and created 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

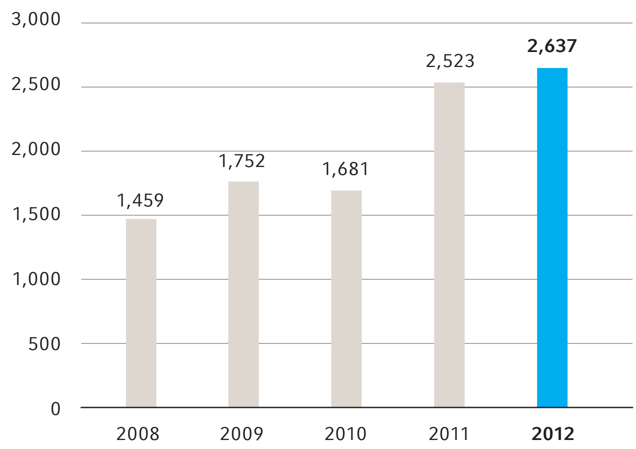
in EUR million	2012	2011
Cash flow from operating activities	2,637.2	2,522.9
Cash flow from investing activities	(2,712.9)	(2,041.3)
Cash flow from financing activities	148.4	(449.9)
Exchange rate differences on cash	(7.4)	0.0
Change in cash and cash equivalents	**65.2**	**31.7**
Cash and cash equivalents at the beginning of the period	507.0	475.2[1]
Change in cash and cash equivalents according to cash flow statement	65.2	31.7
Cash and cash equivalents at the end of the period	**572.2**	**507.0**

[1] Thereof cash and cash equivalents of EUR 27.5 million attributable to disposal groups

Cash flow from operating activities

The cash flow from operating activities, which also includes inflows from interest received and dividend receipts, amounted to EUR 2,637.2 million in the year under review as opposed to EUR 2,522.9 million in the previous year. The principal driver of the higher net inflow year-on-year of EUR 114.3 million (+EUR 286.9 million after factoring out the special effect associated with the Federal Fiscal Court decision in the previous year) – along with the rise in net premium and improved ordinary investment income of EUR 122.2 million – was the increased cash inflow from the protection cover programme for major losses.

Cash flow from operating activities
in EUR million



Cash flow from investing activities

The net cash outflows from investing activities amounted to altogether EUR 2,712.9 million in 2012 and were thus considerably higher than in the previous year. While the proportion of government bonds remained stable overall, holdings of corporate bonds and asset-backed securities of an attractive quality were further expanded in line with the investment strategy. At the same time, the proportion of short-term investments was reduced. Realised returns on real estate produced a cash inflow of EUR 232.9 million. In the same context, new investments resulted in a cash outflow of EUR 315.1 million.

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 increased by EUR 598.2 million from -EUR 449.9 million to EUR 148.4 million. The change was influenced first and foremost by the inflow of funds from the subordinated debt 2012/2043 in an amount of EUR 500.0 million placed on 20 November 2012. The cash outflow in the year under review was due principally to the dividend of EUR 253.3 million paid by the parent company Hannover Re as well as repayment of a long-term debt of EUR 125.2 million by Hannover Re Real Estate Holdings, Inc. Overall, the cash and cash equivalents therefore increased by EUR 65.2 million year-on-year to EUR 572.2 million.

For further information on our liquidity management please see page 75 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+ (Superior)
Outlook	Stable	Stable

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 of Australasia Ltd.	AA-	–
Hannover Reinsurance Africa Ltd.	A-	–
Hannover Re (Ireland) Plc	AA-	A+
Hannover Re (Bermuda) 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.

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. Amendment of the Articles of Association is governed by §§ 179 et seq. Stock Corporation Act in conjunction with § 16 Para. 2 of the Articles of Association of Hannover Re.

The powers of the Executive Board with respect to the issue and repurchase of shares are defined in Hannover Re's Articles of Association as well as in §§ 71 et seq. Stock Corporation Act. In this connection the Annual General Meeting authorised the Executive Board on 4 May 2010 pursuant to § 71 Para. 1 No. 8 Stock Corporation Act to acquire treasury shares 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 6.12 "Debt and subordinated capital", page 176.

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.

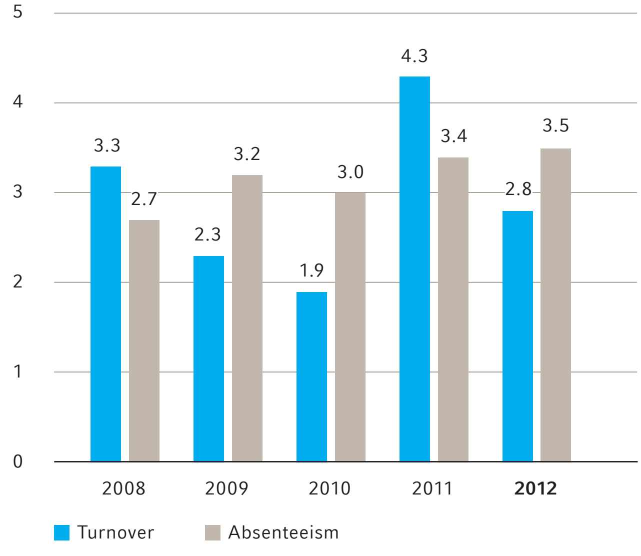
The company has not concluded any compensation agreements with the members of the Executive Board or with employees in the event of a takeover bid being made.

Human resources

Our staff

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

Staff turnover/absenteeism Hannover Home Office
in %



Key personnel ratios

The Hannover Re Group employed 2,312 (2,217) staff as at 31 December 2012. The turnover ratio at Home Office in Hannover of 2.8% was appreciably lower than in the previous year (4.3%). The rate of absenteeism – at 3.5% – was virtually unchanged from the previous year (3.4%). The turnover ratio and rate of absenteeism nevertheless continued to be below the average expected across the industry as a whole.

Diversity management expanded

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

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

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

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

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

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

Management Principles reviewed

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

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

Breakdown of employees by country

	2012	2011
Germany	1,164	1,110
United States	283	279
United Kingdom	186	162
South Africa	164	177
Sweden	86	85
Australia	75	70
China	60	55
France	55	49
Ireland	45	46
Bermuda	41	36
Malaysia	36	34
Bahrain	36	30
Columbia	20	21
Italy	13	13
Korea	9	9
Japan	9	8
India	8	9
Spain	7	7
Canada	4	5
Taiwan	4	4
Brazil	4	4
Mexico	3	4
Total	2,312	2,217

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

Negotiating skills refined

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

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

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

Word of thanks to our staff

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

Sustainability 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 a reliable assessment of present and emerging risks. The topic of sustainability therefore has a direct bearing on the operational activities of Hannover Re. Not only that, sustainability also forms an important part of how we see our business. Our goal is to achieve economic success in conformity with legal regulations and in light of the needs of our staff and the company, while also giving due consideration to conservation of the environment and natural resources. In so doing, our premises of financing growth through self-generated profits and avoiding imbalances that could necessitate capital measures continue to apply unchanged. Our operations are thus guided primarily by profitability considerations and we concentrate on attractive segments of reinsurance business.

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

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

Governance and dialogue

As an internationally operating company, Hannover Re bears responsibility in various senses. This is true of its compliance with relevant laws and regulations, but also applies to its relationship with staff, shareholders, the public at large and the cultural values within which the company operates. As a company based in Germany, the formal framework that shapes our corporate governance is determined by German law. With few exceptions Hannover Re fulfils all the recommendations of the German Corporate Governance Code (DCKG), cf. page 80. What is more, our Code of Conduct serves as a further guide for our day-to-day actions.

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

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

Product responsibility

Our range of reinsurance products and services is geared to the needs of the market and our clients. In response to changing social challenges, new economic, social and ecological risks – known as emerging risks – are increasingly reflected in our risk assessment. Examples include climate change and its impacts on global development (natural disasters, environmental damage, shortage of resources) as well as pandemics and demographic change. We use all internally and externally acquired insights in order to be able to offer better insurance solutions. In so doing, we devote special attention to protecting against risks that result from climate change and providing insurance coverage for socially vulnerable groups in developing countries.

We additionally include the management of our investment portfolio under product responsibility. The goal of our investment strategy is to generate a commensurate market return in the interests of our clients, institutional investors and private investors. In this context we pay attention not only to traditional financial considerations but also to environmental, social and governance (ESG) criteria. Since 2012 our investment policy has been guided specifically by the ten principles of the United Nations Global Compact and thus also factors in aspects relating to human rights, working conditions, the environment and anti-corruption.

Successful employees

The success of our company is directly dependent on the successful work of our staff. We therefore pay special attention to their skills, experience and commitment and we attach considerable importance to outstanding personnel development and management activities. In this context, the compatibility of career and private life for our employees is especially significant. By way of flexible working-time models such as part-time employment and telecommuting as well as flexitime arrangements without core working hours Hannover Re promotes the balance between these two elements.

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

Procurement and environmental protection

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

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

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

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

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

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

Social commitment

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

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

Resources consumed at Hannover Home Office

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

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

Opportunity and risk report

Risk report

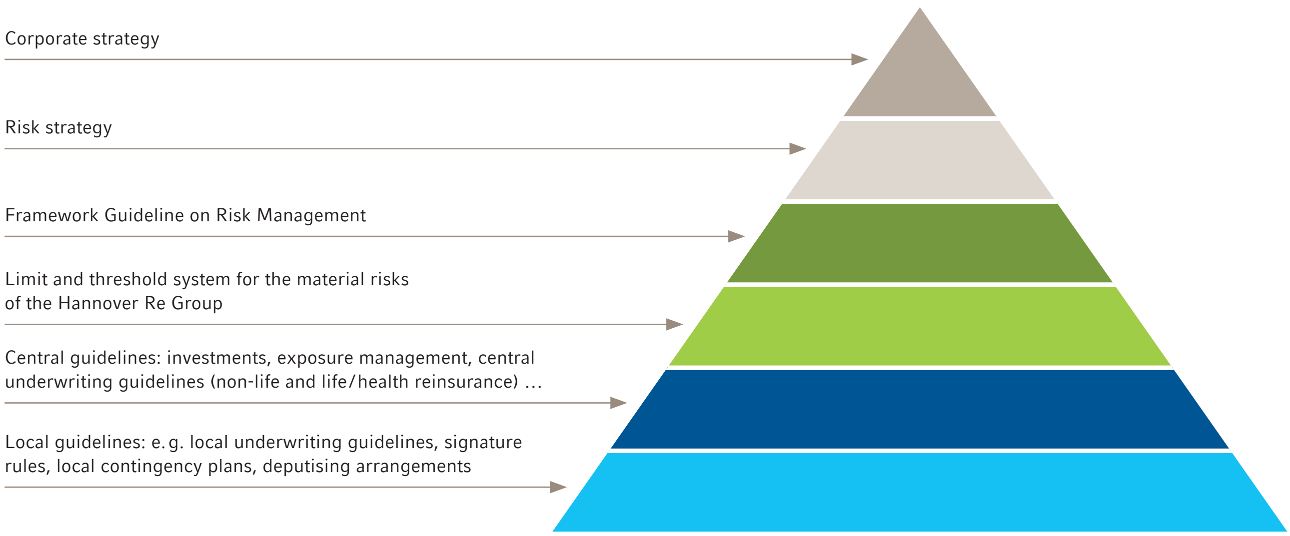
Principles for the handling of opportunities and risks

Our objective is to consolidate and further extend our position as one of the world's leading globally operating reinsurance groups of above-average profitability. With a view to accomplishing this aim we enter into a broad variety of risks which, on the one hand, open up opportunities for profit but, on the other hand, can also have adverse implications for our company. Our goal is to make optimal use of opportunities while at the same time adequately controlling and managing the risks associated with our commercial activities. Through our global orientation and our operations in all lines of reinsurance we achieve extensive risk equalisation. In particular, diversification between our non-life and life/health reinsurance business groups enables us to effectively deploy our capital. As a reinsurance specialist, we also transact primary insurance business in selected niche markets on a complementary basis to our traditional reinsurance activities. Of material significance to all segments are the underwriting results and the investment of the premium payments. Overall, crucial importance attaches to the qualitative and quantitative elements of our risk management. The parameters and decisions of the Executive Board with respect to the risk appetite of the Hannover Re Group are fundamental to the acceptance of risks. The risk strategy derived from the corporate strategy constitutes the basis for our handling of opportunities and risks. We act on opportunities only by weighing up the associated risks. The risk strategy and the guidelines derived from it, such as the Framework Guideline on Risk Management and the central system of limits and thresholds, are subject to regular review. In this way, we ensure that our assumptions and hence also our risk management system are kept up-to-date. Operationalisation of our corporate strategy takes place on multiple levels and ultimately leads into guidelines, including for example the underwriting guidelines used by our treaty and regional departments.

We manage our total enterprise risk such that we can expect to generate positive Group net income 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. Above and beyond that, we maintain an equity buffer in order to be able to act on new 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 attainable.

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. Irrespective of the date of implementation of Solvency II on the European level, risk-based national regulations are already in force and others will likely follow. We have long practised a risk-based and value-based management approach of the type which regulators will call for under Solvency II and we began to make our preparations for the requirements of Solvency II at an early stage. This includes, among other things, 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

Operationalisation of the risk strategy



and internal corporate approaches and consider ourselves well-equipped to provide the markets with tailored products. Thanks to our broad Group diversification, we enjoy the advantage of being able to offer our clients attractive solutions for improved utilisation of their own capital resources. For Hannover Re itself, the minimum 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 a number of 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. Hannover Re is analysed by the rating agencies Standard & Poor's and A.M. Best by way of an interactive rating process; this means that both rating agencies are also granted access to confidential information about Hannover Re. The current financial strength rating from Standard & Poor's (S&P) is "AA-" ("Very Strong", stable outlook) and the rating from A.M. Best is "A+" ("Superior", stable outlook). Hannover Re's risk management is assessed by Standard & Poor's as "Strong", the second-best S&P rating. The evaluations highlighted, among other things, the very good risk management, the continuous and systematic implementation of the corporate strategy by the management team and the company's excellent capital resources.

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 the "Financial position" section of the management report. All activities and decisions within the Group are guided not only by profit targets but also increasingly by sustainability considerations. We have defined what we consider to be the most important issues in the context of our sustainability strategy.

Functions within the risk management system

There is an interplay between the individual bodies and functions in our risk management system. 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/regional departments and service departments in the non-life and life and health reinsurance business groups as well as the investments sector

Quantitative risk management methods

In the interests of our shareholders and clients we strive to ensure that our risks remain commensurate with our capital resources. Our quantitative risk management provides a uniform framework for the evaluation and steering of all risks affecting the company as well as of our capital position. In this context, the internal capital model is our central tool.

The internal capital model of Hannover Re is a stochastic enterprise model. Based on predefined probability distributions, a large number of scenarios are generated for technical risks, counterparty defaults, capital market conditions and other business events and their effect on the company's financial situation is determined. The central variable in risk and enterprise management is the economic capital, which is calculated according to market-consistent measurement principles and in many respects corresponds to the business valuation likely to be adopted in future under Solvency II.

The internal capital model encompasses all quantifiable risks and splits them into 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. The model enables us to consistently measure and aggregate the individual risks and to analyse the interactions between risks. Last but not least, we are able to verify whether the level of available economic capital exceeds the capital required to operate the business.

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 required risk capital of the Hannover Re Group increased in the year under review from EUR 5,484.7 million to EUR 5,967.9 million. The increase in market risks derives from a rise in investments and a rise in the proportion of corporate bonds and asset-backed securities combined with a reduction in the proportion of short-term investments and a decrease in securities with a "AAA" rating. The enlarged business volume in non-life reinsurance led to a rise in the risk capital for this business group. The increased credit risk derives, inter alia, from the rise in reinsurance recoverables due to the use of retrocession in the financial year. The decrease in risk capital in the life and health reinsurance business group is attributable above all to improvements in the mapping of future cash flows.

Available capital and required risk capital [1]

in EUR million	2012	2011
Underwriting risks in non-life reinsurance	3,340.0	3,048.3
Underwriting risks in life and health reinsurance	1,973.5	2,029.1
Market risks	2,943.2	1,992.2
Credit risks	671.8	569.4
Operational risks	404.0	408.6
Diversification effect	(3,364.6)	(2,562.9)
Required risk capital of the Hannover Re Group	**5,967.9**	**5,484.7**
Available economic capital	**10,379.7**	**8,758.7**
Capitalisation ratio in %	**173.9%**	**159.7%**

[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.

Reconciliation [1] **(economic capital/shareholders' equity)**

in EUR million	2012	2011
Shareholders' equity	6,740.3	5,606.7
Value adjustments for non-life reinsurance	560.2	883.1
Value adjustments for life and health reinsurance	819.7	751.6
Value adjustments for assets under own management	584.6	368.8
Tax effects and other	(558.1)	(583.1)
Economic equity	**8,146.7**	**7,027.1**
Hybrid capital	2,233.0	1,731.6
Available economic capital	**10,379.7**	**8,758.7**

[1] In contrast to the last annual report, the value adjustment due to operating costs is allocated to the individual business groups rather than the other value adjustments. The figures for the previous year have been adjusted accordingly.

The available economic capital increased in the period under review from EUR 8,758.7 million to EUR 10,379.7 million. This was due principally to the positive business result for 2012 and the issue of new hybrid bond. The change in the economic environment in 2012 – with higher credit spreads and further declines in interest rates – resulted in a rise in the valuation reserves for investments. The valuation adjustment for non-life reinsurance decreased above all owing to a higher risk premium, which reflects the increased capital requirements in this business group. The valuation reserves for life and health reinsurance climbed primarily on account of the positive development of new business.

The substantial increase in the available economic capital resulted overall in an increase in the coverage ratio to 173.9%. The Hannover Re Group thus continues to be very well capitalised.

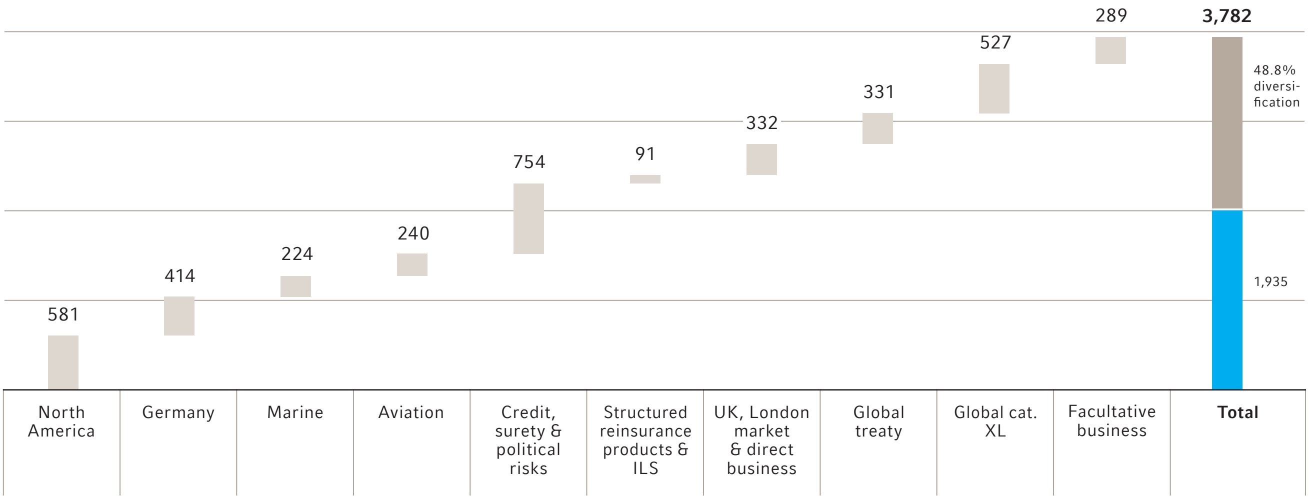
Hannover Re calculates the economic equity as the difference between the market-consistent value of the assets and the market-consistent value of the liabilities. While fair values are available for most investments, the market-consistent valuation of reinsurance treaties necessitates a specific valuation model. We establish the market-consistent value of technical items as the present value of projected future payments using actuarial methods. This is adjusted by a risk loading that factors in the fluctuation in future payments. Such fluctuations result from risks that cannot be hedged by means of capital market products, such as underwriting 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 market values and book values of our assets under own management, which under IFRS are recognised at book value. Other valuation adjustments relate inter alia 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. The internal capital model is based on current methods from actuarial science and financial mathematics. In the case of technical risks, we are able to draw on a rich internal data history to estimate the probability distributions, e. g. for the reserving risk. For risks from natural perils we use external models, which are adjusted in the context of a detailed internal review process such that they reflect our risk profile as closely as possible. In the area of life / health reinsurance long-term payment flows are modelled under various scenarios. With respect to all the aforementioned risks we use internal data to define scenarios and probability distributions. The internal data is enhanced by way of parameters set by our internal experts. These expert parameter settings are especially significant in relation to extreme events that have not previously been observed.

When it comes to aggregating the individual risks, we make allowance for dependencies between risk factors. Dependencies arise, for example, as a consequence of market shocks, such as the 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.

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



Qualitative risk management methods

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

The Hannover Re Group's Framework Guideline on Risk Management describes the existing elements of the risk management system that has been put in place. It is intended to establish homogeneous 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 suddenly. The criteria for this reporting are also specified in the Framework Guideline on Risk Management. Within the central system of limits and thresholds for the material risks 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 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 and
- technical plausibility checks and access privileges within the systems.

In the area of Group accounting and Group reporting, processes with integrated controls ensure the completeness and accuracy of the consolidated financial statement. A structure made up of differentiated criteria and materiality thresholds ensures that we can identify and minimise the risk of material errors in the consolidated financial statement at an early stage. All components of the accounting-related internal control system, the 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 consistently documented. In order to safeguard and continuously improve the adequacy of the control system it is subject to regular review and evaluation. In this regard, the Internal Audit function ensures that the quality of the control system is constantly monitored. All relevant accounting principles are collated in a Group Accounting Manual that sets out uniform Group-wide rules for the recognition, measurement and reporting of items in the consolidated financial statement. The process for updating and, if necessary, adjusting these rules is clearly regulated with respect to information channels, responsibilities and period of validity. Not only that, we provide prompt Group-wide notification of significant developments and modified requirements in Group financial reporting.

Within the scope of our control system the Group companies are responsible for the completeness, accuracy and reliability of the financial data that they pass on. Data for the preparation of the consolidated financial statement is delivered using a Web-based IT application. The relevant data for the Group financial reporting is collected in a database and processed via automatic interfaces in a consolidation system. Depending upon the results of our checks, these figures can be corrected if necessary. Given that our Group financial reporting is heavily dependent on IT systems, these systems also need to be subject to controls. Authorisation concepts regulate system access and for each step content-based as well as system-side checks have been implemented, by means of which errors are analysed and promptly eliminated.

Risk landscape of Hannover Re

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

Technical risks in non-life reinsurance

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

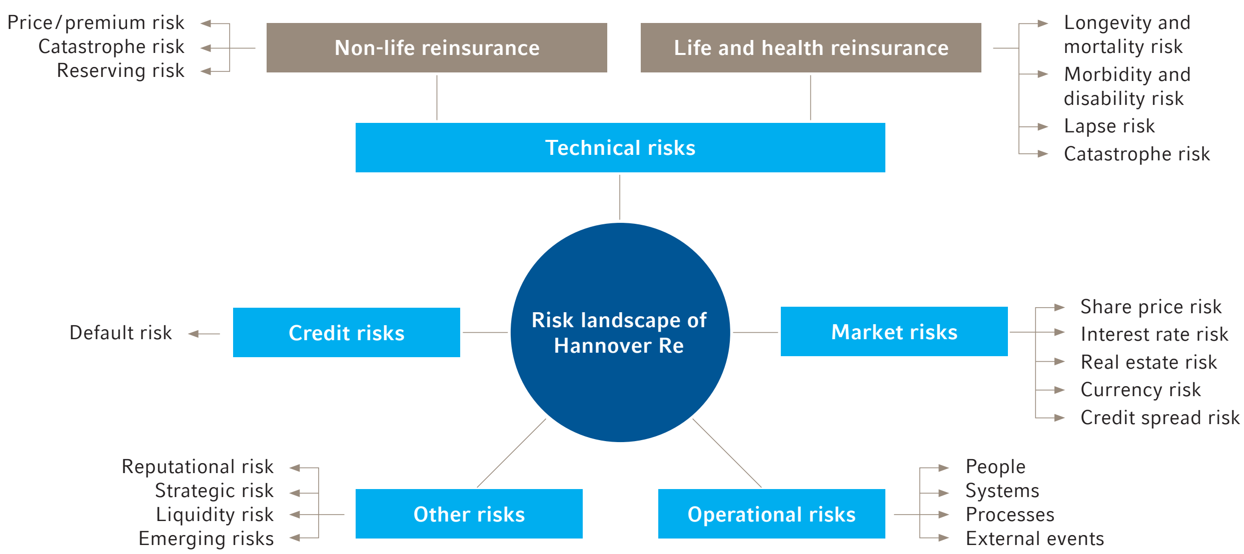
- We maximise our risk capacities in accordance with the parameters of the Hannover Re Group's risk management system and make limited use of retrocessions to reduce volatility and conserve capital.
- We steer the acceptance of risks systematically through our underwriting guidelines. We have confidence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

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

A significant technical risk is the reserving risk, i.e. the risk of under-reserving losses and the associated strain on the underwriting result. In order to counter this risk we calculate our loss reserves based on our own actuarial estimations and establish, where necessary, additional reserves supplementary to those posted by our cedants as well as the segment reserve for losses that have already occurred but have not yet been reported to us. Liability claims have a major influence on this reserve. The segment reserve is calculated on a differentiated basis according to risk categories and regions. The segment reserve established by the Hannover Re Group amounted to EUR 5,183.7 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.

Risk landscape of Hannover Re



Survival ratio in years and reserves for asbestos-related claims and pollution damage

in EUR million	2012			2011		
	Individual loss reserves	IBNR reserves	Survival ratio in years	Individual loss reserves	IBNR reserves	Survival ratio in years
Asbestos-related claims/pollution damage	27.8	182.2	29.1	28.4	194.0	25.9

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 6.7 "Technical provisions" on page 165 et seq.). Our own actuarial calculations regarding the adequacy of the reserves are also subject to annual quality assurance reviews conducted by external firms of 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 because of inflation. 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). In addition to the inflation swaps, in the fourth quarter we purchased inflation-linked USD- and euro-denominated sovereign bonds in a nominal amount of EUR 605 million in order to protect our future investment income against inflation effects.

Licensed scientific simulation models, supplemented by the expertise of our own specialist departments, are used to assess our material catastrophe risks from natural hazards (especially earthquake, windstorm and flood). Furthermore, we establish the risk to our portfolio from various scenarios in the form of probability distributions. The monitoring of the risks resulting from natural hazards is rounded out by realistic extreme loss scenarios. Within the scope of this process, the Executive Board defines the risk appetite for natural perils once a year on the basis of the risk strategy by specifying the portion of the economic capital that is available to cover risks from natural perils. This is a key basis for our underwriting approach in this segment. As part of our holistic approach to risk management across business groups, we take into account numerous relevant scenarios and extreme scenarios, determine their effect on portfolio and performance data, evaluate them in relation to the planned figures and identify alternative courses of action.

Stress tests for natural catastrophes after retrocessions

in EUR million	2012	2011
	Effect on forecast net income	
100-year loss European windstorm	(101.3)	(63.2)
100-year loss US windstorm	(369.1)	(296.8)
100-year loss Japanese windstorm	(289.4)	(255.5)
100-year loss Tokyo earthquake	(335.4)	(237.4)
100-year loss California earthquake	(281.2)	(224.8)
100-year loss Australian earthquake[1]	(176.2)	(89.6)

[1] Previous year's scenario limited to Sydney

For the purposes of risk limitation, maximum amounts are also stipulated for various extreme loss scenarios and return periods in light of profitability criteria. Adherence to these limits is continuously verified by Group Risk Management. The Risk Committee, Executive Board and Non-Life Executive Committee are kept regularly updated on the degree of capacity utilisation. The 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.

Limits and thresholds for the 100- and 200-year aggregate annual loss as well as utilisation thereof

in EUR million	Limit 2012	Threshold 2012	Actual utilisation (July 2012)
All natural catastrophe risks, net exposure			
100-year aggregate annual loss	1,248	1,123	1,047
200-year aggregate annual loss	1,469	1,322	1,268

Our company incurred the catastrophe losses and major claims shown below in the 2012 financial year.

Catastrophe losses and major claims[1] in 2012

in EUR million	Date	gross	net
Hurricane Sandy in the United States	24 October – 1 November	340.9	257.5
"Costa Concordia" shipwreck off the coast of Italy	13 January	132.7	53.3
Earthquake in Italy	20 May	44.2	44.1
Catastrophic drought in the United States	July	56.5	43.3
2 marine claims		28.4	26.7
Earthquake in Italy	29 May	22.4	22.4
Typhoon Haikui in Taiwan, China and the Philippines	2 August	13.3	13.3
1 fire claim		10.4	10.4
Hurricane Isaac in the United States	24 – 31 August	13.1	6.8
Total		**661.9**	**477.8**

1 Natural catastrophes and other major claims in excess of EUR 10 million gross

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 below.

Technical risks in life and health reinsurance

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

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

Combined and catastrophe loss ratio over the past ten years

in %	2012	2011	2010	2009	2008	2007	2006	2005[1]	2004[1]	2003[1,2]
Combined ratio (non-life reinsurance)	95.8	104.3	98.2	96.6	95.4	99.7	100.8	112.8	97.2	96.0
Thereof catastrophe losses[3]	7.0	16.5	12.3	4.6	10.7	6.3	2.3	26.3	8.3	1.5

1 Including financial reinsurance and specialty insurance
2 Based on US GAAP figures
3 Net share of the Hannover Re Group for natural catastrophes and other major claims in excess of EUR 10 million gross as a percentage of net premium earned (until 31 December 2011: in excess of EUR 5 million gross)

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 2011 and its sensitivities in comparison with the corresponding sensitivities of the MCEV 2010. For more detailed information please see the Market Consistent Embedded Value Report 2011, 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	2011	2010
Base value	3,180.7	2,711.9
Interest rate curve +100 basis points	-1.0%	-0.7%
Interest rate curve -100 basis points	-0.7%	0.5%
Costs -10%	1.8%	1.8%
Lapse +10%	-12.4%	-7.7%
Lapse -10%	3.8%	4.3%
Mortality +5%	-28.4%	-20.7%
Mortality -5%	28.9%	27.5%

1 More extensive information can be obtained from 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 After consolidation, before non-controlling interests

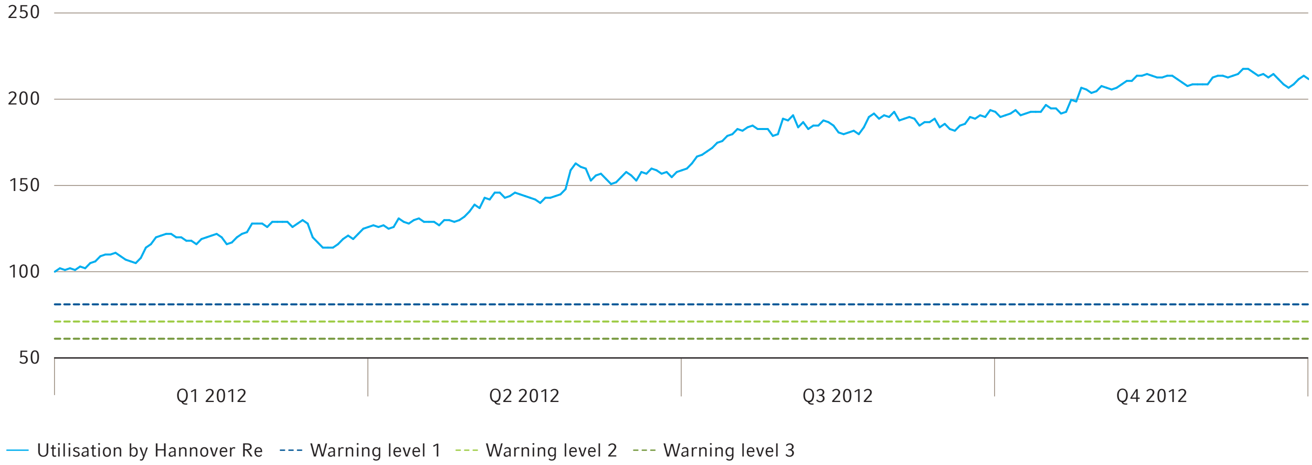
The change in the MCEV under the scenarios shown captures the low volatility in this area and reflects our portfolio's high degree of diversification. The asymmetry in the interest rate sensitivities is primarily due to model enhancements with respect to the allowance made for dynamic management decisions in the US market. In particular, the contractually agreed limitations on possible premium increases in the event of unfavourable capital market developments were captured in the model. The consolidated MCEV before non-controlling interests amounted to EUR 3,180.7 million (2010: EUR 2,711.9 million) as at 31 December 2011. This represents an increase of 17.3% (22.7%). The operating MCEV earnings totalled EUR 314.9 million (EUR 299.5 million), while the value of new business stood at EUR 245.0 million (EUR 153.4 million). We shall publish the MCEV for the 2012 financial year on our Internet website at the same time as the report on the first quarter of 2013.

Market risks

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

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. Our conservatively oriented investment portfolio recorded appreciable fair value

Utilisation of the trigger system
in %



gains in the year under review, as a consequence of which our early-warning system consistently remained above the escalation levels (cf. graph above).

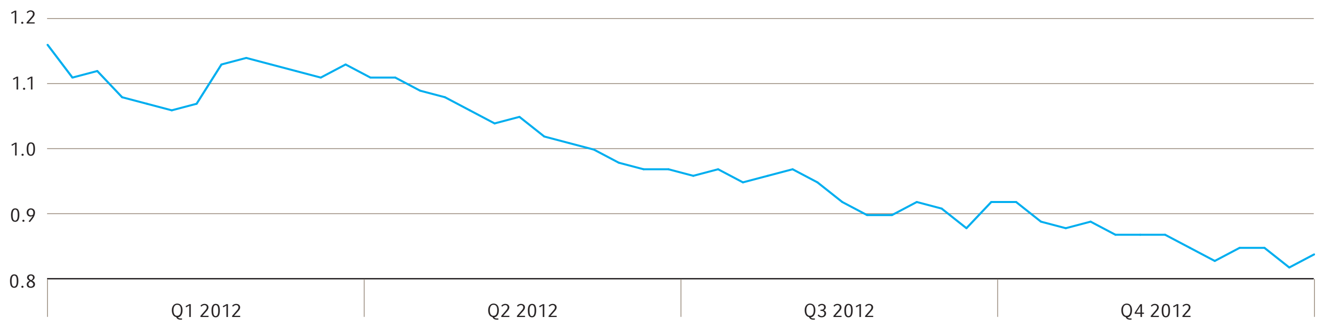
The short-term loss probability measured as the “Value at Risk” (VaR) is another vital tool used for monitoring and managing market price risks. It is calculated on the basis of historical data, e. g. the volatility of the securities positions under own management and the correlation between these risks. As part of these calculations the decline in the fair value of our portfolio is simulated with a certain probability and within a certain period. The VaR 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.

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.

Despite the sometimes difficult capital market environment, the volatility of high-quality assets and hence the market price risks decreased in the year under review relative to the previous year. Based on continued broad risk diversification and the orientation of our investment portfolio, our Value at Risk of 0.8% (1.2%) as at the end of the reporting period was clearly below the Value at Risk upper limit defined in our investment guidelines.

Value at Risk [1] for the investment portfolio of the Hannover Re Group
in %



[1] VaR upper limit according to Hannover Re’s investment guidelines: 1.5%

Scenarios for changes in the fair value of material asset classes

in EUR million	Scenario	Portfolio change on a fair value basis	Change in equity before tax
Equity securities	Share prices -10%	-2.9	-2.9
	Share prices -20%	-5.8	-5.8
	Share prices +10%	2.9	2.9
	Share prices +20%	5.8	5.8
Fixed-income securities	Yield increase +50 basis points	-668.5	-517.3
	Yield increase +100 basis points	-1,305.6	-1,009.4
	Yield decrease -50 basis points	693.5	536.0
	Yield decrease -100 basis points	1,417.2	1,096.2
Real estate	Real estate market values -10%	-72.2	-15.6
	Real estate market values +10%	72.2	15.6

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, 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 Section 6.1 of the notes, "Investments under own management", page 153 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. We have made such new investments only on a very modest scale as part of strategic participations. The scenarios for changes in equity prices consequently have only extremely slight implications for our portfolio. We spread the risks through systematic diversification. Please see our comments in Section 6.1 of the notes, "Investments under own management", page 146 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 6.1, "Investments under own management", page 154.

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. Currency risks were also hedged using FX forwards in cases where currency matching could not be efficiently established. The contracts are concluded solely with first-class counterparties and exposures are controlled in accordance with the restrictive parameters set out in the investment guidelines so as to avoid credit risks associated with the use of such transactions. The remaining exposures are controlled according to the restrictive parameters set out in the investment guidelines.

Credit risks

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

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

Gross written premium retained

in %	2012	2011	2010	2009	2008
Hannover Re Group	89.8	91.2	90.1	92.6	89.1
Non-life reinsurance	90.2	91.3	88.9	94.1	88.9
Life and health reinsurance	89.3	91.0	91.7	90.7	89.3

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.

Ratios used to monitor and manage our credit risks

Management ratios	2012	2011	2010	2009	2008
Solvency margin [1]	73.1%	68.3%	69.5%	60.4%	66.7%
Debt leverage [2]	33.1%	30.9%	36.5%	32.1%	41.3%
Interest coverage [3]	13.5x	8.5x	13.8x	14.9x	1.9x
Reserves/premium [4]	268.4%	292.7%	275.1%	270.1%	312.4%
Combined ratio (non-life reinsurance)	95.8%	104.3%	98.2%	96.6%	95.4%

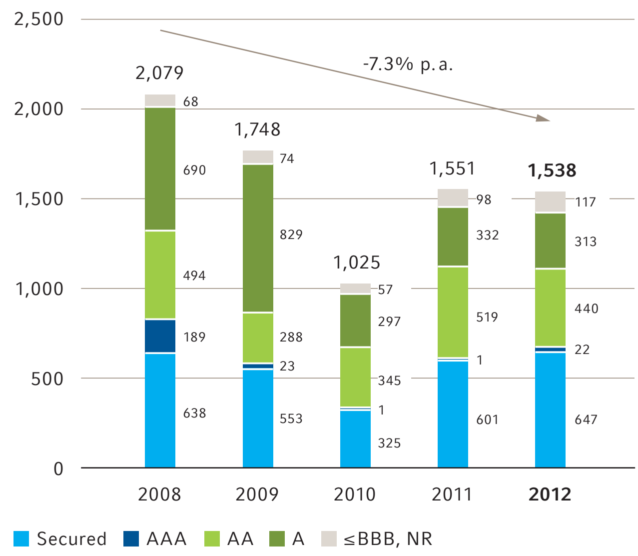
1 (Shareholders' equity + hybrid capital)/net earned premium
2 Hybrid capital/shareholders' equity
3 EBIT/interest on hybrid capital
4 Net reserves/net premium earned

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

- 90.4% of our retrocessionaires have an investment grade rating ("AAA" to "BBB").
- 86.8% are rated "A" or better.
- Since 2008 we have reduced the level of recoverables by altogether 7.3%.
- 42.0% 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 174.7 million (5.7%) of our accounts receivable from reinsurance business totalling EUR 3,065.7 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 1,538.2 million (EUR 1,550.6 million) as at the balance sheet date. The following chart shows the development of our reinsurance recoverables – split by rating quality – due from our retrocessionaires. Recent years are clearly trending lower with an average reduction of 7.3% per year.

Reinsurance recoverables as at the balance sheet date
in EUR million



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 6.4 "Technical assets", page 160 et seq., Section 6.6 "Other assets", page 163 et seq. and Section 7.2 "Investment result", page 180 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. 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.

Rating structure of our fixed-income securities[1]

Rating classes	Government bonds		Securities issued by semi-governmental entities[2]		Corporate bonds		Covered bonds/asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	29.6	1,854.5	59.6	4,285.3	2.0	206.4	62.0	3,269.0
AA	54.9	3,442.1	37.2	2,677.5	13.0	1,329.5	18.8	995.3
A	9.4	591.1	2.5	176.9	49.2	5,013.5	10.1	533.8
BBB	5.1	321.9	0.6	41.4	29.3	2,994.4	5.3	279.7
< BBB	1.0	62.1	0.1	9.7	6.5	663.2	3.8	203.3
Total	**100.0**	**6,271.7**	**100.0**	**7,190.9**	**100.0**	**10,207.0**	**100.0**	**5,281.1**

1 Securities held through investment funds are recognised pro rata with their corresponding individual ratings
2 Including government-guaranteed corporate bonds

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 79.8 million on a fair value basis. This corresponds to a proportion of 0.2%. The individual countries account for the following shares: Spain EUR 32.7 million, Portugal 19.8 million, Italy 18.8 million and Ireland 8.5 million. No impairments had to be taken on these holdings. Our portfolio does not contain any bonds of Greek issuers. The breakdown into individual countries and specific exposures is shown in the following table.

On a fair value basis EUR 3,526.8 million of the corporate bonds held by our company were issued by entities in the financial sector. Of this amount, EUR 2,841.5 million was attributable to banks. The vast majority of these bank bonds (almost 68.8%) are rated "A" or better. Our investment portfolio under own management does not contain any written or issued credit default swaps.

Fair values

in EUR million	Government bonds[1]	Securities issued by semi-governmental entities	Corporate bonds		Covered bonds/asset-backed securities	Total
			Financial bonds	Industrial bonds		
Greece	–	–	–	–	–	–
Ireland	8.5	–	4.5	21.2	92.7	126.9
Italy	18.8	–	83.6	85.5	194.6	382.5
Portugal	19.8	–	–	0.8	8.1	28.7
Spain	28.5	4.2	46.2	96.6	196.8	372.4
Total	**75.6**	**4.2**	**134.2**	**204.1**	**492.3**	**910.5**

1 Including government-guaranteed corporate bonds (risk-oriented approach)

Operational risks

Operational risks refer to the risk of losses occurring because of the inadequacy or failure of internal processes or as a result of events triggered by employee-related, system-induced or external factors. Operational risks are monitored primarily by way of appropriate process management. These risk potentials are evaluated inter alia on the basis of expert assessments and by means of scenario analyses. Such evaluations enable us to prioritise operational risks. When it comes to the monitoring of these risks, we attach special emphasis to the following individual risks.

Business process risks are associated with the risk of inadequate or deficient internal processes, e. g. as a consequence of poor data quality. Data quality is a critical success factor, especially in risk management, because all enterprise processes are based on the information made available. The overriding goal of our data quality management is to bring about sustainable improvement and to safeguard data quality 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, which can be accessed through our website. 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.

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

When it comes to reducing business interruption risks, the paramount objective is the quickest possible return to normal operations after a crisis, for example through implementation of existing contingency plans. Guided by internationally accepted standards, we have defined the basic framework conditions 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 on the underwriting side with respect to our treaty portfolio. Such risks evolve gradually from weak signals to unmistakable tendencies. It is therefore vital to detect these risks at an early stage and then determine their relevance. For the purpose of early detection we have developed an efficient process that spans divisions and lines of business and we have ensured its linkage to risk management. Operational implementation is handled by an expert working group assembled specially for this task. The analyses performed by this working group are used 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. With the "Strategy Cockpit" the Executive Board and responsible managers have at their disposal a strategy tool that assists them with the planning, elaboration and management of strategic objectives and measures and safeguards their overall perspective on the company and its strategic risks. Further details are provided in the section entitled "Our strategy" on page 18 et seq.

Reputational risks refer to the risk that the trust put in our company by clients, shareholders, employees or the public at large may be damaged. This risk has the potential to jeopardise the business foundation of the Hannover Re Group. A good corporate reputation is therefore an indispensable prerequisite for our core business as a reinsurer. Loss of reputation may occur, for example, as a consequence of a data mishap or a case of fraud. We use a number of different practices to minimise this risk, including for example our set communication channels, a professional approach to corporate communications, tried and tested processes for defined crisis scenarios as well as our established Code of Conduct. Our rules governing the use of social networks (social media) as well as the principles defined in our sustainability strategy for conducting business in a responsible and sustainable manner round off this set of tools.

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

Above and beyond the foreseeable payments, unexpected and exceptionally large payments may pose a threat to liquidity. Yet in reinsurance business significant events (major losses) are normally paid out after a lead time that can be reliably planned. As part of our liquidity management we have nevertheless defined asset holdings that have proven to be highly liquid – even in times of financial stress 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 case of financial crises coinciding with an extreme event that needs to be paid out quickly. The liquid asset reserve stood at more than EUR 2.2 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. Individual and especially accumulation risks can potentially have a significant impact on our assets, financial position and net income. Yet consideration solely of the risk aspect does not fit our conception of risk, since it is always the case that we only enter into those risks that go hand-in-hand with opportunities. Our management and monitoring tools as well as our organisational and operational structures ensure that we are able to identify risks in a timely manner and maximise our opportunities. The pivotal element in this regard is our effective system of qualitative and quantitative risk management that we have put in place Group-wide. 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 more than 100% in our shareholders' equity (including non-controlling interests) since 2008, our strong market position as one of the world's leading reinsurers and our very good credit ratings (Standard & Poor's: "AA-" (Very Strong, stable outlook); A.M. Best: "A+" (Superior, stable outlook).

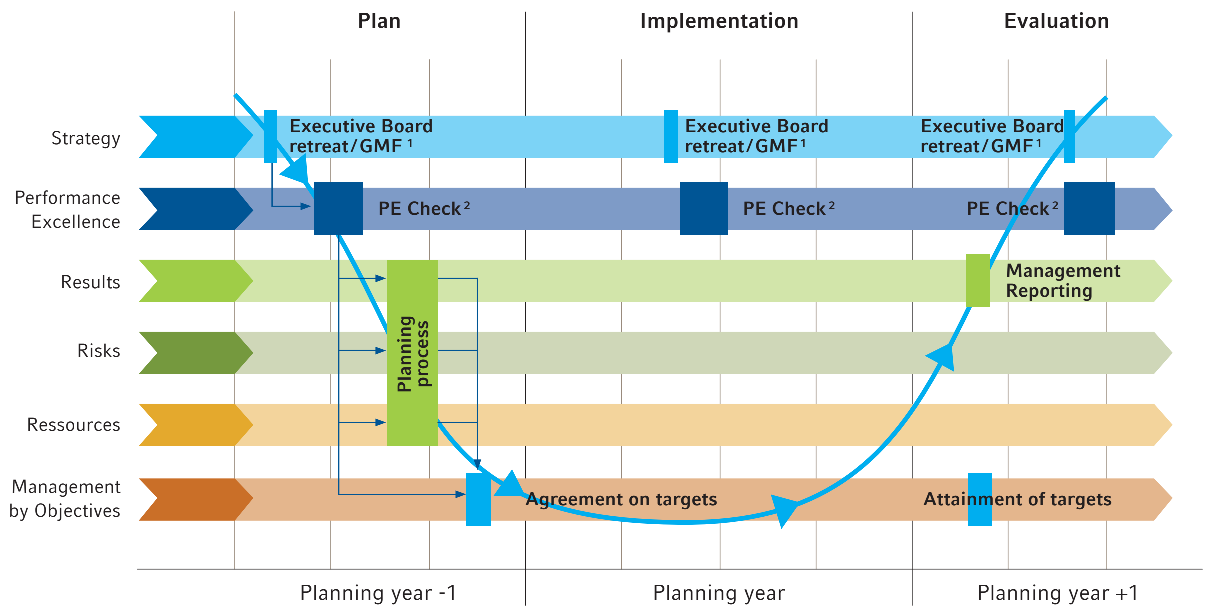
Based on our currently available insights arrived at from a holistic analysis of the risk situation, the Executive Board of Hannover Re cannot discern any risks that could jeopardise the continued existence of our company in the short or medium term or have a material and lasting effect on our assets, 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 on page 101 et seq.

Value-based management

Profitable growth has been at the heart of our business activities for many years and hence remains a crucial objective of our Group strategy. We are striving 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.

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 planning process

[2] Verification and elaboration of contributions to the Group strategy

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 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/regional 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.

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 according to risk categories/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 (EBIT) – (capital allocated x weighted cost of capital) = IVC

The adjusted operating profit (EBIT) is comprised of two factors: the IFRS Group net income recognised after tax and the change in the balancing items for differences between economic valuations and amounts stated in the IFRS balance sheet. By way of the latter we make allowance for changes in the fair values of assets not recognised in income under IFRS, discount effects 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.

Intrinsic Value Creation and excess return on capital allocated

in EUR million	2012		2011			
	IVC	xRoCA	Reported IVC	Adjustment[1]	Final IVC	xRoCA
Non-life reinsurance	251.8	+5.2%	91.2	35.0	126.2	+3.0%
Life and health reinsurance	58.6	+2.4%	221.4	(201.6)	19.8	+0.9%
Investments[2]	790.7	+50.9%	114.5	(36.2)	78.3	+3.7%
Group	**1,088.8**	**+11.6%**	**427.1**	**(202.8)**	**224.3**	**+2.7%**

[1] Adjustment based on amended allocation of economic effects (non-life reinsurance / investments) and final MCEV calculation (life and health reinsurance)
[2] Income above risk-free after deduction of risk-appropriate cost of capital

The allocated capital consists of three components: the IFRS 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.

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 6.8%, we can point to a 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 2012	2012	2011	2010	2009	2008
Group	Investment return[1]	≥3.5%	4.1%	4.1%	4.0%	3.4%	0.8%
	Return on equity	≥10.0[2]%	15.6%	12.8%	18.2%	22.4%	-4.1%
	Growth in earnings per share (year-on-year comparison)	≥10%	41.6%	-19.1%	2.1%	>100%	-117.6%
	Value creation per share[3]	≥10%	19.4%	12.0%	20.6%	21.0%	-5.4%
Non-life reinsurance	Gross premium growth[4]	3%–5%	13.1%	7.7%	10.3%	15.2%	-3.8%
	Combined ratio[5]	≤ 98%	95.8%	104.3%	98.2%	96.6%	95.4%
	EBIT margin[6]	≥10%	15.9%	10.1%	16.3%	14.0%	0.1%
	xRoCA[7]	≥2%	5.2%	3.0%	7.5%	1.6%	-8.0%
Life and health reinsurance	Gross premium growth[8]	5%–7%	14.9%	3.5%	12.4%	44.5%	1.7%
	Value of New Business (VNB) growth	≥10%	n. a.	61.2%	89.2%	-44.2%	41.4%
	EBIT margin[6] Financial Solutions/Longevity	≥2%	2.7%	4.4%	6.1%[9]	9.2%[9]	4.3%[9]
	EBIT margin[6] Mortality/Morbidity	≥6%	7.1%	4.6%			
	xRoCA[7]	≥5%	2.4%	0.9%	15.5%	17.9%	11.2%

1 Excluding inflation swaps and ModCo derivatives
2 750 basis points above the 5-year average return on 10-year German government bonds after tax
3 Growth in book value per share including dividends paid
4 Average over the reinsurance cycle
5 Including major loss budget of EUR 625 million
6 EBIT/net premium earned
7 Excess return on allocated economic capital
8 Organic growth only
9 EBIT margin for total life and health reinsurance

Enterprise management

Declaration on Corporate Governance

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

German Corporate Governance Code

In the previous year Hannover Re was not in compliance with one recommendation of the German Corporate Governance Code (DCGK); this year, the company's implementation of the recommendations of the Code as amended 15 May 2012 diverges from the recommendations in three respects. The recommendations in question are that a cap on severance payments should be included when concluding or renewing an Executive Board contract (Code Item 4.2.3 Para. 4), that the Chairman of the Supervisory Board should not chair the Audit Committee (Code Item 5.2 Para. 2) and that the Chairman of the Audit Committee should be independent (Code Item 5.3.2). The reasons for these divergences are set out in the following Declaration of Conformity pursuant to § 161 Stock Corporation Act (AktG). The present and all previous Declarations of Conformity of the company are published on its website (http://www.hannover-re.com/about/corporate/declaration/index.html).

Declaration of Conformity

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

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

The Executive Board and Supervisory Board declare pursuant to § 161 Stock Corporation Act (AktG) that in its implementation of the German Corporate Governance Code Hannover Rückversicherung AG diverges in three respects from the recommendations contained in the version of the Code dated 15 May 2012:

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

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

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

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

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

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

Executive Board or decisions initiated by him as a member of the Executive Board were still being realised. In the opinion of Hannover Rückversicherung AG, it is therefore in the interest of the company to diverge from this recommendation contained in Item 5.3.2.

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

Hannover, 5 November 2012

Executive Board Supervisory Board

Statement of enterprise management practices

Hannover Re's objective continues to be the consolidation and further expansion of its position as one of the leading, globally operating reinsurance groups of above-average profitability. Through our worldwide presence and activities in all lines of reinsurance we achieve an optimal risk diversification while maintaining a balanced risk/opportunity profile. Profit and value creation constitute the foundation of our sustainable development in the interests of our clients, shareholders, employees and business partners. Our goal is to increase the IFRS net income before and after tax as well as the value of the company – including dividends paid – by a double-digit margin every year. We consider the organic growth of our business volume, which exceeds the growth of the reinsurance market over the long term, to be a crucial success factor in this regard. This does not preclude temporary losses of market share. We offer our shareholders the prospect of a sustained above-average return on their capital. Consequently, we strive for an IFRS return on equity that is at least 750 basis points above the risk-free interest rate and a share price performance that beats the weighted Global Reinsurance Index over a rolling three-year period.

When it comes to our staff, we pay special attention to their skills, experience and motivation, which we foster through our attractive workplaces, personnel development activities and leadership practices. Based on our strategic human resources planning, we align the size and qualifications of our workforce with the current and future requirements of our global market presence. We put our trust in the greatest possible delegation of tasks, authorities and responsibility and thereby establish the conditions needed to be able to respond quickly and flexibly. We lead on the basis of Management by Objectives, we enable our employees to participate in our sustained success and we expect our managers to encourage the self-reliance of their staff (http://www.hannover-re.com/about/strategy/index.html).

Corporate Governance

We support sensible and pragmatic Corporate Governance principles and recognise their central importance in guiding our activities. The principles of responsible and good enterprise management constitute the core of our Corporate Governance principles (http://www.hannover-re.com/resources/cc/generic/CGprinciples-e.pdf). Our efforts are intended to ensure integrity at all times in our dealings with business partners, staff, shareholders and other stakeholder groups. On this basis Hannover Re supports the principles of value-based and transparent enterprise management and supervision as defined in the German Corporate Governance Code (DCGK). This is not contradicted by the fact that for the first time in the year under review we did not comply with three recommendations of the Code, since a well justified deviation from the recommendations of the Code may – as in the present case – be in the interests of good corporate governance (cf. Foreword to the DCKG). Based on what is still a high degree of fulfilment of the recommendations and suggestions of the DCGK, Hannover Re continues to rank very highly among the companies listed on the DAX and MDAX.

In 2010 the Supervisory Board had set out in its Rules of Procedure the goal of increasing the number of women on the Supervisory Board to at least two (at the time no women were represented on the body). This goal was accomplished in 2012. In the middle of the year a concept designed to promote the advancement of women was adopted for the company's workforce and brought to the attention of the Supervisory Board. Through a variety of measures the company is seeking to do more to foster promising young female professionals and to enlarge the proportion of women in management positions. The Executive Board and Supervisory Board also considered at length the issue of sustainability and Corporate Social Responsibility. Hannover Re's strategic orientation towards sustainability forms a key element of its corporate strategy. The aim here is to achieve commercial success on the basis of a solid business model in accordance with the needs of our staff and the company as well as with an eye to protecting the environment and conserving natural resources. We strive to reduce as far as possible the greenhouse gas emissions produced by our day-to-day business activities in order to come closer to reaching our goal of carbon neutrality. In so doing, we are demonstrably taking responsibility for a sustainable future. In 2011 we defined for the first time a concrete Sustainability Strategy setting out our primary objectives in this field. Not only that, for the first time in the year under review we also presented a Sustainability Report and an initial so-called "GRI Report". Further information on the topic of sustainability is provided on our website (www.hannover-re.com/sustainability/index.html).

Compliance

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

The compliance report for the 2012 calendar year setting out the structure and diverse range of activities of Hannover Re in this regard was submitted to the Finance and Audit Committee in March 2013. After in-depth examination of topics such as directors' dealings, ad hoc and other reporting requirements, the insider register, adherence to internal guidelines, consulting agreements, data protection, international sanctions and the Group-wide whistleblower system, the report concludes that two circumstances of lesser importance have been identified which point to breaches of relevant compliance standards. After detailed exploration of these incidents, the necessary safeguards were put in place to ensure that in future 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 60 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 209 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. Currently, four of the six shareholder representatives are independent as defined by Item 5.4.2 of the German Corporate Governance Code. At least one independent member shall have technical expertise in the fields of accounting and the auditing of financial statements. Persons suggested to the Annual General Meeting as candidates for election to the Supervisory Board may not be older than 72 at the time of their election. Nominations shall take account of the company's international activities as well as diversity. For their part, each member of the Supervisory Board shall ensure that they have sufficient time to discharge their mandate. The Supervisory Board meets at least twice each calendar half-year. If a member of the Supervisory Board participates in less than half of the meetings of the Supervisory Board in a financial year, this shall be noted in the Supervisory Board's report. No more than two former members of the company's Executive Board may belong to the Supervisory Board.

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

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

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

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

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

For further details of the activities of the Supervisory Board committees please see the explanations provided in the Supervisory Board Report on pages 206 to 208.

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 8.3 of the notes "Share-based payment", page 191 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 2012 financial year on the basis of the work performed by the Board members for Hannover Re and its affiliated companies.

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

The remuneration report is guided by the recommendations of the German Corporate Governance Code and contains information which forms part of the notes to the 2012 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) 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 service contracts with the members of the Executive Board, but it no longer decides upon remuneration-related content. The latter has been decided upon at a full meeting of the Supervisory Board since 2009.

Objective, structure and system of Executive Board remuneration

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

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

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

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

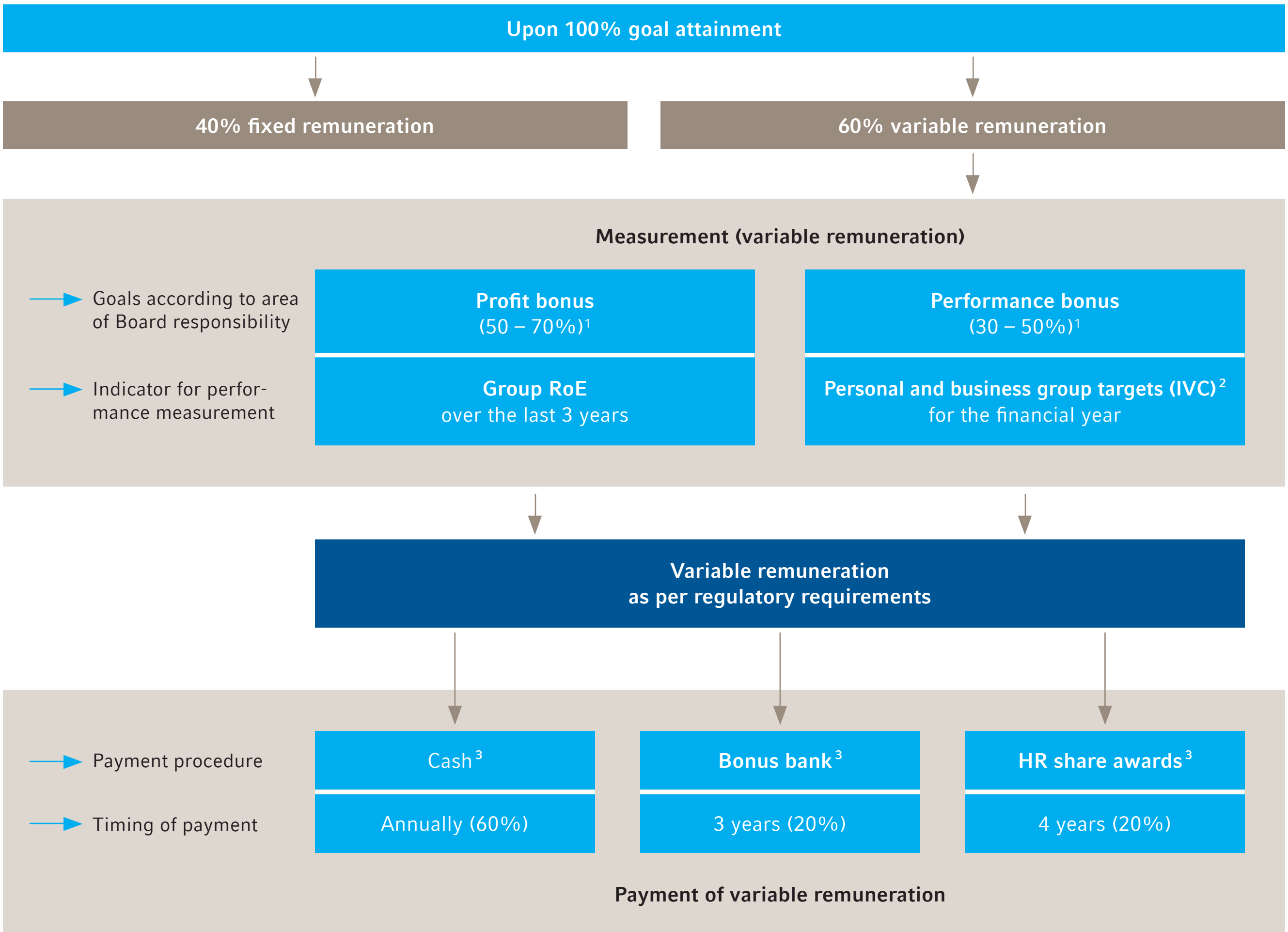
Fixed remuneration (40% of total remuneration upon 100% goal attainment)

Measurement basis and payment procedures for fixed remuneration

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

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

Overview of the composition of variable remuneration



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

Measurement bases/conditions of payment for variable remuneration

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

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

Payment procedures for total variable remuneration

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

Negative variable total bonus = payment of EUR 0 variable remuneration
Any minus value of the variable total bonus for a financial year is transferred in full to the bonus bank (see "Medium-term" column).

Fixed annual salary

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

Non-cash compensation/fringe benefits

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

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

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

Measurement of the variable remuneration

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

Profit bonus

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

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

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

Performance bonus

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

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

The business group bonus is guided by the average Intrinsic Value Creation (IVC) achieved in the three-year period just-ended for the business group that falls within the relevant Board member's area of responsibility. A generally valid concept for measuring the IVC is currently undergoing further refinement and will be finalised at the Supervisory Board meeting in March 2013. It is envisaged that the criteria adopted in March 2013 will apply retroactively from 1 January 2013 onwards.

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

Total amount of variable remuneration

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

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

Payment of the variable remuneration

Payment arrangements

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

Retained portion of the variable remuneration

Bonus bank (retention for a period of three years)

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

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

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

No interest is payable upon the balance in the bonus bank.

Share awards (vesting period of four years)

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

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

Handling of payment of variable remuneration components in special cases

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

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

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

Variable remuneration under the old remuneration structure (until 2011)

The virtual stock option plan with stock appreciation rights existing under the old remuneration structure remains in force for all members of the Executive Board until all stock appreciation rights have been exercised or have lapsed. In the 2012 financial year no further stock appreciation rights were granted to active Board members. Of the stock appreciation rights granted in previous years, active and former Board members exercised amounts totalling EUR 4.3 million (EUR 1.1 million) in 2012.

As at 31 December 2012 active members of the Executive Board had at their disposal a total of 391,891 (722,090) granted, but not yet exercised stock appreciation rights with a fair value of EUR 3.2 million (EUR 4.9 million).

Continued payment in the event of disability/death

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

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

Other information

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

With regard to Item 4.2.3 Paragraph 4 of the German Corporate Governance Code – "Caps on severance payments in management board contracts" – we would refer the reader to our remarks in the Declaration of Conformity contained in the section "Enterprise management" on page 80 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 service contract, he shall be recompensed in a monthly amount of 50% of his most recent fixed remuneration. Income earned through the application of his working capacity elsewhere shall be counted towards this compensation insofar as such income in combination with the compensation exceeds 100% of the most recently received fixed remuneration. The non-competition clause shall not apply if the contract ends prior to the age of 65 because the company does not extend it or because Mr. Wallin declines an extension offered to him on what are for him inferior terms, or if the premature termination or non-extension is due to a compelling reason for which the company is responsible.

Amount of remuneration received by the Executive Board

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

The remuneration (excluding pension payments) received by former members of the Executive Board totalled EUR 2.4 million (EUR 0.1 million).

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

Name	Financial year	Non-performance-based remuneration		Performance-based remuneration [1]	
		Basic salary	Non-cash compensation/ fringe benefits [2]	Short-term	
				Variable remuneration payable	
in EUR thousand				60% [3]	Remuneration from seats with Group bodies [4]
Ulrich Wallin	**2012**	**520.0**	**15.0**	**615.1**	
	2011	520.0	32.9	698.1	
André Arrago	**2012**	**320.0**	**6.9**	**352.1**	
	2011	320.0	10.1	352.5	
Claude Chèvre	**2012**	**320.0**	**5.1**	**351.9**	
	2011 (2 months)	53.3	172.2	64.7	
Jürgen Gräber	**2012**	**400.0**	**20.7**	**440.1**	
	2011	400.0	24.1	490.1	
Dr. Klaus Miller	**2012**	**320.0**	**17.9**	**352.1**	
	2011	320.0	10.9	377.7	
Dr. Michael Pickel	**2012**	**320.0**	**9.6**	**352.1**	
	2011	320.0	12.9	374.1	
Roland Vogel	**2012**	**320.0**	**15.7**	**378.5**	**25.0**
	2011	320.0	20.1	427.9	18.9
Dr. Wolf Becke [9]	**2012**	**–**	**0.1**	**0.5**	**–**
	2011	300.0	14.4	445.7	26.7
Total	**2012**	**2,520.0**	**91.0**	**2,842.4**	**25.0**
Total [10]	2011	2,553.3	297.6	3,286.0	45.6

1 As at the balance sheet date no Board resolution was available regarding the performance-based remuneration for 2012. The variable remuneration is recognised on the basis of estimates and the provisions constituted accordingly.
2 The non-cash compensation has been carried in the amounts established for tax purposes.
3 In 2012 altogether EUR 3,200 more in variable remuneration was paid out to Board members for 2011 than had been reserved.
4 Remuneration from seats with Group bodies netted with the variable remuneration payable.
5 The nominal amount is stated; full or partial payment in 2016, depending on the development until such time of the balance in the bonus bank. In 2012 altogether EUR 900 more than had been originally reserved was allocated to the bonus bank for 2011.
6 The nominal amount is stated; virtual Hannover Re share awards are automatically granted in an amount equivalent to 20% of the variable remuneration. The equivalent amount will be paid out in 2017 at the prevailing share price of Hannover Re. In 2012 nominal amounts of EUR 900 more than had been originally reserved were used as a basis for allocation of the 2011 share awards.
7 The stock appreciation rights granted in 2011 for 2010 were included at their fair value (according to the Black-Scholes option pricing model) at the time when they were granted (8 March 2011). On account of the changeover from the stock appreciation rights programme to the Share Award Plan in 2011 and the different booking rules applicable to these schemes, DRS 17 requires that both share-based payment programmes be shown in 2011 even though they refer to different years. The stock appreciation rights granted to Dr. Becke in 2012 for 2011 were recognised at their fair value on the date when they were granted (13 March 2012).
8 In order to calculate the number of share awards for 2012 reference was made to the Xetra closing price of the Hannover Re share on 28 December 2012 (EUR 58.96). The number to be actually awarded is established from the arithmetic mean of the Xetra closing prices of the Hannover Re share in a period from five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement in March 2013. The applicable market price of the Hannover Re share had increased from EUR 38.325 (30 December 2011) to EUR 42.09 by the allocation date (13 March 2012) of the share awards for 2011; the share awards actually allocated for 2011 are shown here, not those estimated in the 2011 Annual Report.
9 The appointment of Dr. Becke ended on age grounds on 31 December 2011. He was therefore subject to the remuneration structure existing prior to 2011, i. e. the bonus bank and Hannover Re share awards components do not apply. The non-cash compensation for Dr. Becke in 2012 relates to telephone expenses arising out of his active service on the Executive Board that had still to be reimbursed.
10 For the 2010 annual bonus altogether EUR 55,200 more was paid out than reserved. The total amount for the variable remuneration payable in 2011 was increased accordingly.

	Performance-based remuneration[1]			Total	Number of share awards[8]
	Medium-term	Long-term			2011 = Actual 2012 = Estimate
	Bonus bank	Share awards	Stock apprecia-tion rights		
in EUR thousand	20% (allocation)[5]	20% (allocation)[6]	Stock appreciation rights awarded for 2010 in 2011 and 2011 in 2012[7]		
	205.1	**205.1**	**–**	**1,560.3**	**3,474**
	232.7	232.7	296.9	2,013.3	5,535
	117.4	**117.4**	**–**	**913.8**	**1,989**
	117.5	117.5	154.9	1,072.5	2,795
	117.3	**117.3**	**–**	**911.6**	**1,989**
	21.6	21.6	–	333.4	514
	146.7	**146.7**	**–**	**1,154.2**	**2,486**
	163.4	163.4	258.2	1,499.2	3,885
	117.4	**117.4**	**–**	**924.8**	**1,989**
	125.9	125.9	43.0	1,003.4	2,994
	117.4	**117.4**	**–**	**916.5**	**1,989**
	124.7	124.7	232.4	1,188.8	2,966
	126.2	**126.2**	**–**	**991.6**	**2,137**
	148.9	148.9	129.1	1,214.0	3,543
	–	–	107.0	107.6	–
	–	–	271.1	1,057.9	–
	947.5	**947.5**	**107.0**	**7,480.4**	**16,053**
	934.7	934.7	1,385.6	9,437.7	22,232

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

Total expense for share-based remuneration of the Executive Board

Name in EUR thousand	Year	Stock appreciation rights exercised	Change in reserve in 2012 for stock appreciation rights	Change in reserve for share awards from previous year [1]	Expense for share awards allocated in current financial year [2]	Total
Ulrich Wallin	**2012**	**411.3**	**(108.4)**	**135.3**	**76.8**	**515.0**
	2011	139.0	28.7	–	54.1	221.8
André Arrago	**2012**	**88.6**	**196.0**	**68.3**	**44.0**	**396.9**
	2011	0.0	66.1	–	27.3	93.4
Claude Chèvre	**2012**	**–**	**–**	**11.8**	**41.4**	**53.2**
	2011 (2 months)	–	–	–	1.0	1.0
Jürgen Gräber	**2012**	**671.5**	**(273.7)**	**71.7**	**29.3**	**498.8**
	2011	258.1	(87.9)	–	27.8	198.0
Dr. Klaus Miller	**2012**	**–**	**16.9**	**98.3**	**70.4**	**185.6**
	2011	–	8.6	–	40.2	48.8
Dr. Michael Pickel	**2012**	**596.9**	**(238.6)**	**22.9**	**23.5**	**404.7**
	2011	223.4	(66.2)	–	53.1	210.3
Roland Vogel	**2012**	**146.6**	**(28.2)**	**65.4**	**25.2**	**209.0**
	2011	45.0	28.9	–	25.4	99.3
Dr. Wolf Becke [3]	**2012**	**–**	**–**	**–**	**–**	**0.0**
	2011	269.4	(92.1)	–	–	177.3
Total	**2012**	**1,914.9**	**(436.0)**	**473.7**	**310.6**	**2,263.2**
Total	2011	934.9	(113.9)	–	228.9	1,049.9

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

Cash remuneration actually accruing to active members of the Executive Board

Name in EUR thousand	Year	Fixed remuneration	Variable remuneration	Stock appreciation rights exercised	Total
Ulrich Wallin	**2012**	**520.0**	**698.9**	**411.3**	**1,630.2**
	2011	520.0	545.4	139.0	1,204.4
André Arrago	**2012**	**320.0**	**352.8**	**88.6**	**761.4**
	2011	320.0	335.3	0.0	655.3
Claude Chèvre	**2012**	**320.0**	**64.8**	**–**	**384.8**
	2011 (2 months)	53.3	–	–	53.3
Jürgen Gräber	**2012**	**400.0**	**490.5**	**671.5**	**1,562.0**
	2011	400.0	459.3	258.1	1,117.4
Dr. Klaus Miller	**2012**	**320.0**	**378.0**	**–**	**698.0**
	2011	320.0	71.2	–	391.2
Dr. Michael Pickel	**2012**	**320.0**	**374.4**	**596.9**	**1,291.3**
	2011	320.0	373.3	223.4	916.7
Roland Vogel [1]	**2012**	**320.0**	**453.4**	**146.6**	**920.0**
	2011	320.0	278.5	45.0	643.5
Dr. Wolf Becke [1, 2]	2012	–	446.2	–	446.2
	2011	300.0	492.4	269.4	1,061.8
Total [3]	**2012**	**2,520.0**	**3,259.0**	**1,914.9**	**7,693.9**
Total	2011	2,553.3	2,555.4	934.9	6,043.6

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

Sideline activities of the members of the Executive Board

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

Retirement provision

Final-salary pension commitment (appointment before 2009)

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

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

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

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

The amount of the benefits is determined according to the pensionable income and the qualifying period of employment. The benefit level as a percentage of the pensionable fixed remuneration is contractually defined upon appointment and increases annually by 1 to 2 percentage points to a maximum of 50%

upon reaching age 65. For the purpose of calculating the retirement pay for Board members appointed in the years up to and including 2008 in the event of a pension entitlement due to permanent incapacity for work, half of the difference between the percentage attained and the percentage that the Board member would have attained upon reaching age 65 is added to the percentage attained until leaving the company.

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

Contribution-based pension commitment (appointment from 2009 onwards)

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

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

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

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

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

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

If the member of the Executive Board dies after pension payments begin, the surviving spouse and alternatively the dependent children shall receive continued payment of the retirement pension for the month of death and the following six months.

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

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

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

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

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

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

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

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

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

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

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

Adjustments

The following parameters are used for adjustments to retirement, widow's and orphan's benefits: the price index for the cost of living of all private households in Germany (contracts from 2001 onwards) or the price index for the cost of living of four-person households of civil servants and higher-income salaried employees (contracts from 1997 to 2000).

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

The pension payments to former members of the Executive Board and their surviving dependants, for whom 13 (13) pension commitments existed, totalled EUR 1.4 million (EUR 1.2 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 22.5 million (EUR 15.8 million).

The projected benefit obligation for Board-funded pension commitments of active members of the Executive Board amounted to EUR 0.1 million (EUR 1.5 million) as at 31 December 2012; the corresponding projected benefit obligation for former members of the Executive Board totalled EUR 0.3 million (EUR 0.8 million) as at 31 December 2012.

Defined benefit commitments

Name in EUR thousand	Financial year	Attainable annual pension (age 65)	DBO 31.12.	Personnel expense
Ulrich Wallin	**2012**	**220.0**	**3,620.2**	**90.5**
	2011	220.0	2,531.2	125.1
André Arrago	**2012**	**127.0**	**2,390.8**	**68.3**
	2011	127.0	1,791.9	96.6
Jürgen Gräber	**2012**	**158.5**	**2,381.1**	**69.9**
	2011	158.5	1,606.0	74.4
Dr. Michael Pickel	**2012**	**120.0**	**1,298.0**	**67.0**
	2011	120.0	800.1	73.9
Roland Vogel [1]	**2012**	**71.2**	**703.5**	**23.7**
	2011	70.9	514.8	142.2
Total	**2012**	**696.7**	**10,393.6**	**319.4**
Total	2011	696.4	7,244.0	512.2

[1] Mr. Vogel was appointed as a member of the Executive Board effective 1 April 2009. He was first granted a pension commitment on the basis of his service to the company prior to 2001; the earned portion of the commitment from the Unterstützungskasse is therefore established as a proportion (in the ratio [currently attained service years since entry]/[attainable service years from entry to exit age]) of the final benefit. Measurement 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 and 2012. The guaranteed interest rate of his commitment is 3.25%.

Defined contribution commitments

Name in EUR thousand	Financial year	Annual funding contribution [1]	Attainable annual pension (age 65)	Premium
Claude Chèvre [2]	**2012**	**25%**	**68.2**	**80.0**
	2011	25%	68.1	80.0
Dr. Klaus Miller [2]	**2012**	**25%**	**48.5**	**80.0**
	2011	25%	48.3	80.0
Total	**2012**		**116.7**	**160.0**
Total	2011		116.4	160.0

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

Remuneration of the Supervisory Board

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

In accordance with § 12 of the Articles of Association as amended on 3 May 2011, the members of the Supervisory Board receive fixed annual remuneration of EUR 30,000 per member in addition to reimbursement of their expenses. Furthermore, each member of the Supervisory Board receives variable remuneration measured according to the average earnings per share (EPS) of the company over the past three financial years preceding the Annual General Meeting at which the actions of the Supervisory Board for the last of these three years are ratified. The variable remuneration amounts to EUR 330 for each EUR 0.10 average earnings per share (EPS) of the company. The measurement of this performance-based remuneration component according to the average earnings per share of the last three financial years ensures that the variable remuneration is geared to sustainable corporate development. The variable remuneration is limited to an annual maximum of EUR 30,000. The Chairman of the Supervisory Board receives twice the aforementioned remuneration amounts and the Deputy Chairman of the Supervisory Board receives one-and-a-half times the said amounts.

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

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

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

Individual remuneration received by the members of the Supervisory Board

Name in EUR thousand [1]	Function	Type of remuneration	2012	2011
Herbert K. Haas [2]	Chairman of the • Supervisory Board • Standing Committee • Finance and Audit Committee • Nomination Committee	Fixed remuneration	100.0	100.0
		Variable remuneration	82.4	112.0
		Remuneration for committee work	85.0	95.5
		Attendance allowances	14.0	12.5
			281.4	**320.0**
Dr. Klaus Sturany	Deputy Chairman of the • Supervisory Board Member of the • Standing Committee • Nomination Committee	Fixed remuneration	45.0	45.0
		Variable remuneration	30.3	28.9
		Remuneration for committee work	7.5	3.7
		Attendance allowances	5.0	4.0
			87.8	**81.6**
Wolf-Dieter Baumgartl	Member of the • Supervisory Board • Standing Committee • Finance and Audit Committee • Nomination Committee	Fixed remuneration	30.0	30.0
		Variable remuneration	20.2	19.3
		Remuneration for committee work	22.5	23.0
		Attendance allowances	9.0	8.0
			81.7	**80.3**
Frauke Heitmüller [3]	Member of the Supervisory Board (from 3 May 2012)	Fixed remuneration	19.8	–
		Variable remuneration	12.9	–
		Remuneration for committee work	–	–
		Attendance allowances	2.0	–
			34.7	**–**

To be continued on the following page

Name in EUR thousand [1]	Function	Type of remuneration	2012	2011
Uwe Kramp [3]	Member of the Supervisory Board (until 3 May 2012)	Fixed remuneration	10.3	30.0
		Variable remuneration	7.4	19.3
		Remuneration for committee work	–	–
		Attendance allowances	2.0	3.0
			19.7	**52.3**
Karl Heinz Midunsky	Member (until 3 May 2011) of the • Supervisory Board • Nomination Committee	Fixed remuneration	–	10.3
		Variable remuneration	0.2	7.3
		Remuneration for committee work	–	–
		Attendance allowances	–	1.0
			0.2	**18.6**
Otto Müller [3]	Member of the Supervisory Board	Fixed remuneration	30.0	30.0
		Variable remuneration	20.2	19.3
		Remuneration for committee work	–	–
		Attendance allowances	4.0	3.0
			54.2	**52.3**
Dr. Andrea Pollak	Member of the Supervisory Board	Fixed remuneration	30.0	19.8
		Variable remuneration	19.9	12.0
		Remuneration for committee work	–	–
		Attendance allowances	4.0	2.0
		Reimbursement of expenses	–	5.9
			53.9	**39.7**
Dr. Immo Querner [2]	Member of the Supervisory Board	Fixed remuneration	50.0	50.0
		Variable remuneration	41.2	55.4
		Remuneration for committee work	10.0	10.0
		Reimbursement of expenses	6.0	5.5
			107.2	**120.9**
Dr. Erhard Schipporeit	Member of the • Supervisory Board • Finance and Audit Committee	Fixed remuneration	30.0	30.0
		Variable remuneration	20.2	19.3
		Remuneration for committee work	15.0	15.3
		Reimbursement of expenses	7.0	6.0
			72.2	**70.6**
Gert Wächtler [3]	Member of the Supervisory Board	Fixed remuneration	30.0	30.0
		Variable remuneration	20.2	19.3
		Remuneration for committee work	–	–
		Reimbursement of expenses	3.0	3.0
			53.2	**52.3**
Total			**846.2**	**888.6**

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 for the variable remuneration are recognised allowing for any fractional amounts. Value-added tax payable upon the remuneration is reimbursed by the company.

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

Loans to members of the management boards and contingent liabilities

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

In 2012 no loan relationships existed with members of Hannover Re's Executive Board or Supervisory Board, nor did the company enter into any contingent liabilities for members of the management boards.

Securities transactions and shareholdings (directors' dealings)

Dealings in shares, options and derivatives of Hannover Rückversicherung AG effected by members of the Executive Board or Supervisory Board of Hannover Re or by other persons with managerial functions who regularly have access to insider information concerning the company and who are authorised to take major business decisions – as well as such dealings conducted by certain persons closely related to the aforementioned individuals – in excess of EUR 5,000 are to be reported pursuant to § 15a Securities Trading Act (WpHG). The reportable transactions listed in the following table took place in the 2012 financial year.

Members of the Supervisory Board and Executive Board of Hannover Re as well as their spouses or registered partners and first-degree relatives hold less than 1.0% of the issued shares. The total holding as at 31 December 2012 amounted to 0.056% (0.055%) of the issued shares, i. e. 67,118 (65,862) shares.

Remuneration of staff and senior executives

Structure and system

The remuneration scheme for senior executives below the Executive Board (management levels 2 and 3) consists of a fixed annual salary and a system of variable remuneration. This is comprised of a short-term variable remuneration component, the annual cash bonus, and a long-term share-based remuneration component, the Share Award Plan. This variable remuneration has been uniformly applied worldwide since 1 January 2012 to all Group senior executives (i. e. Managing Directors, Directors and General Managers). It satisfies the requirements of the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (VersVergV), which entered into force on 13 October 2010, inasmuch as – in its basic principles and parameters – it meets the special requirements of § 4 VersVergV and is appropriately realised according to the various management levels. As part of the reorientation of the remuneration system for senior executives the Share Award Plan of the Executive Board was consciously extended to include management levels 2 and 3. Given that at the same time the stock appreciation rights plan for senior executives was cancelled with effect from the 2012 allocation year, this means that a uniform share-based remuneration component has been maintained for the Executive Board and senior executives alike.

Members of staff on the levels of Chief Manager, Senior Manager and Manager are also able to participate in a variable remuneration system through the Group Performance Bonus (GPB). The Group Performance Bonus (GPB) is a remuneration model launched in 2004 that is linked to the success of the company. This tool is geared to the minimum return on equity of 750 basis points above the risk-free interest rate and the return on equity actually generated. For those participating in the GPB 14.15 monthly salary payments are guaranteed; a maximum of 16.7 salary payments is attainable. Since its launch the maximum amount of the GPB was paid out in 2006, 2007, 2009 and 2010.

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

Securities transactions

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

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

Participants	Level		Variable remuneration system	Number of eligible participants in the variable remuneration system
Managing Director	E1MD	Management level 2	Cash bonus and Share Award Plan	**Hannover Re Group** All 147 Group senior executives worldwide receive a cash bonus upon corresponding goal attainment. 146 of them participate in the Share Award Plan.
Director	E2D	Management level 3		
General Manager	E2GM			
Chief Manager	E3CM		Group Performance Bonus (GPB)	**Home Office Hannover** 547 staff (excl. seconded employees) out of the altogether 1,146 at Hannover Home Office (incl. 89 senior executives) are GPB-eligible.
Senior Manager	E3SM			
Manager	E4AU			
Deputy Manager	E4DA			
Assistant Manager	E5			
Staff undergoing job familiarisation	E6			

Measurement of variable remuneration for senior executives

The measurement of the variable remuneration is based on three elements: Group net income, business group targets and individual targets. The weighting of the elements is dependent upon whether responsibility is carried in a treaty/regional department or in a service department. In the treaty/regional departments the Group net income is weighted at 20%, the business group targets at 40% and the individual targets also at 40%. In the service departments the Group net income carries a 40% weighting, while the individual targets account for 60%. Agreements on business group targets and individual targets as well as on their degree of goal attainment are arrived at as part of the Management by Objectives (MbO) process.

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

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

The measurement of the business group targets – which in the case of the treaty/regional departments account for 40% of overall goal attainment – is geared to the actual value created. The Intrinsic Value Creation (IVC) of the business group encompassing the relevant area of responsibility is therefore used as a one-year measurement basis. Negative performance contributions are excluded here – the minimum possible goal attainment is 0%. The maximum possible goal attainment is limited to 150%.

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

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

Amount and payment of variable remuneration for senior executives

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

MbO bonus

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

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

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

Allocation and payment of share awards to senior executives

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

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

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

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

Forecast

Economic development

Global economy

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

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

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

USA

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

Europe

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

Germany

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

China, India, Japan

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

Capital markets

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

Insurance industry

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

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

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

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

Non-life reinsurance

Overview

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

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

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

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

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

Target markets

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

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

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

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

Specialty lines

We were satisfied with the treaty renewals in specialty lines.

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

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

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

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

We intend to further step up our activities in the area of insurance-linked securities in the current financial year. In this context, our focus will be on packaging and structuring non-life and life reinsurance risks. Our collateralised reinsurance portfolio will also be systematically expanded, and we shall continue to play an active part as an investor in catastrophe bonds.

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

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

Global reinsurance

Treaty reinsurance worldwide

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

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

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

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

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

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

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

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

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

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

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

Global catastrophe business

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

Global facultative reinsurance

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

Life and health reinsurance

Hannover Re has for years been an internationally established and valued business partner in the field of life and health reinsurance. Going forward, as in the past, we shall attach considerable importance to long-term, partnership-based relations with our clients, who benefit from individually tailored reinsurance solutions. We offer our customers reinsurance protection worldwide in all lines of life and health reinsurance. This extends from traditional risk-oriented products through pension and retirement provision solutions to optimisation of a customer's capital management and solvency position. In so doing, we keep a close eye on the balanced global diversification of our life and health reinsurance portfolio as well as our company's internal diversification with the non-life reinsurance business group.

In our assessment, considerable lasting growth potential is offered above all by the emerging markets of Asia as well as of Central and Eastern Europe. The prospects in these dynamic markets are highly promising, because a vigorously growing economy and the associated improvements in living standards have created a middle class with purchasing power that is taking an increasing interest in protecting against life's risks as well as providing for retirement and safeguarding the family. In the Islamic world, too, which often presents an attractive business climate, Sharia-compliant insurance concepts – retakaful business – are coming to play an ever more prominent role. For a number of years now we have successfully responded to the challenge of offering Sharia-compliant reinsurance solutions and we are confident of our ability to consistently expand this business.

In mature insurance markets the demographic trend is reflected most strikingly in demand for longevity covers. Demand is rising among an ageing population for pension and long-term care insurance products as well as disability protection. The longevity sector therefore remains an important market for our company, which we expect to deliver strong business potential going forward. In other lines, by contrast, the developed reinsurance markets are notable for a high degree of insurance penetration and hence are extremely competitive. The order of the day here is to respond to the needs of our customers with individually tailored and innovative insurance concepts.

The shock that international financial markets suffered when a number of major banks found themselves in distress has also caused uncertainty within the insurance industry. By way of more stringent legal requirements national and international regulators alike are seeking to exert greater oversight over insurance companies. In Europe, for example, Solvency II envisages extensive reporting and disclosure duties, the implementation of an adequate risk management system and the putting up of capital resources on a level geared to the underlying risks. This will present considerable challenges, especially for the European insurance industry. Implementation of Solvency II, which was planned for 2013, has, however, been postponed again. It is now anticipated that the rules will probably not fully come into effect until after 2016. In the interim there is debate as to whether uncontroversial parts should be adopted beforehand so as to introduce Solvency II gradually, as it were. As a general principle, it is important to systematically track developments in this respect so to be ready to act without delay when Solvency II is implemented.

As a financially robust and expert partner equipped with an excellent rating of AA- (Standard & Poor's), we shall support our primary insurance customers going forward, as we have in the past, with capital market products and reinsurance concepts designed to afford solvency relief.

Furthermore, we have observed an increased interest in service offerings among our primary insurance customers. Along with the provision of reinsurance protection, clients are looking for holistic service and support. In 2013, therefore, we shall again pay close attention to our continued development and to evaluating just which activities are necessary in order to remain the reliable and trusted reinsurance partner to which our clients are accustomed.

Our business opportunities and risks

Non-life reinsurance

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

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

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

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

Life and health reinsurance

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

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

Internationally, the life and health reinsurance market offers sustained attractive potential. The progressive demographic shift in mature markets such as the United States, United Kingdom, Japan and Germany is generating steadily growing demand for seniors', long-term care and annuity insurance products. In so-called emerging markets such as India, Brazil and also Russia dynamic economic growth is creating a middle class with purchasing power, which is taking an increasingly strong interest in protecting their families and preserving their wealth as well as safeguarding their health and providing for retirement.

On account of regulatory rules imposing more rigorous capital requirements and solvency standards on primary insurers, particularly promising business opportunities will be available going forward when it comes to optimising their capital, liquidity and risk management. The implementation of Solvency II will also play a pivotal role in this regard, and individual reinsurance solutions designed to reduce the risk capital that insurers are required to hold to cover risks will attract growing attention.

Under these conditions, we are convinced that the international life and health reinsurance market will offer healthy earnings opportunities for our company in the years ahead, as it has in the past.

Investments

Against the backdrop of the European debt crisis – which has still to be overcome – and the associated uncertainties, we shall maintain the conservative orientation of our investment portfolio. Similarly, with regard to our holdings of corporate bonds from the financial sector we shall continue to attach considerable importance to broad diversification. The share of these instruments in our total portfolio will be kept largely unchanged. What is more, we shall strive for a neutral maturity structure of assets and liabilities.

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

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

Outlook for the full 2013 financial year

In the current year we anticipate a very good overall result for the Hannover Re Group. Our non-life reinsurance business group is expected to deliver an increase of 3% to 5% in gross premium income at constant exchange rates.

In the life and health reinsurance business group we are aiming for further organic growth. An increase of 5% to 7% in gross premium is anticipated for 2013.

Based on constant exchange rates, we therefore expect to grow our total gross premium for the Hannover Re Group by around 5%.

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. We are targeting a return on investment of 3.4%.

Assuming that the burden of major losses does not significantly exceed the expected level of EUR 625 million and that there are no downturns on capital markets, Hannover Re expects to generate Group net income in the order of EUR 800 million for the 2013 financial year.

Matters of special significance arising after the closing date for the consolidated financial statements are discussed in Section 8.11 of the notes "Events after the balance sheet date" on page 201.

Outlook for 2014/2015

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

In non-life reinsurance we anticipate growth in premium volume averaging around 3% to 5%. We are looking to generate an EBIT margin of at least 10%.

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

The return on investment of 3.4% targeted for 2013 is, however, likely to decrease further in 2014.

Our strategic objective on the Group level is to achieve a return on equity at least 750 basis points above the risk-free interest rate. We also seek to increase both the earnings per share and the book value per share (including dividends paid) by at least 10% annually

Profit and growth targets 2013

Business group	Key data	Strategic targets
Group	Investment return [1]	≥ 3.4%
	Return on equity	≥9.7% [2]
	Growth in earnings per share (year-on-year comparison)	≥10%
	Value creation per share [3]	≥10%
Non-life reinsurance	Gross premium growth [4]	3–5%
	Combined ratio [5]	≤96%
	EBIT margin [6]	≥10%
	xRoCA [7]	≥2%
Life and health reinsurance	Gross premium growth [8]	5–7%
	Value of New Business (VNB) growth	≥10%
	EBIT margin [6] Financial Solutions/Longevity	≥2%
	EBIT margin [6] Mortality/Morbidity	≥6%
	xRoCA [7]	≥5%

1 Excluding inflation swaps and ModCo derivatives
2 750 basis points above the 5-year average return on 10-year German government bonds after tax
3 Growth in book value per share including dividends paid
4 Average over the reinsurance cycle
5 Including major loss budget of EUR 625 million
6 EBIT/net premium earned
7 Excess return on allocated economic capital
8 Organic growth only

Consolidated financial statements

Consolidated balance sheet as at 31 December 2012

Assets in EUR thousand	Notes	31.12.2012	31.12.2011
Fixed-income securities – held to maturity	6.1	3,605,956	4,156,089
Fixed-income securities – loans and receivables	6.1	3,415,187	3,524,735
Fixed-income securities – available for sale	6.1	21,782,072	17,328,911
Fixed-income securities – at fair value through profit or loss	6.1	147,413	161,130
Equity securities – available for sale	6.1	29,246	40,387
Other financial assets – at fair value through profit or loss	6.1	60,835	21,026
Real estate and real estate funds	6.1	647,961	525,097
Investments in associated companies	6.1	133,017	127,554
Other invested assets	6.1	970,798	931,421
Short-term investments	6.1	509,718	1,017,886
Cash	6.1	572,188	506,963
Total investments and cash under own management		**31,874,391**	**28,341,199**
Funds withheld	6.2	14,627,847	13,232,054
Contract deposits	6.3	123,258	109,719
Total investments		**46,625,496**	**41,682,972**
Reinsurance recoverables on unpaid claims	6.7	1,538,215	1,550,587
Reinsurance recoverables on benefit reserve	6.7	507,257	380,714
Prepaid reinsurance premium	6.7	138,373	91,823
Reinsurance recoverables on other technical reserves	6.7	2,611	7,810
Deferred acquisition costs	6.4	1,841,279	1,926,570
Accounts receivable	6.4	3,065,664	3,139,327
Goodwill	6.5	59,099	59,289
Deferred tax assets	7.5	620,493	682,888
Other assets	6.6	402,655	336,650
Accrued interest and rent		4,238	5,931
Assets held for sale	6.1	6,333	2,391
Total assets		**54,811,713**	**49,866,952**

Liabilities in EUR thousand	Notes	31.12.2012	31.12.2011
Loss and loss adjustment expense reserve	6.7	21,610,698	20,767,317
Benefit reserve	6.7	10,974,570	10,309,066
Unearned premium reserve	6.7	2,339,809	2,215,864
Other technical provisions	6.7	214,219	207,262
Funds withheld	6.8	821,060	644,587
Contract deposits	6.9	5,797,884	5,008,193
Reinsurance payable		1,121,409	733,348
Provisions for pensions	6.10	86,464	88,299
Taxes	7.5	237,552	185,015
Deferred tax liabilities	7.5	1,972,373	1,723,265
Other liabilities	6.11	494,604	443,671
Long-term debt and subordinated capital	6.12	2,400,791	1,934,410
Total liabilities		**48,071,433**	**44,260,297**
Shareholders' equity			
Common shares	6.13	120,597	120,597
Nominal value: 120,597 Conditional capital: 60,299	6.13		
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		987,918	453,115
Cumulative foreign currency translation adjustment		(16,216)	11,559
Changes from hedging instruments		(9,455)	–
Other changes in cumulative other comprehensive income		(27,211)	(18,553)
Total other comprehensive income		**935,036**	**446,121**
Retained earnings		4,275,613	3,679,351
Equity attributable to shareholders of Hannover Re		**6,055,808**	**4,970,631**
Non-controlling interests	6.13	684,472	636,024
Total shareholders' equity		**6,740,280**	**5,606,655**
Total liabilities		**54,811,713**	**49,866,952**

Consolidated statement of income 2012

in EUR thousand	Notes	1.1.–31.12.2012	1.1.–31.12.2011
Gross written premium	7.1	13,774,244	12,096,113
Ceded written premium		1,407,851	1,069,745
Change in gross unearned premium		(146,108)	(269,189)
Change in ceded unearned premium		58,957	(5,668)
Net premium earned		**12,279,242**	**10,751,511**
Ordinary investment income	7.2	1,088,409	966,171
Profit/loss from investments in associated companies	7.2	10,415	3,088
Realised gains and losses on investments	7.2	227,508	179,560
Unrealised gains and losses on investments	7.2	89,268	(38,795)
Total depreciation, impairments and appreciation of investments	7.2	19,067	(5,801)
Other investment expenses	7.2	96,369	70,322
Net income from investments under own management		**1,300,164**	**1,045,503**
Income/expense on funds withheld and contract deposits	7.2	355,486	338,538
Net investment income		**1,655,650**	**1,384,041**
Other technical income	7.3	1,455	8,841
Total revenues		**13,936,347**	**12,144,393**
Claims and claims expenses	7.3	8,853,346	8,029,895
Change in benefit reserves	7.3	529,283	621,460
Commission and brokerage, change in deferred acquisition costs	7.3	2,649,693	2,336,128
Other acquisition costs		17,353	10,675
Other technical expenses	7.3	4,575	8,954
Administrative expenses	7.3	310,790	289,063
Total technical expenses		**12,365,040**	**11,296,175**
Other income and expenses	7.4	(164,844)	(6,801)
Operating profit/loss (EBIT)		**1,406,463**	**841,417**
Interest on hybrid capital	6.12	104,511	99,169
Net income before taxes		**1,301,952**	**742,248**
Taxes	7.5	368,229	65,460
Net income		**933,723**	**676,788**
thereof			
Non-controlling interest in profit and loss		75,411	70,815
Group net income		**858,312**	**605,973**
Earnings per share (in EUR)	**8.5**		
Basic earnings per share		7.12	5.02
Diluted earnings per share		7.12	5.02

Consolidated statement of comprehensive income 2012

in EUR thousand	1.1.–31.12.2012	1.1.–31.12.2011
Net income	933,723	676,788
Unrealised gains and losses on investments		
Gains (losses) recognised directly in equity	944,864	257,798
Transferred to the consolidated statement of income	(156,920)	(138,484)
Tax income (expense)	(218,330)	(34,919)
	569,614	**84,395**
Currency translation		
Gains (losses) recognised directly in equity	(32,428)	46,970
Transferred to the consolidated statement of income	–	23,098
Tax income (expense)	2,807	(5,383)
	(29,621)	**64,685**
Changes from hedging instruments		
Gains (losses) recognised directly in equity	(13,890)	–
Tax income (expense)	4,435	–
	(9,455)	–
Changes from the measurement of associated companies		
Gains (losses) recognised directly in equity	4,806	(3,101)
	4,806	**(3,101)**
Other changes		
Gains (losses) recognised directly in equity	(12,429)	(25,464)
Tax income (expense)	3,771	7,477
	(8,658)	**(17,987)**
Total income and expense recognised directly in equity		
Gains (losses) recognised directly in equity	890,923	276,203
Transferred to the consolidated statement of income	(156,920)	(115,386)
Tax income (expense)	(207,317)	(32,825)
	526,686	**127,992**
Total recognised income and expense	**1,460,409**	**804,780**
thereof:		
Attributable to non-controlling interests	107,280	65,376
Attributable to shareholders of Hannover Re	1,353,129	739,404

Consolidated statement of changes in shareholders' equity 2012

in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)	
			Unrealised gains/losses	Currency translation
Balance as at 1.1.2011	120,597	724,562	372,094	(52,954)
Changes in ownership interest with no change of control status	–	–	–	–
Changes in the consolidated group	–	–	–	–
Capital increases/additions	–	–	–	–
Capital repayments	–	–	–	–
Acquisition/disposal of treasury shares	–	–	–	–
Total income and expense recognised directly in equity	–	–	81,021	64,513
Net income	–	–	–	–
Dividends paid	–	–	–	–
Balance as at 31.12.2011	**120,597**	**724,562**	**453,115**	**11,559**
Balance as at 1.1.2012	**120,597**	**724,562**	**453,115**	**11,559**
Changes in ownership interest with no change of control status	–	–	(150)	(35)
Changes in the consolidated group	–	–	–	–
Capital increases/additions	–	–	–	–
Capital repayments	–	–	–	–
Acquisition/disposal of treasury shares	–	–	–	–
Total income and expense recognised in equity	–	–	540,670	(27,740)
Other changes recognised outside income [1]	–	–	(5,717)	–
Net income	–	–	–	–
Dividends paid	–	–	–	–
Balance as at 31.12.2012	**120,597**	**724,562**	**987,918**	**(16,216)**

[1] See Section 3.1 "Changes in accounting policies"

Continuation: Other reserves (cumulative other comprehensive income)		Retained earnings	Equity attributable to shareholders of Hannover Re	Non-controlling interests	Total shareholders' equity
Hedging instruments	Other				
–	(6,450)	3,351,116	4,508,965	608,903	5,117,868
–	–	15	15	179	194
–	–	–	–	15	15
–	–	–	–	30	30
–	–	–	–	(8)	(8)
–	–	(380)	(380)	–	(380)
–	(12,103)	–	133,431	(5,439)	127,992
–	–	605,973	605,973	70,815	676,788
–	–	(277,373)	(277,373)	(38,471)	(315,844)
–	**(18,553)**	**3,679,351**	**4,970,631**	**636,024**	**5,606,655**
–	**(18,553)**	**3,679,351**	**4,970,631**	**636,024**	**5,606,655**
–	–	(1,434)	(1,619)	1,685	66
–	–	(12,716)	(12,716)	1,026	(11,690)
–	–	–	–	13,586	13,586
–	–	–	–	(6,389)	(6,389)
–	–	(363)	(363)	–	(363)
(9,455)	(8,658)	–	494,817	31,869	526,686
–	–	5,717	–	–	–
–	–	858,312	858,312	75,411	933,723
–	–	(253,254)	(253,254)	(68,740)	(321,994)
(9,455)	**(27,211)**	**4,275,613**	**6,055,808**	**684,472**	**6,740,280**

Consolidated cash flow statement 2012

in EUR thousand	1.1.–31.12.2012	1.1.–31.12.2011
I. Cash flow from operating activities		
Net income	933,723	676,788
Appreciation/depreciation	51,861	8,125
Net realised gains and losses on investments	(227,508)	(179,560)
Net unrealised gains and losses on investments	(89,268)	38,795
Amortisation of investments	75,002	52,488
Changes in funds withheld	(1,184,267)	(1,632,756)
Net changes in contract deposits	787,965	828,891
Changes in prepaid reinsurance premium (net)	87,280	274,857
Changes in tax assets/provisions for taxes	161,154	(88,173)
Changes in benefit reserve (net)	485,498	1,119,973
Changes in claims reserves (net)	960,198	1,782,089
Changes in deferred acquisition costs	79,805	(75,477)
Changes in other technical provisions	15,385	17,384
Changes in clearing balances	436,653	(268,688)
Changes in other assets and liabilities (net)	63,681	(31,874)
Cash flow from operating activities	**2,637,162**	**2,522,862**

in EUR thousand	1.1.–31.12.2012	1.1.–31.12.2011
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	508,246	305,222
Purchases	–	(57,819)
Fixed-income securities – loans and receivables		
Maturities, sales	335,939	595,645
Purchases	(229,982)	(1,751,879)
Fixed-income securities – available for sale		
Maturities, sales	9,082,887	8,306,715
Purchases	(12,815,691)	(10,465,318)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	45,226	78,924
Purchases	(20,982)	(35,793)
Equity securities – available for sale		
Sales	17,220	730,689
Purchases	(1,996)	(281,014)
Other financial assets – at fair value through profit or loss		
Sales	2,071	468
Other invested assets		
Sales	180,259	95,050
Purchases	(188,416)	(162,155)
Affiliated companies and participating interests		
Sales	79	140,765
Purchases	(5,883)	(20,856)
Real estate and real estate funds		
Sales	232,894	37,868
Purchases	(315,107)	(148,431)
Short-term investments		
Changes	499,466	608,113
Other changes (net)	(39,097)	(17,447)
Cash flow from investing activities	**(2,712,867)**	**(2,041,253)**

in EUR thousand	1.1.–31.12.2012	1.1.–31.12.2011
III. Cash flow from financing activities		
Contribution from capital measures	15,633	30
Payment on capital measures	(8,307)	(4,110)
Acquisition/disposal of treasury shares	(363)	(380)
Structural change without loss of control	66	194
Dividends paid	(321,994)	(315,844)
Proceeds from long-term debts	588,575	31,056
Repayment of long-term debts	(125,243)	(160,812)
Cash flow from financing activities	**148,367**	**(449,866)**
IV. Exchange rate differences on cash	**(7,437)**	**(7)**
Cash and cash equivalents at the beginning of the period	**506,963**	**475,227** [1]
Change in cash and cash equivalents (I.+II.+III.+IV.)	**65,225**	**31,736**
Cash and cash equivalents at the end of the period	**572,188**	**506,963**
Supplementary information on the cash flow statement [2]		
Income taxes paid	(226,263)	(97,503)
Dividend receipts [3]	84,196	35,901
Interest received	1,395,741	1,191,214
Interest paid	(133,900)	(132,483)

[1] Thereof cash and cash equivalents of EUR 27,474 thousand of the companies of Clarendon Insurance Group, Inc., Wilmington, recognised as a disposal group

[2] In the year under review the supplementary information on the cash flow statement was expanded to include dividend receipts as well as a breakdown of interest received and paid. The figures for the previous year were recalculated in this context. The income taxes as well as dividend receipts and interest received are included entirely in the cash flow from operating activities. The interest paid is attributable in an amount of EUR 107,543 thousand (EUR 107,964 thousand) to the cash flow from financing activities and in an amount of EUR 26,357 thousand (EUR 24,519 thousand) to the cash flow from operating activities.

[3] Including dividend-like profit participations from investment funds

Notes to the consolidated financial statements 2012

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 13.8 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 2,300. The Group's German business is conducted by the subsidiary E+S Rückversicherung AG ("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 majority-owned (with a stake of 82.3%) 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 2012 as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), application of which was mandatory for the 2012 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 Number 2 German Commercial Code (HGB) also contains requirements for insurance undertakings with regard to information on the management of technical and financial risks that is 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 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. 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 released for publication by the Executive Board on 18 February 2013.

New accounting standards or accounting standards applied for the first time

In October 2010 the IASB published "Disclosures – Transfers of Financial Assets (Amendments to IFRS 7)" to enhance the disclosures for transactions involving transfers of financial assets. The amendments increase the disclosure requirements in order to understand the relationship between transferred financial assets that are not derecognised or not derecognised in their entirety and the associated liabilities, such as the nature of the remaining risks and rewards of ownership.

In addition, for transfers of financial assets that result in full derecognition but where the entity has continuing involvement in the assets, information is to be disclosed that allows users to evaluate the nature of and risks associated with the entity's continuing involvement in derecognised financial assets. This includes, inter alia, the maximum exposure to loss from continuing involvement as well as a maturity analysis of future cash flows. The amendments, which are applicable for the first time in the 2012 financial year, had no implications for Hannover Re in the period under review.

The amendments published in December 2010 "Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)" introduce a rebuttable presumption that the carrying amount of investment property will be recovered entirely through sale. This is intended to simplify the distinction as to whether the carrying amount of an asset is recovered through use or sale. Under the transitional provisions of the standard, the effective date of the amendments of IAS 12 is for annual periods beginning on or after 1 January 2012. The new requirements do not have any significant implications for the assets, financial position or net income of the Group.

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" replaced 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.

In June 2012 the IASB issued "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12". These amendments clarify that the effective date of IFRS 10 is 1 January 2013, if the financial year coincides with the calendar year. The requirement to provide adjusted comparative information is limited upon initial application to only the immediately preceding period; retrospective adjustments for subsidiaries sold in the comparative period are not required. Furthermore, it is not necessary to provide comparative information on unconsolidated structured entities upon initial application of IFRS 12.

In October 2012 the IASB issued "Investment Entities (Changes to IFRS 10, IFRS 12 and IAS 27)". Insofar as the parent company meets the definition of an investment entity, an exception is provided in relation to the consolidation of subsidiaries required under IFRS 10. Rather than consolidate them, such parent companies measure their investments in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 "Financial Instruments" or IAS 39 "Financial Instruments: Recognition and Measurement".

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. The Accounting Regulatory Committee (ARC) decided in June 2012 that application of the aforementioned standards within the EU shall not be mandatory until one year later, with an effective date of 1 January 2014. While the new IFRS 10, 11, 12 and the revised IAS 27 and 28 were ratified by the EU in December 2012, ratification of the amendments published in the year just ended is still pending.

IFRS 13 "Fair Value Measurement", a standard published in May 2011, 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.

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. Subtotals are to be shown accordingly for the two groups. 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 therefore have to be recognised entirely in OCI and cannot be recycled through profit or loss in subsequent periods. 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 were ratified by the EU during the period under review.

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 ratified 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	Adoption by European Commission
Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013	13 December 2012
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	1 January 2014	13 December 2012

3. Accounting policies

3.1 Changes in accounting policies

The treatment of tax expenditures in connection with unrealised income and expenses from investments that are already taxable under local tax law has been corrected for prior financial years. In the 2012 financial year this resulted in an increase in retained earnings that was recognised outside income and a reduction in unrealised gains and losses on investments in amounts of EUR 5.7 million respectively. Retrospective adjustment of the disclosure for the previous year would have led to a reduction in tax expenditure of EUR 0.3 million. Adjustment of the previous year was omitted in view of the relative insignificance of the amounts involved.

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 125. For further information please see our explanatory remarks on the fair value hierarchy in Section 6.1 "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 subsequently discussed 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.

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, actuarial parameters, interest rate curve	Present-value method

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 impairment 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 "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, impairments may be taken after an annual impairment test or as indicated. 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 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. For detailed information on the impairment method used and the goodwill recognised as at the balance sheet date, please see Section 6.5 "Goodwill".

The other intangible assets largely consist of purchased and self-developed software. This is recognised at acquisition cost less scheduled depreciation. Intangible assets are regularly tested for impairment and impairment is taken where necessary. The other intangible assets also include acquired life reinsurance portfolios. These are carried at the present value of future profits (PVFP) at time of acquisition, which is calculated as the present value of profits expected from the acquired blocks of business disregarding new business and tax effects. Scheduled amortisation is taken according to the periods of the underlying acquired contracts. The PVFP is regularly tested for impairment using a liability adequacy test and impairments are taken if necessary. In this regard please see Section 3.3 "Major discretionary decisions and estimates".

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 and liabilities are not established if they arise out of assets or liabilities, the carrying amount of which upon first-time recognition diverges from their initial tax base.

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 Rückversicherung AG.

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 instruments 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 and for which a settlement is neither planned nor likely to occur are similarly recognised outside the statement of income in a separate item of shareholders' equity.

Key exchange rates

1 EUR corresponds to:	31.12.2012	31.12.2011	2012	2011
	Mean rate of exchange on the balance sheet date		Average rate of exchange	
AUD	1.2690	1.2723	1.2465	1.3419
BHD	0.4970	0.4881	0.4875	0.5253
CAD	1.3119	1.3198	1.2921	1.3765
CNY	8.2148	8.1489	8.1475	9.0027
GBP	0.8180	0.8362	0.8136	0.8704
HKD	10.2186	10.0565	10.0306	10.8451
KRW	1,407.2395	1,500.6009	1,451.8625	1,541.9185
MYR	4.0364	4.1038	3.9864	4.2592
SEK	8.5742	8.9063	8.6973	9.0121
USD	1.3182	1.2946	1.2932	1.3934
ZAR	11.2069	10.4800	10.5674	10.0559

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 a calculation pro rata temporis is not available. The unearned premium corresponds to the insurance protection afforded in future periods.

Taxes: the taxes are comprised of the actual tax load on corporate profits of the Group companies, to which the applicable local tax rates are applied, as well as changes in deferred tax assets and liabilities. Income and expenses arising out of interest or penalties payable to the revenue authorities are shown under other income and expenses. The calculation of the deferred tax assets and liabilities is based on tax loss carry-forwards, unused tax credits and temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet of the Hannover Re Group and their tax values. Further information on deferred taxes is provided in our remarks on deferred tax assets and liabilities.

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 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 60 et seq. We would further refer to our explanatory remarks on the technical reserves in Section 3.2 "Summary of major accounting policies" and Section 6.7 "Technical provisions".

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" and on the liability adequacy tests in Section 6.7 "Technical provisions".

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.

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.

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.

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 16 (15) companies at home and abroad were not fully consolidated in the year under review. A further 16 (15) companies were not included at equity in the consolidated financial statement for the same reason. The business object of these altogether 32 (30) companies is for the most part the rendering of services for reinsurance companies within the Group.

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 75.4 million (EUR 70.8 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.

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	2012	2011
Consolidated companies		
Germany	17	16
Abroad [1]	55	52
Total	**72**	**68**
Consolidated special purpose entities and special funds		
Abroad [1]	3	3
Sum total	**75**	**71**
Companies included at equity		
Germany	3	3
Abroad [2]	6	6
Total	**9**	**9**

[1] Consists of: 20 (19) individual companies and 38 (36) companies which are fully consolidated in 3 (3) subgroups.
[2] Consists of: 2 (1) associated companies and 4 (5) 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 § 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 15 May 2012, 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.

List of shareholdings

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Affiliated companies resident in Germany				
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany [1, 2]	100.00	EUR	2,071,855	–
Hannover Life Re AG, Hannover/Germany [1, 2]	100.00	EUR	1,582,596	–
HILSP Komplementär GmbH, Hannover/Germany [3]	100.00	EUR	25	(1)
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover/Germany [3]	100.00	EUR	55,855	5,036
Funis GmbH & Co. KG, Hannover/Germany [3]	100.00	EUR	24,353	(10,687)
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover/Germany [3]	95.28	EUR	205,314	20,299
HAPEP II Holding GmbH, Hannover/Germany [3]	95.28	EUR	30,305	8,638
HAPEP II Komplementär GmbH, Hannover/Germany [3]	81.84	EUR	27	–
Hannover Re Euro PE Holdings GmbH & Co. KG, Hannover/Germany [3]	90.92	EUR	83,826	1,219
Hannover Re Euro RE Holdings GmbH, Hannover/Germany [4]	81.84	EUR	181,975	1,163
HR GLL Central Europe GmbH & Co. KG, Munich/Germany [5]	74.40	EUR	110	–
Hannover Euro Private Equity Partners III GmbH & Co. KG, Cologne/Germany [3]	67.08	EUR	42,815	6,394
HEPEP III Holding GmbH, Cologne/Germany [3]	67.08	EUR	9,546	393
E+S Rückversicherung AG, Hannover/Germany [1]	63.69	EUR	733,413	142,000
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Cologne/Germany [3]	60.17	EUR	86,192	3,542
Hannover Euro Private Equity Partners II GmbH & Co. KG, Cologne/Germany [3]	57.50	EUR	8,709	8,422
HEPEP II Holding GmbH, Cologne/Germany [3]	57.50	EUR	4,539	4,508
Affiliated companies resident abroad				
Hannover Finance (Luxembourg) S.A., Luxembourg/Luxembourg [1]	100.00	EUR	30,475	(1,304)
Hannover Finance (UK) Limited, Virginia Water/United Kingdom [1]	100.00	GBP	131,102	19
Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda	100.00	EUR	202,559	29,928
Hannover Life Reassurance Company of America, Orlando/USA [1]	100.00	USD	180,976	9,378
Hannover Re (Ireland) Public Limited Company, Dublin/Ireland [1, 6]	100.00	EUR	1,318,616	106,336
Hannover Life Reassurance (UK) Limited, Virginia Water/United Kingdom [1]	100.00	GBP	38,751	2,834
Hannover Life Re of Australasia Ltd, Sydney/Australia [1]	100.00	AUD	336,480	38,073
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda [1]	100.00	EUR	1,056,837	169,716
Hannover ReTakaful B.S.C. (c), Manama/Bahrain [1]	100.00	BHD	41,070	6,768

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Hannover Services (UK) Limited, Virginia Water/United Kingdom	100.00	GBP	666	4
International Insurance Company of Hannover Limited, Bracknell/United Kingdom [1]	100.00	GBP	121,759	6,259
Inter Hannover (No.1) Limited, London/United Kingdom [1]	100.00	GBP	(4,265)	1
Leine Investment General Partner S.à r.l., Luxembourg/Luxembourg [5]	100.00	EUR	30	–
Leine Investment SICAV-SIF, Luxembourg/Luxembourg [5]	100.00	USD	200	–
Hannover Re (Guernsey) PCC Limited, St Peter Port/Guernsey [1]	100.00	EUR	254	2
Fracom FCP, Paris/France [7]	100.00	EUR	877,017	25,935
Kaith Re Ltd., Hamilton/Bermuda [1]	88.00	USD	95	(291)
Integra Insurance Solutions Limited, Bradford/United Kingdom [8]	74.99	GBP	509	636
Secquaero ILS Fund Ltd., Georgetown, Grand Cayman/Cayman Islands [9]	74.09	USD	73,651	2,884
Svedea AB, Stockholm/Sweden	53.00	SEK	4,630	(44,890)
Subgroups resident abroad				
Hannover Finance, Inc., Wilmington/USA [9]	100.00	USD	509,913	9,087
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	–
Atlantic Capital Corporation, Wilmington/USA [9, 10.11]	100.00	USD	(111,867)	–
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR	210,017	154,417
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 Limited, Johannesburg/South Africa	100.00	ZAR	416,212	(7,678)
Hannover Reinsurance Africa Limited, Johannesburg/South Africa	100.00	ZAR	781,523	145,608
Compass Insurance Company Limited, Johannesburg/South Africa	100.00	ZAR	109,595	229
Micawber 185 (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR	17,976	2,121
Peachtree (Pty) Ltd., Johannesburg/South Africa [10]	100.00	ZAR	–	–
Hannover Reinsurance Mauritius Ltd., Port Louis/Mauritius	100.00	MUR	50,178	3,785
Lireas Holdings (Pty) Ltd., Johannesburg/South Africa	51.00	ZAR	189,537	21,353
Transit Underwriting Managers (Pty) Ltd., Cape Town/South Africa	51.00	ZAR	991	185
MUA Insurance Company Ltd., Cape Town/South Africa	51.00	ZAR	10,332	547
MUA Insurance Acceptances (Pty) Ltd., Cape Town/South Africa	40.80	ZAR	2,207	(2,168)

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Garagesure Consultants and Acceptances (Pty) Ltd., Johannesburg/South Africa	40.80	ZAR	955	1,614
Cargo Transit Insurance (Pty) Ltd., Helderkruin/South Africa	40.80	ZAR	(4,499)	(1,977)
Landmark Underwriting Agency (Pty) Ltd., Bloemfontein/South Africa	38.51	ZAR	2,586	(361)
Hospitality Industrial and Commercial Underwriting Managers (Pty) Ltd., Johannesburg/South Africa	36.82	ZAR	2,375	2,472
SUM Holdings (Pty) Ltd., Johannesburg/South Africa	36.82	ZAR	19,068	3,418
Thatch Risk Acceptances (Pty) Ltd., Cape Town/South Africa	33.14	ZAR	1,466	2,219
Gem & Jewel Acceptances (Pty) Ltd., Johannesburg/South Africa	30.60	ZAR	974	3,116
Construction Guarantee (Pty) Ltd., Parktown/South Africa[10]	30.60	ZAR	–	6,969
Envirosure Underwriting Managers (Pty) Ltd., Durban/South Africa	30.60	ZAR	(415)	1,275
Woodworking Risk Acceptances (Pty) Ltd., Pietermaritzburg/South Africa	30.60	ZAR	540	(970)
Film & Entertainment Underwriters SA (Pty) Ltd., Johannesburg/South Africa	26.01	ZAR	(1,444)	35
Associated companies				
Firedart & Construction Guarantee Underwriting Managers (Pty) Ltd., Johannesburg/South Africa	25.45	ZAR	11,321	6,473
Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg/South Africa	20.40	ZAR	14,460	23,236
Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg/South Africa[1]	16.66	ZAR	21,400	44,794
Camargue Underwriting Managers (Pty) Ltd., Parktown/South Africa	13.26	ZAR	7,274	3,168
Participations (non-consolidated)				
Clarenfin (Pty) Ltd., Johannesburg/South Africa[12]	16.66	ZAR	–	–
Hannover Re Real Estate Holdings, Inc., Orlando/USA[9]	95.10	USD	377,855	32,023
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[9]	95.10	USD	564	(1,075)
5115 Sedge Boulevard, LP, Chicago/USA[9, 11]	95.10	USD	(1,574)	(1,622)
GLL HRE CORE PROPERTIES, LP, Wilmington/USA[9]	95.00	USD	198,698	38,168
11 Stanwix, LLC, Pittsburgh/USA[9]	95.00	USD	30,139	546
One Winthrop Square, LLC, Wilmington/USA[9]	95.00	USD	22,196	630
402 Santa Monica Blvd, LLC, Wilmington/USA[9]	95.00	USD	31,358	706
300 South Orange Avenue, LLC, Orlando/USA[9]	95.00	USD	55,104	1,209
465 Broadway, LLC, Wilmington/USA[9, 10]	95.00	USD	(1,085)	13,757

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Nashville (Tennessee) West, LLC, Wilmington/USA [9]	95.00	USD	30,611	(217)
1225 West Washington, LLC, Tempe/USA [9]	95.00	USD	22,162	31
975 Carroll Square, LLC, Washington D.C. /USA [9]	95.00	USD	60,519	431
GLL Terry Francois Blvd, LLC, Wilmington/USA [9, 10]	48.40	USD	4,823	51,980
Associated companies resident in Germany				
Oval Office Grundstücks GmbH, Hannover/Germany [1]	50.00	EUR	59,657	1,804
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover/Germany [4]	32.74	EUR	87,625	5,314
HANNOVER Finanz GmbH, Hannover/Germany [4]	25.00	EUR	70,674	7,194
Associated companies resident abroad				
ITAS Vita S.p.A., Trent/Italy [4]	34.88	EUR	76,354	55
ASPECTA Assurance International AG, Vaduz/Liechtenstein [4]	30.00	CHF	15,964	6,297
Participations in Germany (non-consolidated)				
International Hannover Holding AG, Hannover/Germany [12]	100.00	EUR	44	(3)
Capital System GmbH, Hannover/Germany [4]	49.00	EUR	211	(64)
Participations abroad (non-consolidated)				
International Mining Industry Underwriters Limited, London/United Kingdom [1]	100.00	GBP	480	70
HR Hannover Re, Correduría de Reaseguros, S.A., Madrid/Spain [1]	100.00	EUR	266	35
LRA Superannuation Plan Pty Ltd., Sydney/Australia [12]	100.00	AUD	–	–
Mediterranean Reinsurance Services Ltd., Hong Kong/China [10, 13]	100.00	USD	125	–
Hannover Re Services Japan K.K., Tokyo/Japan [1]	100.00	JPY	94,533	1,683
Hannover Re Consulting Services India Private Limited, Mumbai/India [8]	100.00	INR	58,620	7,973
Hannover Life Re Consultants, Inc., Orlando/USA [4]	100.00	USD	201	2
Hannover Services (México) S.A. de C.V., Mexico City/Mexico [4]	100.00	MXN	10,777	225
Hannover Re Services USA, Inc., Itasca/USA	100.00	USD	872	27
Hannover Rückversicherung AG Escritório de Representação no Brasil Ltda., Rio de Janeiro/Brazil [4]	100.00	BRL	320	(58)
L&E Holdings Limited, London/United Kingdom [1]	100.00	GBP	9	82
London & European Title Insurance Services Limited, London/United Kingdom [1]	100.00	GBP	80	(283)
Hannover Re Services Italy S.R.L., Milan/Italy [1]	99.64	EUR	485	103
Glencar Underwriting Managers, Inc., Itasca/USA [4]	95.90	USD	1,789	(713)
Secquaero Re Vinyard IC Ltd., St Peter Port/Guernsey [5]	74.09	USD	2,075	–

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Hannover Care AB, Stockholm/Sweden [4]	30.00	SEK	446	(1,363)
Energi, Inc., Peabody/MA, USA [4]	28.50	USD	6,758	(884)
Energi Insurance Services, Inc., Peabody/MA, USA [4]	28.50	USD	738	(567)
Energi of Canada Ltd., Toronto/Canada [14]	28.50	CAD	–	–
Energi Re, LLC, Dover/USA [4]	28.50	USD	336	86
Hurst Holme Insurance Company Limited – account 2006-03 SCC, Hamilton/Bermuda [4]	28.50	USD	818	38
Hurst Holme Insurance Company Limited – account 2009-01 SCC, Hamilton/Bermuda [4]	28.50	USD	2,577	1,000
XS Direct Holdings Limited, Dublin/Ireland [4]	25.00	EUR	1,741	(3,129)
SimShare Limited, Dublin/Ireland [4]	25.00	EUR	645	(2,448)
XS Direct Insurance Brokers Limited, Dublin/Ireland [4]	25.00	EUR	36	208
Indemnity Guarantee Company Limited, Dublin/Ireland [4, 10]	25.00	EUR	(6)	–
Sciemus Power MGA Limited, London/United Kingdom [4]	25.00	GBP	1	–
PlaNet Guarantee (SAS), Saint-Ouen/France [4]	23.58	EUR	651	(797)
Iconica Business Services Limited, Bradford/United Kingdom [5]	18.75	GBP	301	–
Acte Vie S.A. Compagnie d’Assurances sur la Vie et de Capitalisation, Strasbourg/France [4]	9.38	EUR	8,404	140

1 Provisional (unaudited) figures
2 Year-end result after profit transfer
3 Financial year as at 30 September 2012
4 Figures as at 31 December 2011
5 Company was newly established in 2012; an annual financial statement is not yet available
6 Formerly Hannover Life Reassurance (Ireland) PLC, merged with Hannover Reinsurance (Ireland) PLC
7 Financial year as at 30 October 2011
8 Financial year as at 31 March 2012
9 IFRS figures
10 Company is in liquidation
11 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.
12 Company is inactive
13 Last annual financial statement compiled as at 31 December 1999
14 Company was newly established in 2011; business operations have not commenced to date

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.

In connection with the sale of the operational companies of the subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton/Bermuda, in July 2011, a partial portfolio of CIGI was retroceded to a special purpose entity. The term of the retrocession arrangement runs until the underlying obligations have been finally settled. 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.

In September 2012 Hannover Re issued another catastrophe ("CAT") bond for the purpose 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 100.0 million, runs until 31 March 2016; it was placed with institutional investors from Europe, North America and Asia by Eurus III Ltd. Eurus III Ltd. is a special purpose entity domiciled in Hamilton/Bermuda that was registered in August 2012 as a "special purpose insurer" under the Bermuda Insurance Act 1978. The retrocessions concluded with the special purpose entity under the transaction afford Hannover Re, E+S Rückversicherung AG and Hannover Re (Bermuda) Ltd. protection against the aforementioned catastrophe risks. Since Hannover Re does not exercise a controlling influence over Eurus III Ltd., there is no consolidation requirement for the special purpose entity.

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 268.0 million (EUR 258.8 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.

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 CAT bond, which had a volume of nominally EUR 150.0 million, had a term until 31 March 2012 and ended as per the contractual agreement; 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 did not exercise a controlling influence over the special purpose entity. Under IFRS this transaction was to be recognised as a financial instrument.

Life and health reinsurance assumed

Some transactions in the life and health reinsurance segment necessitate the involvement of ceding special purpose entities as contracting parties that are established by parties outside the Group and from which member companies of the Hannover Re Group assume certain underwriting and/or financial risks in respect of which the probability of occurrence of a loss for Hannover Re is to be categorised as low in each case. The transactions largely serve the purpose of financing statutory reserves (so-called Triple-X or AXXX reserves) and transferring extreme mortality risks above a contractually defined retention. Since Hannover Re does not bear the majority of the economic risks or benefits arising out of its business relations with these special purpose entities and cannot exercise a controlling influence over them, there is no consolidation requirement for Hannover Re. Depending upon the classification of the contracts pursuant to IFRS 4 or IAS 39, the transactions are recognised either in the technical account or as derivative financial instruments or as financial guarantees. Please see also our remarks in Section 8.1 "Derivative financial instruments and financial guarantees".

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. (Secquaero) and Hannover Insurance-Linked Securities GmbH & Co. KG (HILS) – in a number of special purpose entities for the securitisation of catastrophe risks by investing in "disaster bonds" (or "CAT bonds"). While HILS will continue to manage its portfolio, future new business in this area will be written by the Leine Investment companies. In this connection please see also our remarks on the companies Leine Investment General Partner S.à. r.l. and Leine Investment SICAV-SIF in Section 4.3 "Major acquisitions and new formations". Since Hannover Re cannot exercise a controlling influence in any of these transactions either there is no requirement to consolidate the relevant special purposes entities.

Secquaero has established a special purpose entity which is used to transform underwriting risks for the capital market and in which it holds all the voting rights. Given that the scale of the business relations with the special purpose entity is of minor significance to the consolidated financial statement of Hannover Re, the company is not consolidated.

4.3 Major acquisitions and new formations

On 31 October 2012 Funis GmbH & Co. KG, which is wholly owned by Hannover Re, acquired 30% of the shares in the Liechtenstein-based life insurance company ASPECTA Assurance International AG from Talanx International AG for a purchase price of EUR 1. At the same time the remaining shares were sold by Talanx International AG to an investor outside the Group. Based on its percentage of the voting rights, Funis is able to exert a significant influence over the company. The interest in the company is therefore included at equity in the amount of shareholders' equity attributable to the Group. The negative difference of EUR 0.7 million resulting from netting of the purchase price with the proportionate shareholders' equity was written back to income. It was recognised under profit or loss on shares in associated companies.

Leine Investment General Partner S.à. r.l. and Leine Investment SICAV-SIF, both based in Luxembourg, were established in September 2012. The companies, all shares of which are held by Hannover Re companies, were consolidated for the first time with effect from the third quarter of 2012. Leine Investment General Partner S.à. r.l. is the managing partner of the asset management company Leine Investment SICAV-SIF, the business object of which is to build, hold and manage a portfolio of insurance-linked securities (catastrophe bonds) – including for third-party investors outside the Group. The company had not yet made any investment transactions as at the balance sheet date.

HR GLL Central Europe GmbH & Co. KG, which is based in Munich, was established in July 2012. The business object of the company is to purchase, manage, lease and sell commercial real estate or equivalent rights in Europe with a focus on Central European member states of the European Union. The company was included in the consolidated financial statement for the first time with effect from the third quarter of 2012. At the time of initial consolidation and as at the balance sheet date Hannover Re held 74.4% of the shares in the company.

With effect from the second quarter of 2012 Svedea AB, Stockholm, was consolidated for the first time. In March 2010 Funis GmbH & Co. KG, which is wholly owned by Hannover Re, participated with a capital contribution of 75.2% of the shares, corresponding to EUR 8.0 thousand, in Svedea AB. The company's business object consists principally of writing liability insurance for motor vehicles and yachts. For reasons of materiality Svedea was carried as a participating interest until the first quarter of 2012. In view of the expansion of the business volume, the company was consolidated for the first time with effect from 30 June 2012. At the time of initial consolidation Funis held a stake of 69.2%; the amount of its holding as at the balance sheet date was 53.0%. The goodwill arising out of initial consolidation in an amount of EUR 12.7 million was netted with the cumulative retained earnings outside income and therefore was not recognised.

Within the US subgroup Hannover Re Real Estate Holdings, Inc., which is 95.1% owned, all shares in the property companies Nashville (Tennessee) West, LLC, Wilmington, 975 Carroll Square, LLC, Washington D.C. and 1225 West Washington, LLC, Tempe were acquired for a purchase price of altogether EUR 167.9 million through the subsidiary GLL HRE Core Properties, LP, Wilmington. The business object of each company is to hold and manage one property. In connection with the acquisition no intangible assets and no goodwill were capitalised. No contingent liabilities, conditional payments or separate transactions as defined by IFRS 3 were identified.

4.4 Major disposals and retirements

The disposals of the year under review within the South African subgroup Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg, as well as the liquidation of Hannover Re Advanced Solutions Ltd., Dublin, which had been inactive since 2004, were of minor significance overall to the consolidated financial statement of Hannover Re.

4.5 Other corporate changes

With a view to streamlining the Group structure, Hannover Re transferred all the business of its subsidiary Hannover Life Reassurance (UK) Ltd., Virginia Water, to a newly established branch of the parent company Hannover Re with the same registered office effective 1 January 2013 by way of a so-called "Part VII transfer". The branch, which was still inactive as at the balance sheet date, will trade under the name Hannover Re UK Life Branch and was registered on 3 December 2012 under the Companies Act 2006. Hannover Life Reassurance (UK) Ltd. was deleted from the Commercial Register on 8 January 2013.

In the third quarter of 2012 Hannover Reinsurance (Ireland) Public Limited Company (formerly Hannover Reinsurance (Ireland) Limited, a wholly owned subsidiary of Hannover Rück Beteiligung Verwaltungs GmbH, HRBV), was merged into Hannover Life Reassurance (Ireland) Public Limited Company (formerly Hannover Life Reassurance (Ireland) Limited, a wholly owned subsidiary of Hannover Life Re AG). In order to implement the merger HRBV transferred Hannover Reinsurance (Ireland) to Hannover Life Reassurance (Ireland) via several intermediate steps by way of a capital increase against contribution in kind. On 19 July 2012 the Commercial Division of the Irish High Court gave final approval to the merger of the companies. The measure was executed in law effective 3 September 2012. The new trading name of the absorbing entity is Hannover Re (Ireland) Public Limited Company. Since this internal restructuring within the Group involves a transaction between companies under common control, the transaction does not give rise to goodwill nor does it have any implications for Group net income.

In the context of several capital increases in 2012 due to the participation of external investors in Secquaero ILS Fund Ltd., in which Hannover Re did not take part, the participating interest held by Hannover Re in the company decreased progressively with no change of control status to 74.09% as at the balance sheet date.

Within the South African subgroup Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg, business and assets of the subsidiary Construction Guarantee (Pty) Ltd, Parktown, (Construction Guarantee) were transferred to Firedart & Construction Guarantee Underwriting Managers (Pty) Ltd., Johannesburg, (Firedart) in the second quarter of 2012. Firedart, in which Lireas Holding (Pty) Ltd., Johannesburg, acquired a 49.9% interest in the year under review, has been included at equity in the subgroup financial statement since the date of acquisition. Construction Guarantee was in liquidation as at the balance sheet date.

5. Segment reporting

Based on the "management approach" of IFRS 8, which requires segment information to be presented as it is reported internally to management and normally used by the chief operating decision maker to decide upon the allocation of resources to a segment and evaluate its performance, Hannover Re has identified the reportable segments of non-life reinsurance and life / health reinsurance. With regard to the object of business operations within the two segments please see the corresponding remarks in the management report.

The segment information shown follows the system used for internal reporting purposes, on the basis of which the full Executive Board regularly evaluates the performance of segments and decides on the allocation of resources to them.

The "Consolidation" column includes not only the elimination of cross-segment transactions but also, more significantly, companies whose business operations cannot be unambiguously allocated to non-life reinsurance or life / health reinsurance. These are principally the service and financing companies belonging to the Group.

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.

Consolidated segment report as at 31 December 2012

Segmentation of assets

	Non-life reinsurance	
in EUR thousand	31.12.2012	31.12.2011
Assets		
Held to maturity	3,213,397	3,704,836
Loans and receivables	3,313,608	3,486,857
Available for sale	15,572,034	11,707,340
At fair value through profit or loss	113,030	118,327
Other invested assets	1,679,251	1,554,528
Short-term investments	325,302	638,128
Cash	407,336	385,531
Total investments and cash under own management	**24,623,958**	**21,595,547**
Funds withheld	925,312	836,170
Contract deposits	25,803	–
Total investments	**25,575,073**	**22,431,717**
Reinsurance recoverables on unpaid claims	1,288,664	1,352,406
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	135,999	89,109
Reinsurance recoverables on other reserves	1,103	4,239
Deferred acquisition costs	476,592	458,651
Accounts receivable	1,691,435	1,977,106
Other assets in the segment	1,288,719	1,469,312
Assets held for sale	6,333	2,391
Total assets	**30,463,918**	**27,784,931**

Segmentation of liabilities
in EUR thousand

Liabilities		
Loss and loss adjustment expense reserve	18,595,088	18,030,010
Benefit reserve	–	–
Unearned premium reserve	2,253,544	2,110,289
Provisions for contingent commissions	141,114	145,915
Funds withheld	432,884	313,851
Contract deposits	84,523	96,611
Reinsurance payable	702,224	446,301
Long-term liabilities	167,774	202,823
Other liabilities in the segment	1,848,933	1,544,215
Total liabilities	**24,226,084**	**22,890,015**

Life and health reinsurance		Consolidation		Total	
31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
199,319	199,846	193,240	251,407	3,605,956	4,156,089
75,424	27,560	26,155	10,318	3,415,187	3,524,735
5,805,682	5,355,477	433,602	306,481	21,811,318	17,369,298
75,731	40,346	19,487	23,483	208,248	182,156
75,055	27,041	(2,530)	2,503	1,751,776	1,584,072
183,866	339,662	550	40,096	509,718	1,017,886
161,258	118,835	3,594	2,597	572,188	506,963
6,576,335	**6,108,767**	**674,098**	**636,885**	**31,874,391**	**28,341,199**
13,702,535	12,395,934	–	(50)	14,627,847	13,232,054
97,455	109,719	–	–	123,258	109,719
20,376,325	**18,614,420**	**674,098**	**636,835**	**46,625,496**	**41,682,972**
251,161	199,332	(1,610)	(1,151)	1,538,215	1,550,587
507,257	380,714	–	–	507,257	380,714
2,620	2,802	(246)	(88)	138,373	91,823
1,508	3,571	–	–	2,611	7,810
1,364,675	1,467,915	12	4	1,841,279	1,926,570
1,375,992	1,162,401	(1,763)	(180)	3,065,664	3,139,327
503,362	467,140	(705,596)	(851,694)	1,086,485	1,084,758
–	–	–	–	6,333	2,391
24,382,900	**22,298,295**	**(35,105)**	**(216,274)**	**54,811,713**	**49,866,952**

3,017,220	2,738,458	(1,610)	(1,151)	21,610,698	20,767,317
10,974,804	10,309,149	(234)	(83)	10,974,570	10,309,066
86,265	105,575	–	–	2,339,809	2,215,864
73,105	61,347	–	–	214,219	207,262
388,176	330,736	–	–	821,060	644,587
5,713,361	4,911,582	–	–	5,797,884	5,008,193
421,214	287,692	(2,029)	(645)	1,121,409	733,348
4,552	–	2,228,465	1,731,587	2,400,791	1,934,410
1,619,772	1,730,456	(677,712)	(834,421)	2,790,993	2,440,250
22,298,469	**20,474,995**	**1,546,880**	**895,287**	**48,071,433**	**44,260,297**

Consolidated segment report as at 31 December 2012

Segment statement of income	**Non-life reinsurance**	
in EUR thousand	1.1.–31.12.2012	1.1.–31.12.2011
Gross written premium	7,717,490	6,825,522
Thereof		
From insurance business with other segments	264	–
From insurance business with external third parties	7,717,226	6,825,522
Net premium earned	6,854,040	5,960,764
Net investment income	944,537	845,426
Thereof		
Unrealised gains and losses on investments	32,363	12,954
Total depreciation, impairments and appreciation of investments	16,257	(6,115)
Income/expense on funds withheld and contract deposits	13,754	14,239
Claims and claims expenses	4,842,487	4,701,962
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	1,573,976	1,367,299
Administrative expenses	165,330	160,223
Other income and expenses	(124,927)	22,553
Operating profit/loss (EBIT)	**1,091,857**	**599,259**
Interest on hybrid capital	–	–
Net income before taxes	**1,091,857**	**599,259**
Taxes	335,055	77,618
Net income	**756,802**	**521,641**
Thereof		
Non-controlling interest in profit or loss	70,900	66,051
Group net income	**685,902**	**455,590**

Life and health reinsurance		Consolidation		Total	
1.1.–31.12.2012	1.1.–31.12.2011	**1.1.–31.12.2012**	1.1.–31.12.2011	**1.1.–31.12.2012**	1.1.–31.12.2011
6,057,876	5,270,137	(1,122)	454	13,774,244	12,096,113
858	(454)	(1,122)	454	–	–
6,057,018	5,270,591	–	–	13,774,244	12,096,113
5,425,620	4,788,893	(418)	1,854	12,279,242	10,751,511
685,147	512,616	25,966	25,999	1,655,650	1,384,041
53,274	(47,156)	3,631	(4,593)	89,268	(38,795)
2,810	314	–	–	19,067	(5,801)
341,732	324,299	–	–	355,486	338,538
4,010,877	3,328,609	(18)	(676)	8,853,346	8,029,895
529,434	619,713	(151)	1,747	529,283	621,460
1,098,037	985,803	(1,847)	(6,186)	2,670,166	2,346,916
144,127	130,568	1,333	(1,728)	310,790	289,063
(37,212)	(19,170)	(2,705)	(10,184)	(164,844)	(6,801)
291,080	**217,646**	**23,526**	**24,512**	**1,406,463**	**841,417**
–	–	104,511	99,169	104,511	99,169
291,080	**217,646**	**(80,985)**	**(74,657)**	**1,301,952**	**742,248**
55,692	30,626	(22,518)	(42,784)	368,229	65,460
235,388	**187,020**	**(58,467)**	**(31,873)**	**933,723**	**676,788**
4,511	4,764	–	–	75,411	70,815
230,877	182,256	(58,467)	(31,873)	858,312	605,973

6. Notes on the individual items of the balance sheet

6.1 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

in EUR thousand	2012	2011
Regional origin		
Germany	6,779,027	6,144,974
United Kingdom	2,955,807	2,356,400
France	1,819,918	1,828,923
Other	6,348,984	5,486,964
Europe	**17,903,736**	**15,817,261**
USA	8,065,355	6,744,589
Other	1,162,038	1,472,776
North America	**9,227,393**	**8,217,365**
Asia	1,301,702	1,235,331
Australia	2,245,320	2,020,017
Australasia	**3,547,022**	**3,255,348**
Africa	417,557	413,093
Other	778,683	638,132
Total	**31,874,391**	**28,341,199**

Maturities of the fixed-income and variable-yield securities

in EUR thousand	2012		2011	
	Amortised cost[1]	Fair value	Amortised cost[1]	Fair value
Held to maturity				
due in one year	908,601	916,267	486,965	491,332
due after one through two years	606,525	629,138	926,846	942,245
due after two through three years	1,089,354	1,171,603	613,913	643,263
due after three through four years	532,996	577,930	1,097,347	1,161,746
due after four through five years	150,735	162,378	562,175	597,596
due after five through ten years	315,208	350,218	461,311	462,789
due after more than ten years	2,537	3,198	7,532	8,091
Total	**3,605,956**	**3,810,732**	**4,156,089**	**4,307,062**
Loans and receivables				
due in one year	207,861	216,965	106,731	107,501
due after one through two years	408,386	423,503	205,235	209,847
due after two through three years	311,764	330,670	505,043	523,717
due after three through four years	382,075	417,721	306,484	318,696
due after four through five years	285,438	312,267	321,807	348,653
due after five through ten years	1,033,273	1,156,510	1,174,558	1,250,207
due after more than ten years	786,390	922,804	904,877	983,320
Total	**3,415,187**	**3,780,440**	**3,524,735**	**3,741,941**
Available for sale				
due in one year[2]	2,379,998	2,387,173	3,063,034	3,070,822
due after one through two years	2,758,881	2,797,560	1,781,899	1,802,286
due after two through three years	2,525,881	2,616,092	2,197,915	2,228,729
due after three through four years	1,775,135	1,862,419	2,308,598	2,331,561
due after four through five years	2,436,644	2,549,947	1,807,404	1,844,680
due after five through ten years	7,132,799	7,617,225	5,204,281	5,299,165
due after more than ten years	2,709,969	3,033,562	2,074,463	2,276,517
Total	**21,719,307**	**22,863,978**	**18,437,594**	**18,853,760**
Financial assets at fair value through profit or loss				
due in one year	69,544	69,544	35,186	35,186
due after one through two years	15,626	15,626	66,826	66,826
due after two through three years	17,619	17,619	5,399	5,399
due after three through four years	14,823	14,823	7,510	7,510
due after four through five years	4,936	4,936	2,595	2,595
due after five through ten years	7,276	7,276	5,625	5,625
due after more than ten years	17,589	17,589	37,989	37,989
Total	**147,413**	**147,413**	**161,130**	**161,130**

[1] Including accrued interest
[2] Including short-term investments and cash

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

in EUR thousand	2012				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	393,836	28,425	–	7,097	429,358
US treasury notes	819,013	27,592	–	6,208	852,813
Other foreign government debt securities	56,054	611	42	160	56,783
Debt securities issued by semi-governmental entities	650,493	39,766	–	9,744	700,003
Corporate securities	449,024	18,863	872	9,172	476,187
Covered bonds/asset-backed securities	1,181,346	90,836	403	23,809	1,295,588
Total	**3,549,766**	**206,093**	**1,317**	**56,190**	**3,810,732**

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

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**

The carrying amount of the portfolio held to maturity is arrived at from the amortised cost plus accrued interest.

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value

in EUR thousand	2012				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	10,271	590	–	204	11,065
Debt securities issued by semi-governmental entities	2,005,258	238,045	58	30,095	2,273,340
Corporate securities	330,248	23,476	15	4,981	358,690
Covered bonds/asset-backed securities	1,018,651	103,215	–	15,479	1,137,345
Total	**3,364,428**	**365,326**	**73**	**50,759**	**3,780,440**

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value

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**

The carrying amount of the loans and receivables is arrived at from the 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

in EUR thousand	2012				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,837,251	80,205	2,625	17,715	1,932,546
US treasury notes	1,220,030	41,560	2,463	4,164	1,263,291
Other foreign government debt securities	1,634,844	22,801	1,933	16,842	1,672,554
Debt securities issued by semi-governmental entities	4,199,653	245,014	2,779	53,405	4,495,293
Corporate securities	8,568,646	559,256	11,301	133,424	9,250,025
Covered bonds/asset-backed securities	2,733,081	197,507	9,499	35,536	2,956,625
Investment funds	182,864	28,874	–	–	211,738
	20,376,369	**1,175,217**	**30,600**	**261,086**	**21,782,072**
Equity securities					
Shares	12,206	3,945	1	–	16,150
Investment funds	10,931	2,165	–	–	13,096
	23,137	**6,110**	**1**	**–**	**29,246**
Short-term investments	505,151	54	–	4,513	509,718
Total	**20,904,657**	**1,181,381**	**30,601**	**265,599**	**22,321,036**

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

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**

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

in EUR thousand	2012	2011	2012	2011	2012	2011
	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	–	115	–	10,113
Corporate securities	54,474	81,974	13,305	1,194	67,779	83,168
Covered bonds/asset-backed securities	79,634	67,849	–	–	79,634	67,849
	134,108	**159,821**	**13,305**	**1,309**	**147,413**	**161,130**
Other financial assets						
Derivatives	60,835	21,026	–	–	60,835	21,026
	60,835	**21,026**	**–**	**–**	**60,835**	**21,026**
Total	**194,943**	**180,847**	**13,305**	**1,309**	**208,248**	**182,156**

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 60.8 million (EUR 21.0 million) that are originally allocable to this item as well as fixed-income securities amounting to EUR 147.4 million (EUR 161.1 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 a fair value increase of altogether EUR 1.1 million was due to changes in the ratings of callable bonds. In the previous year changes in the ratings of these instruments resulted in a fair value decrease of EUR 4.1 million.

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 8.1 "Derivative financial instruments and financial guarantees".

Carrying amounts before impairment

in EUR thousand	2012		2011	
	Carrying amount before impairment	Impairment	Carrying amount before impairment	Impairment
Fixed-income securities – held to maturity	3,605,956	–	4,156,089	–
Fixed-income securities – loans and receivables	3,415,222	35	3,524,756	21
Fixed-income securities – available for sale	21,782,650	578	17,334,335	5,424
Short-term investments	509,979	261	1,017,886	–
Equity securities – available for sale	31,471	2,225	41,263	876
Participating interests and other invested assets, real estate funds	1,134,257	7,157	1,075,051	15,569
Total	**30,479,535**	**10,256**	**27,149,380**	**21,890**

For further explanatory remarks on the impairment criteria please see Section 3.2 "Summary of major accounting policies".

Rating structure of fixed-income securities

in EUR thousand	2012								
	AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity	1,168,278	1,645,096	664,632	127,950	–	–	–	–	3,605,956
Fixed-income securities – loans and receivables	1,515,276	1,531,861	159,992	121,593	47,829	4,391	–	34,245	3,415,187
Fixed-income securities – available-for-sale	6,944,659	5,264,820	5,465,979	3,342,703	578,716	84,977	9,780	90,438	21,782,072
Fixed-income securities – at fair value through profit or loss	–	2,632	11,691	45,171	46,326	31,231	547	9,815	147,413
Total fixed-income securities	**9,628,213**	**8,444,409**	**6,302,294**	**3,637,417**	**672,871**	**120,599**	**10,327**	**134,498**	**28,950,628**

Rating structure of fixed-income securities

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**

The maximum credit risk of the items shown here corresponds to their carrying amounts.

Breakdown of investments by currencies

in EUR thousand	2012								
	AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
Fixed-income securities – held to maturity	–	140,753	1,894,495	148,900	–	1,421,808	–	–	3,605,956
Fixed-income securities – loans and receivables	–	6,990	2,478,119	43,136	–	781,591	–	105,351	3,415,187
Fixed-income securities – available-for-sale	1,683,262	545,211	7,596,047	2,345,927	205,838	8,050,511	294,132	1,061,144	21,782,072
Fixed-income securities – at fair value through profit or loss	–	–	23,720	–	–	95,454	28,239	–	147,413
Equity securities – available-for-sale	–	–	16,138	–	–	13,108	–	–	29,246
Other financial assets – at fair value through profit or loss	–	–	18,732	223	–	41,880	–	–	60,835
Other invested assets	–	–	645,233	3,612	–	1,098,876	4,055	–	1,751,776
Short-term investments, cash	96,792	18,530	199,472	79,849	7,830	328,821	61,208	289,404	1,081,906
Total investments and cash	**1,780,054**	**711,484**	**12,871,956**	**2,621,647**	**213,668**	**11,832,049**	**387,634**	**1,455,899**	**31,874,391**

Breakdown of investments by currencies

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**

The maximum credit risk of the items shown here corresponds to their carrying amounts.

Associated companies

Investments in associated companies

in EUR thousand	2012	2011
Net book value at 31 December of the previous year	**127,554**	**127,644**
Currency translation at 1 January	(107)	(297)
Net book value after currency translation	**127,447**	**127,347**
Additions	4,025	2,174
Disposals	56	395
Profit or loss on shares in associated companies	10,415	3,088
Dividend payments	13,469	1,554
Change recognised outside income	4,806	(3,101)
Currency translation at 31 December	(151)	(5)
Net book value at 31 December of the year under review	**133,017**	**127,554**

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 18.3 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.

Own-use real estate is recognised under other assets.

Real estate is valued at cost of acquisition less scheduled depreciation with useful lives of at most 50 years.

Income and expenses from rental agreements are included in the investment income.

Development of investment property

in EUR thousand	2012	2011
Gross book value at 31 December of the previous year	436,874	338,634
Currency translation at 1 January	(5,106)	5,346
Gross book value after currency translation	**431,768**	**343,980**
Additions	244,846	98,110
Disposals	138,219	1,437
Reclassification	(22,613)	(2,633)
Reclassification to assets held for sale	(9,361)	(5,036)
Currency translation at 31 December	(694)	3,890
Gross book value at 31 December of the year under review	**505,727**	**436,874**
Cumulative depreciation at 31 December of the previous year	39,837	35,212
Currency translation at 1 January	(344)	266
Cumulative depreciation after currency translation	**39,493**	**35,478**
Disposals	13,673	–
Depreciation	10,370	8,955
Impairments	1,121	123
Appreciation	26	–
Reclassification	(18,060)	(2,623)
Reclassification to assets held for sale	(5,343)	(2,645)
Currency translation at 31 December	185	549
Cumulative depreciation at 31 December of the year under review	**14,067**	**39,837**
Net book value at 31 December of the previous year	**397,037**	**303,422**
Net book value at 1 January of the year under review	**392,275**	**308,502**
Net book value at 31 December of the year under review	**491,660**	**397,037**

The fair value of investment property amounted to EUR 511.3 million (EUR 397.2 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 due to the sharply increased investment activities of the real estate companies belonging to the Hannover Re Group. They are attributable principally – in an amount of EUR 182.6 million – to GLL HRE Core Properties, LP, Wilmington, a Group company belonging to Hannover Re Real Estate Holdings, Inc., while further additions of EUR 62.3 million were recorded with respect to Hannover Re Euro RE Holdings GmbH, Hannover.

The disposals can be attributed in an amount of EUR 136.7 million to Hannover Re Real Estate Holdings, Inc., which sold the properties held by the real estate companies 465 Broadway, LLC and GLL Terry Francois Blvd. LLC, both Wilmington, through GLL HRE Core Properties, LP. The cumulative depreciation taken in this context totalled EUR 13.4 million.

The reclassifications resulted from increased own use of office space in several commercial properties of Hannover Re in Hannover.

In addition, we held indirect real estate investments in the year under review in an amount of EUR 156.3 million (EUR 128.1 million). The amortised cost of these investments amounted to EUR 126.2 million (EUR 103.5 million). In addition, unrealised gains of EUR 31.7 million (EUR 24.5 million) and unrealised losses of EUR 1.6 million (previous year: none) were recognised from these investments.

Real estate which is held for sale as defined by IFRS 5 is recognised separately in the consolidated balance sheet. The gross book values of the properties amounted to EUR 14.4 million (EUR 5.0 million) and the cumulative depreciation totalled EUR 8.0 million (EUR 2.6 million) at the time of reclassification to assets held for sale. The measurement of real estate at fair value less cost to sell gave rise to an impairment of EUR 0.9 million in the financial year just ended. This was recognised in investment income.

Other invested assets

The other invested assets consisted largely of participating interests in partnerships measured at fair value in an amount of EUR 881.4 million (EUR 833.8 million). The amortised cost of these participations amounted to EUR 619.5 million (EUR 612.8 million); in addition, unrealised gains of EUR 267.8 million (EUR 222.9 million) and unrealised losses of EUR 5.9 million (EUR 1.9 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	2012			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	7,629,587	14,272,569	27,329	21,929,485
Equity securities	29,238	–	8	29,246
Other financial assets – at fair value through profit or loss	36,641	24,194	–	60,835
Other invested assets	687	47,311	1,061,953	1,109,951
Short-term investments	495,412	14,306	–	509,718
Total financial assets measured at fair value	**8,191,565**	**14,358,380**	**1,089,290**	**23,639,235**
Other liabilities	–	60,012	54,812	114,824
Total financial liabilities measured at fair value	**–**	**60,012**	**54,812**	**114,824**

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 liabilities	–	98,498	–	98,498
Total financial liabilities measured at fair value	**–**	**98,498**	**–**	**98,498**

In the year under review financial instruments with a fair value of EUR 84.4 million (EUR 306.8 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 473.6 million (EUR 103.5 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	2012			
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets	Other liabilities
Net book value at 1 January of the year under review	**38,190**	**8**	**875,401**	–
Currency translation at 1 January	(484)	–	(10,878)	–
Net book value after currency translation	**37,706**	**8**	**864,523**	–
Income and expenses				
recognised in the statement of income	4,186	–	(3,477)	–
recognised directly in shareholders' equity	1,201	–	51,687	–
Additions	–	–	254,871	54,812
Disposals	15,937	–	103,271	–
Transfers to level 3	–	–	–	–
Transfers from level 3	–	–	–	–
Currency translation at 31 December of the year under review	173	–	(2,380)	–
Net book value at 31 December of the year under review	**27,329**	**8**	**1,061,953**	**54,812**

Development of level 3 financial instruments

in EUR thousand	2011			
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets	Other liabilities
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**	–

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	2012	
	Fixed-income securities	Other invested assets
Total in the financial year		
Ordinary investment income	3	–
Unrealised gains and losses	4,183	2,838
Total depreciation, impairments and appreciation of investments	–	(6,315)
Thereof attributable to financial instruments included in the portfolio at 31 December of the year under review		
Ordinary investment income	3	–
Unrealised gains and losses	4,183	2,838
Total depreciation, impairments and appreciation of investments	–	(6,315)

Income and expenses from level 3 financial instruments

in EUR thousand	2011	
	Fixed-income 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

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 1,089.3 million (EUR 913.6 million) as at the balance sheet date, Hannover Re measures financial instruments with a volume of EUR 990.4 million (EUR 863.5 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 98.9 million (EUR 50.1 million), the effects of alternative inputs and assumptions are immaterial.

6.2 Funds withheld (assets)

The funds withheld totalling EUR 14,627.8 million (EUR 13,232.1 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.

6.3 Contract deposits (assets)

The contract deposits on the assets side increased by EUR 13.5 million in the year under review from EUR 109.7 million to EUR 123.3 million.

6.4 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 6.7 "Technical provisions" on page 165 et seq. as well as the remarks in the risk report on page 72 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	2012	2011
Net book value at 31 December of the previous year	1,926,570	1,834,496
Currency translation at 1 January	(3,863)	15,423
Net book value after currency translation	**1,922,707**	**1,849,919**
Additions	428,889	430,093
Reclassification	–	1,269
Amortisations	508,694	362,353
Currency translation at 31 December	(1,623)	7,642
Net book value at 31 December of the year under review	**1,841,279**	**1,926,570**

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	2012		2011	
	Three months to one year	More than one year	Three months to one year	More than one year
Accounts receivable	80,066	99,412	109,764	166,543

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 71 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	2012	2011
Cumulative value adjustments at 31 December of the previous year	35,665	35,768
Currency translation at 1 January of the year under review	40	531
Cumulative value adjustments after currency translation	**35,705**	**36,299**
Value adjustments	16,253	8,995
Reversal	11,255	9,626
Disposal	–	3
Cumulative value adjustments at 31 December of the year under review	**40,703**	**35,665**
Gross book value of accounts receivable at 31 December of the year under review	3,106,367	3,174,992
Cumulative value adjustments at 31 December of the year under review	40,703	35,665
Net book value of accounts receivable at 31 December of the year under review	**3,065,664**	**3,139,327**

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 6.7 "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 71 et seq.

6.5 Goodwill

In accordance with IFRS 3 "Business Combinations" amortisation is not taken on goodwill. Goodwill was subject to an impairment test.

Development of goodwill

in EUR thousand	2012	2011
Net book value at 31 December of the previous year	59,289	45,773
Currency translation at 1 January	(190)	(1,563)
Net book value after currency translation	**59,099**	**44,210**
Additions	–	14,487
Currency translation at 31 December	–	592
Net book value at 31 December of the year under review	**59,099**	**59,289**

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 the purposes of the impairment test, the goodwill was allocated to the cash-generating units (CGUs) that represent the lowest level on which goodwill is monitored for internal management purposes. In the instances of goodwill recognised as at the balance sheet date, the CGUs are the respective business units/legal entities. The recoverable amount is established on the basis of the value in use, which is calculated using the discounted cash flow method. In this context, the detailed planning phase draws on the planning calculations of the CGUs/companies covering the next five years. These planning calculations represent the outcome of a detailed planning process in which all responsible members of management are involved. The subsequent perpetuity phase is guided by the profit margins and revenue growth rates that management believes can be sustainably generated. The capitalisation rate is based on the Capital Asset Pricing Model (CAPM) as well as growth rates that are considered realistic. The risk-free basic interest rate is determined, where possible, using corresponding yield curve data from the respective national banks. If this data cannot be obtaining or can only be obtained with a disproportionately high effort, reference is made to the yields of the respective 30-year government bonds. The selection of the market risk premium is guided by the current recommendations of the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW). The beta factor is calculated for Hannover Rückversicherung AG on the basis of publicly accessible capital market data.

The following capitalisation rates and growth rates were recognised for the individual cash-generating units:

	Capitalisation rate	Growth rate
E+S Rückversicherung AG	7.65%	1.00%
Integra Insurance Solutions Limited	8.50%	1.00%

Sensitivity analyses were performed in which the capitalisation rates as well as material and value-influencing items of the relevant planning calculations (such as premium volumes, investment income or loss ratios) were varied. In this context it was established that in the event of changes in parameters within ranges that could reasonably occur, the values in use were in each case higher than the corresponding book values. Please see also our basic remarks in Section 3.2 "Summary of major accounting policies".

6.6 Other assets

Other assets

in EUR thousand	2012	2011
Present value of future profits on acquired life reinsurance portfolios	92,100	94,985
Other intangible assets	32,136	35,672
Insurance for pension commitments	64,631	62,524
Own-use real estate	67,843	44,319
Tax refund claims	30,580	16,422
Fixtures, fittings and equipment	24,011	26,521
Other receivables	3,397	6,186
Other	87,957	50,021
Total	**402,655**	**336,650**

Of this, other assets of EUR 4.0 million (EUR 6.3 million) are attributable to affiliated companies.

The increase in own-use real estate is due to the purchase of the office building at Karl-Wiechert-Allee 57, Hannover, by Hannover Re and E+S Rück.

The item "Other" includes receivables of EUR 54.8 million resulting from the initial recognition in equity of derivative financial instruments in connection with transactions in the life and health reinsurance business group. For further explanation please see Section 8.1 "Derivative financial instruments and financial guarantees".

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	2012	2011
Net book value at 31 December of the previous year	94,985	98,368
Currency translation at 1 January	178	30
Net book value after currency translation	**95,163**	**98,398**
Amortisation	3,119	3,374
Currency translation at 31 December	56	(39)
Net book value at 31 December of the year under review	**92,100**	**94,985**

This item 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. For further information please refer to our explanatory notes on intangible assets in Section 3.2 "Summary of major accounting policies".

Insurance for pension commitments

Effective 1 July 2003 Hannover Re took out 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 64.6 million (EUR 62.5 million).

Fixtures, fittings and equipment

Fixtures, fittings and equipment

in EUR thousand	2012	2011
Gross book value at 31 December of the previous year	113,487	107,445
Currency translation at 1 January	(318)	296
Gross book value after currency translation	**113,169**	**107,741**
Additions	9,620	7,630
Disposals	908	3,639
Reclassification	18	1,754
Currency translation at 31 December	(84)	1
Gross book value at 31 December of the year under review	**121,815**	**113,487**
Cumulative depreciation at 31 December of the previous year	86,966	75,637
Currency translation at 1 January	(239)	52
Cumulative depreciation after currency translation	**86,727**	**75,689**
Disposals	901	3,573
Depreciation	12,072	12,853
Reclassification	2	1,668
Currency translation at 31 December	(96)	329
Cumulative depreciation at 31 December of the year under review	**97,804**	**86,966**
Net book value at 31 December of the previous year	**26,521**	**31,808**
Net book value at 31 December of the year under review	**24,011**	**26,521**

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	2012	2011
Gross book value at 31 December of the previous year	175,867	167,593
Currency translation at 1 January	191	57
Gross book value after currency translation	**176,058**	**167,650**
Additions	10,194	8,317
Disposals	1,473	177
Currency translation at 31 December	(54)	77
Gross book value at 31 December of the year under review	**184,725**	**175,867**
Cumulative depreciation at 31 December of the previous year	140,195	127,794
Currency translation at 1 January	126	(3)
Cumulative depreciation after currency translation	**140,321**	**127,791**
Disposals	551	271
Appreciation	10	9
Depreciation	12,848	12,624
Currency translation at 31 December	(19)	60
Cumulative depreciation at 31 December of the year under review	**152,589**	**140,195**
Net book value at 31 December of the previous year	**35,672**	**39,799**
Net book value at 31 December of the year under review	**32,136**	**35,672**

The item includes EUR 4.5 million (EUR 5.7 million) for self-created software and EUR 25.2 million (EUR 28.5 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 7.9 million (EUR 6.4 million) for purchased software and EUR 0.9 million (EUR 0.9 million) for capitalised development costs for self-created 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 a minimal amount (EUR 0.6 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 71 et seq.

6.7 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	2012			2011		
	gross	retro	net	gross	retro	net
Loss and loss adjustment expense reserve	21,610,698	1,538,215	20,072,483	20,767,317	1,550,587	19,216,730
Benefit reserve	10,974,570	507,257	10,467,313	10,309,066	380,714	9,928,352
Unearned premium reserve	2,339,809	138,373	2,201,436	2,215,864	91,823	2,124,041
Other technical provisions	214,219	2,611	211,608	207,262	7,810	199,452
Total	35,139,296	2,186,456	32,952,840	33,499,509	2,030,934	31,468,575

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	2012			2011		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	20,767,317	1,550,587	19,216,730	18,065,395	1,025,332	17,040,063
Currency translation at 1 January	(116,674)	(21,443)	(95,231)	227,344	17,300	210,044
Net book value after currency translation	**20,650,643**	**1,529,144**	**19,121,499**	**18,292,739**	**1,042,632**	**17,250,107**
Incurred claims and claims expenses (net) [1]						
Year under review	7,150,177	723,377	6,426,800	6,862,640	1,086,852	5,775,788
Previous years	2,621,961	182,856	2,439,105	2,298,146	31,760	2,266,386
	9,772,138	**906,233**	**8,865,905**	**9,160,786**	**1,118,612**	**8,042,174**
Less:						
Claims and claims expenses paid (net)						
Year under review	(2,642,339)	(397,326)	(2,245,013)	(1,756,897)	(276,660)	(1,480,237)
Previous years	(6,144,123)	(505,006)	(5,639,117)	(5,119,362)	(374,176)	(4,745,186)
	(8,786,462)	**(902,332)**	**(7,884,130)**	**(6,876,259)**	**(650,836)**	**(6,225,423)**
Changes in consolidated group	–	–	–	65,772	–	65,772
Specific value adjustment for retrocessions	–	427	(427)	–	2,247	(2,247)
Reversal of impairments	–	3,012	(3,012)	–	2,252	(2,252)
Portfolio entries/exits	(3,164)	5,831	(8,995)	18,806	(239)	19,045
Currency translation at 31 December	(22,457)	(3,246)	(19,211)	105,473	40,413	65,060
Net book value at 31 December of the year under review	**21,610,698**	**1,538,215**	**20,072,483**	**20,767,317**	**1,550,587**	**19,216,730**

[1] Including expenses recognised directly in shareholders' equity

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 0.4 million (EUR 2.2 million) and reversed in the amount of EUR 3.0 million (EUR 2.2 million). On balance, therefore, cumulative specific value adjustments of EUR 0.9 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 20,071.6 million (EUR 19,213.2 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.

In the 2012 financial year the run-off triangles provided by the reporting units were also shown for the first time after adjustment for the currency effects arising out of translation of the respective transaction currency into the local reporting currency. 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 2002 to 2012 as well as the run-off of the reserve (so-called run-off triangle). The figures reported for the 2002 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 2012 financial year for the individual run-off years.

Net loss reserve and its run-off in the non-life reinsurance segment

in EUR million	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	31.12. 2012
Loss and loss adjustment expense reserve (from balance sheet)											
	12,523.0	**13,186.7**	**12,658.8**	**13,324.6**	**16,573.8**	**12,814.4**	**13,673.5**	**14,012.6**	**15,257.0**	**16,699.0**	**17,308.0**
Cumulative payments for the year in question and previous years											
One year later	2,350.7	3,378.2	4,188.5	1,568.7	2,566.6	2,511.4	2,984.5	2,811.7	2,490.2	3,173.2	
Two years later	5,184.9	6,908.7	5,335.4	3,583.0	4,315.7	4,319.4	4,637.9	4,060.2	4,152.2		
Three years later	7,844.8	7,629.2	6,314.6	4,733.8	5,647.6	5,446.1	5,407.4	4,895.2			
Four years later	8,478.6	8,368.7	7,095.8	5,856.2	6,455.8	6,004.7	6,004.0				
Five years later	9,039.2	8,963.4	7,890.8	6,487.6	6,858.4	6,446.7					
Six years later	9,477.5	9,607.5	8,352.5	6,809.4	7,203.3						
Seven years later	10,047.8	9,957.1	8,626.7	7,081.6							
Eight years later	10,316.6	10,179.1	8,836.0								
Nine years later	10,473.8	10,357.9									
Ten years later	10,613.7										
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	**12,523.0**	**13,186.7**	**12,658.8**	**13,324.6**	**16,573.8**	**12,814.4**	**13,673.5**	**14,012.6**	**15,257.0**	**16,699.0**	**17,308.0**
One year later	10,830.9	12,809.5	13,378.9	14,349.9	12,363.3	12,479.4	13,484.6	13,918.5	14,562.6	16,376.9	
Two years later	10,629.7	13,290.8	14,428.4	10,996.1	11,951.1	12,101.0	12,703.1	12,825.7	14,079.3		
Three years later	10,966.2	14,240.6	11,847.0	10,566.5	11,705.9	11,916.7	12,690.1	12,228.2			
Four years later	11,642.5	12,219.0	11,466.0	10,454.9	11,518.9	11,717.8	12,182.3				
Five years later	10,218.5	12,017.5	11,438.1	10,285.3	10,961.0	11,359.3					
Six years later	10,307.4	12,075.9	11,287.8	9,746.2	10,682.9						
Seven years later	10,395.3	11,932.4	11,789.5	9,543.5							
Eight years later	10,282.5	12,438.5	11,657.2								
Nine years later	11,290.3	12,346.8									
Ten years later	11,208.6										
Change relative to previous year											
Net run-off result	81.6	10.0	40.6	70.5	75.4	80.4	149.4	89.6	(114.1)	(161.3)	
As percentage of original loss reserve	0.7	0.1	0.3	0.5	0.5	0.6	1.1	0.6	(0.7)	-1.0	

The run-off profit of altogether EUR 322.1 million in the 2012 financial year derives, as in the previous year, above all 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	2012					
	Loss and loss adjustment expense reserves			Benefit reserve		
	gross	retro	net	gross	retro	net
Due in one year	6,235,411	426,631	5,808,780	657,514	101,659	555,855
Due after one through five years	8,355,362	590,629	7,764,733	432,281	36,429	395,852
Due after five through ten years	3,084,720	190,742	2,893,978	634,063	51,381	582,682
Due after ten through twenty years	2,076,465	119,868	1,956,597	794,098	40,280	753,818
Due after twenty years	1,076,778	64,067	1,012,711	719,028	20,899	698,129
	20,828,736	**1,391,937**	**19,436,799**	**3,236,984**	**250,648**	**2,986,336**
Deposits	781,962	147,201	634,761	7,737,586	256,609	7,480,977
Total	**21,610,698**	**1,539,138**	**20,071,560**	**10,974,570**	**507,257**	**10,467,313**

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**

The average maturity of the loss and loss adjustment expense reserves was 5.1 years (5.1 years), or 5.1 years (5.1 years) after allowance for the corresponding retrocession shares. The benefit reserve had an average maturity of 12.0 years (12.8 years) – or 12.4 years (13.2 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	2012			2011		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	10,309,066	380,714	9,928,352	8,939,190	347,069	8,592,121
Currency translation at 1 January	49,603	(124)	49,727	150,726	901	149,825
Net book value after currency translation	**10,358,669**	**380,590**	**9,978,079**	**9,089,916**	**347,970**	**8,741,946**
Changes	545,318	16,035	529,283	619,849	(1,611)	621,460
Portfolio entries/exits	76,266	113,211	(36,945)	527,657	29,144	498,513
Reclassification	(103)	–	(103)	–	–	–
Currency translation at 31 December	(5,580)	(2,579)	(3,001)	71,644	5,211	66,433
Net book value at 31 December of the year under review	**10,974,570**	**507,257**	**10,467,313**	**10,309,066**	**380,714**	**9,928,352**

The unearned premium reserve derives from the deferral of ceded 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	2012			2011		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	2,215,864	91,823	2,124,041	1,910,422	83,224	1,827,198
Currency translation at 1 January	(8,542)	(986)	(7,556)	19,890	454	19,436
Net book value after currency translation	**2,207,322**	**90,837**	**2,116,485**	**1,930,312**	**83,678**	**1,846,634**
Changes	146,108	58,957	87,151	269,222	(5,644)	274,866
Portfolio entries/exits	31	(98)	129	2	35	(33)
Currency translation at 31 December	(13,652)	(11,323)	(2,329)	16,328	13,754	2,574
Net book value at 31 December of the year under review	**2,339,809**	**138,373**	**2,201,436**	**2,215,864**	**91,823**	**2,124,041**

The adequacy of the technical liabilities arising out of our reinsurance treaties is reviewed as at each balance sheet date. In the context of the adequacy testing of technical liabilities (liability adequacy test pursuant to IFRS 4 in conjunction with loss recognition test as per US GAAP) the anticipated future contractual payment obligations are compared with the anticipated future income. 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.

6.8 Funds withheld (liabilities)

The funds withheld under reinsurance treaties totalling EUR 821.1 million (EUR 644.6 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.

6.9 Contract deposits (liabilities)

The contract deposits on the liabilities side increased by EUR 789.7 million in the year under review from EUR 5,008.2 million to EUR 5,797.9 million. The contract deposits item on the liabilities side essentially 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.

6.10 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 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 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 according to prevailing economic circumstances.

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 %	2012		2011	
	Germany	Australia	Germany	Australia
Discount rate	3.20	3.50	4.84	4.00
Projected long-term yield on plan assets	–	7.00	–	7.00
Rate of compensation increase	2.75	3.50	2.75	5.00
Pension indexation	2.06	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	2012	2011
Projected benefit obligation at the beginning of the year under review	106,618	109,962
Current service cost for the year under review	2,875	3,341
Interest cost	4,901	4,921
Actuarial gain/loss	33,738	(10,643)
Currency translation	46	366
Benefits paid during the year	(4,805)	(2,309)
Past service cost	(2,257)	1,062
Effect of plan curtailments or settlements	(11)	(82)
Projected benefit obligation at 31 December of the year under review	**141,105**	**106,618**

Funding of the defined benefit obligation

in EUR thousand	2012	2011
Projected benefit obligation from unfunded plans	124,134	91,730
Projected benefit obligation from wholly or partially funded plans (before deduction of fair value of plan assets)	16,971	14,888
Projected benefit obligation at 31 December of the year under review	**141,105**	**106,618**
Fair value of plan assets	14,979	11,525
Funded status (present value of earned benefit entitlements less fund assets)	**126,126**	**95,093**

The fair value of the plan assets developed as follows:

Change in plan assets

in EUR thousand	2012	2011
Fair value at 31 December of the previous year	11,525	10,464
Expected return on plan assets	902	777
Actuarial gain/loss	(309)	(1,253)
Currency translation	29	283
Employer contributions	2,851	1,257
Benefits paid during the year	(3)	(3)
Effect of plan curtailments or settlements	(16)	–
Fair value of plan assets at 31 December of the year under review	**14,979**	**11,525**

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	2012	2011
Defined benefit obligations at 31 December of the year under review	141,105	106,618
Fair value of plan assets at 31 December of the year under review	14,979	11,525
Funded status	**126,126**	**95,093**
Unrealised actuarial gain/loss	(39,376)	(6,650)
Past service cost	(432)	(254)
Effect of the upper limit in IAS 19.58(b)	146	110
Net provisions for pensions at 31 December of the year under review	**86,464**	**88,299**

The recognised provision for pensions developed as follows in the year under review:

Change in the provisions for pensions

in EUR thousand	2012	2011
Net provisions for pensions at 31 December of the previous year	88,299	81,657
Currency translation	49	83
Expense for the year under review	5,817	9,217
Amounts paid during the year	(2,899)	(590)
Benefits paid during the year	(4,802)	(2,306)
Other	–	238
Net provisions for pensions at 31 December of the year under review	**86,464**	**88,299**

The components of the net periodic pension cost for benefit plans were as follows:

Net periodic pension cost

in EUR thousand	2012	2011
Current service cost for the year under review	2,875	3,341
Interest cost	4,910	4,893
Expected return on plan assets	917	738
Recognised actuarial gain/loss	(1,338)	(1,695)
Past service cost	2,428	–
Effect of plan curtailments or settlements	(3)	–
Effect of the upper limit in IAS 19.58(b)	(36)	(26)
Total	**5,817**	**9,217**

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 3.9 million (EUR 6.9 million) under administrative expenses, EUR 1.0 million (EUR 1.6 million) under other expenses and EUR 0.9 million (EUR 0.8 million) under other investment expenses.

As in the previous year, no actuarial gains were recognised in other comprehensive income as at the balance sheet date.

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	2012	2011	2010	2009	2008
Present value of defined benefit obligation	141,105	106,618	109,962	93,462	79,908
Fair value of plan assets	14,979	11,525	10,464	9,317	7,051
Surplus/(deficit) in the plan	(126,126)	(95,093)	(99,498)	(84,145)	(72,857)
Experience adjustments on plan liabilities	(39,376)	(6,650)	(17,784)	(6,647)	(649)

As in the previous year, Hannover Re does not expect any contribution payments under the pension plans set out above in the 2012 financial year.

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 2012 financial year in accordance with IAS 19 "Employee Benefits" was EUR 12.8 million (EUR 11.3 million), of which EUR 1.1 million (EUR 0.8 million) was due to obligations to members of staff in key positions and EUR 5.8 million (EUR 5.5 million) to contributions to the statutory pension insurance scheme in Germany.

6.11 Other liabilities

Other liabilities

in EUR thousand	2012	2011
Liabilities from derivatives	86,585	69,407
Interest	65,824	69,246
Deferred income	28,240	12,929
Direct minority interests in partnerships	35,353	35,418
Sundry non-technical provisions	125,245	109,960
Sundry liabilities	153,357	146,711
Total	**494,604**	**443,671**

Of this, other liabilities of EUR 7.8 million (EUR 4.4 million) are attributable to affiliated companies.

The liabilities from derivatives of EUR 86.6 million (EUR 69.4 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 8.1 "Derivative financial instruments and financial guarantees".

The sundry liabilities include, most notably, distributions within the year of EUR 53.0 million (EUR 53.4 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

in EUR thousand	Balance at 31.12.2011	Currency translation at 1 January	Balance at 1 January of the year under review	Reclassification
Provisions for				
Audits and costs of publishing the annual financial statements	5,888	(19)	5,869	–
Consultancy fees	2,014	(30)	1,984	–
Suppliers' invoices	5,647	(92)	5,555	–
Partial retirement arrangements and early retirement obligations	5,885	33	5,918	–
Holiday entitlements and overtime	6,021	(22)	5,999	–
Anniversary bonuses	2,170	–	2,170	–
Management bonuses	24,198	(191)	24,007	(229)
Other	58,137	(169)	57,968	229
Total	**109,960**	**(490)**	**109,470**	**–**

As at the balance sheet date the sundry non-technical provisions were attributable in an amount of EUR 66.0 million to maturities of less than one year, in an amount of EUR 49.0 million to maturities of one through five years and in an amount of EUR 5.8 million to maturities of more than five years. The sundry non-technical provisions with no maturity amounted to EUR 4.4 million.

	Changes in consolidated group	Additions	Utilisation	Release	Currency translation at 31 December	Balance at 31.12.2012
	–	4,908	4,588	534	(9)	5,646
	–	1,167	1,068	21	7	2,069
	–	4,517	3,743	1,743	(13)	4,573
	–	286	1,006	–	24	5,222
	196	4,432	2,968	–	16	7,675
	–	1,044	–	–	–	3,214
	–	19,814	14,287	3,267	(9)	26,029
	–	30,696	18,251	238	413	70,817
	196	**66,864**	**45,911**	**5,803**	**429**	**125,245**

6.12 Debt and subordinated capital

In order to safeguard the sustained financial strength of the Hannover Re Group, a Group company has issued subordinated debt by way of a number of callable bonds which are guaranteed by Hannover Re.

On 20 November 2012 Hannover Re placed a EUR 500.0 million subordinated bond in the European capital market via its subsidiary Hannover Finance (Luxembourg) S.A. The bond has a maturity of approximately 30 years, with a first scheduled call option on 30 June 2023. It carries a fixed coupon of 5.00% p.a. until this date, after which the interest basis changes to a floating rate of 3-month EURIBOR +430 basis points.

On 14 September 2010 Hannover Re placed a 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 3-month EURIBOR +268 basis points. The interest will be serviced according to the same principles as those practised in the past.

On 26 February 2004 subordinated debt in the amount of EUR 750.0 million was placed through Hannover Finance (Luxembourg) S.A. 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 3-month EURIBOR +263 basis points.

Altogether four (previous year: three) subordinated bonds were recognised as at the balance sheet date with an amortised cost of EUR 2,233.0 million (EUR 1,731.6 million).

Debt and subordinated capital

in EUR thousand				2012			
Subordinated loans	Coupon	Maturity	Currency	Amortised cost	Fair value measurement	Accrued interest	Fair value
Hannover Finance (Luxembourg) S.A., 2012	5.00	2043	EUR	496,643	49,572	2,808	549,023
Hannover Finance (Luxembourg) S.A., 2010	5.75	2040	EUR	498,033	77,287	8,507	583,827
Hannover Finance (Luxembourg) S.A., 2005	5.00	n/a	EUR	489,550	22,016	14,589	526,155
Hannover Finance (Luxembourg) S.A., 2004	5.75	2024	EUR	748,791	32,146	36,409	817,346
				2,233,017	**181,021**	**62,313**	**2,476,351**
Debt				167,758	–	690	168,448
Other long-term liabilities				16	–	–	16
Total				**2,400,791**	**181,021**	**63,003**	**2,644,815**

Debt and subordinated capital

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**

The aggregated fair value of the extended 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	2012						
	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]	155,168	92,247	2	4	–	–	–
Debt	–	–	134,886	32,872	–	–	–
Subordinated loans	–	–	–	–	748,791	994,677	489,549
Other long-term liabilities	–	–	16	–	–	–	–
Total	**155,168**	**92,247**	**134,904**	**32,876**	**748,791**	**994,677**	**489,549**

[1] Excluding minority interests in partnerships; the maturities of derivative financial instruments and sundry non-technical provisions are broken down separately.

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 minority interests in partnerships; the maturities of derivative financial instruments and sundry non-technical provisions are broken down separately .

Net gains and losses from debt and subordinated capital

in EUR thousand	2012	2011	2012	2011	2012	2011
	Ordinary income/expenses		Amortisation		Net result	
Debt	(10,564)	(10,548)	(847)	(1,520)	(11,411)	(12,068)
Subordinated loans	(99,765)	(98,539)	(4,746)	(630)	(104,511)	(99,169)
Total	**(110,329)**	**(109,087)**	**(5,593)**	**(2,150)**	**(115,922)**	**(111,237)**

The ordinary expenses principally include interest expenses of nominally EUR 99.8 million (EUR 98.5 million) resulting from the subordinated debt placed through Hannover Finance (Luxembourg) S.A.

Other financial facilities

Letter of credit (LoC) facilities exist with a number of financial institutions. With respect to the syndicated facility taken out in 2011 with a volume equivalent to EUR 758.6 million (EUR 772.5 million), the first renewal option was utilised and the maturity extended from the beginning of 2017 to the beginning of 2018. In addition, several bilateral loan agreements were taken out and existing such agreements were expanded.

Unsecured letter of credit facilities with various terms (maturing at the latest in 2022) and a total volume equivalent to EUR 2,621.2 million (EUR 2,403.1 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 379.3 million (EUR 386.2 million).

For further information on the letters of credit provided please see our explanatory remarks in Section 8.7 “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 55, on the information pursuant to § 315 Para. 4 German Commercial Code (HGB).

6.13 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 amounted to EUR 684.5 million (EUR 636.0 million) as at the balance sheet date. They were principally attributable to non-controlling interests in the shareholders’ equity of E+S Rückversicherung AG in an amount of EUR 651.0 million (EUR 611.6 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 51 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 23,160 treasury shares in the course of the second quarter of 2012 and delivered them to eligible employees at preferential conditions. These shares are blocked until 31 May 2016. 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.

7. Notes on the individual items of the statement of income

7.1 Gross written premium

The following table shows the breakdown of the gross written premium according to regional origin.

Gross written premium

in EUR thousand	2012	2011
Regional origin		
Germany	1,151,510	1,172,044
United Kingdom	2,765,958	2,415,505
France	563,459	524,153
Other	1,798,392	1,574,466
Europe	**6,279,319**	**5,686,168**
USA	3,204,558	2,725,705
Other	642,148	444,492
North America	**3,846,706**	**3,170,197**
Asia	1,545,192	1,327,159
Australia	791,760	620,901
Australasia	**2,336,952**	**1,948,060**
Africa	498,647	472,423
Other	812,620	819,265
Total	**13,774,244**	**12,096,113**

7.2 Investment income

Investment income

in EUR thousand	2012	2011
Income from real estate	47,433	38,283
Dividends	3,622	6,965
Interest income	1,030,153	916,220
Other income	7,201	4,703
Ordinary investment income	**1,088,409**	**966,171**
Profit or loss on shares in associated companies	10,415	3,088
Appreciation	2,680	36,769
Realised gains on investments	269,952	262,853
Realised losses on investments	42,444	83,293
Unrealised gains and losses on investments	89,268	(38,795)
Impairments on real estate	12,574	10,532
Impairments on equity securities	2,225	876
Impairments on fixed-income securities	613	5,445
Impairments on participating interests and other financial assets	6,335	14,115
Other investment expenses	96,369	70,322
Net income from assets under own management	**1,300,164**	**1,045,503**
Interest income on funds withheld and contract deposits	470,380	432,186
Interest expense on funds withheld and contract deposits	114,894	93,648
Total investment income	**1,655,650**	**1,384,041**

Of the impairments totalling EUR 11.4 million (EUR 22.0 million), an amount of EUR 5.8 million (EUR 14.0 million) was attributable to alternative investments and EUR 2.2 million (EUR 1.6 million) to real estate and real estate funds. The impairments on fixed-income securities of EUR 0.6 million (EUR 5.4 million) were taken predominantly on structured assets. An impairment loss of EUR 2.2 million (EUR 0.9 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. Other impairments totalling EUR 0.5 million (EUR 0.2 million) were taken. This contrasted with write-ups of EUR 2.7 million (EUR 36.8 million) on investments that had been written down in previous periods. Of this total volume, EUR 0.6 million (EUR 17.3 million) was attributable to alternative assets and EUR 2.0 million (EUR 16.9 million) to fixed-income securities. 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	2012	2011
Fixed-income securities – held to maturity	144,151	127,697
Fixed-income securities – loans and receivables	125,868	97,708
Fixed-income securities – available for sale	731,487	652,365
Financial assets – at fair value through profit or loss	2,895	6,571
Other	25,752	31,879
Total	**1,030,153**	**916,220**

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 96.4 million (EUR 70.3 million), net income from assets under own management of altogether EUR 1,300.2 million (EUR 1,045.5 million) was recognised in the year under review.

Net gains and losses on investments

in EUR thousand	2012				
	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	136,155	(2,606)	–	–	133,549
Loans and receivables					
Fixed-income securities	124,658	13,991	35	–	138,614
Available for sale					
Fixed-income securities	677,772	149,358	(1,465)	–	828,595
Equity securities	1,362	1,340	2,225	–	477
Other invested assets	58,072	17,671	6,546	2,838	72,035
Short-term investments	18,787	32	261	–	18,558
At fair value through profit or loss					
Fixed-income securities	8,924	(2,991)	–	14,134	20,067
Other financial assets	1,206	560	–	38,485	40,251
Other	71,888	50,153	11,465	33,811	144,387
Total	**1,098,824**	**227,508**	**19,067**	**89,268**	**1,396,533**

[1] Including income from associated companies, for reconciliation with the consolidated statement of income
[2] Excluding other investment expenses

Net gains and losses on investments

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**

[1] Including income from associated companies, for reconciliation with the consolidated statement of income
[2] Excluding other investment expenses

7.3 Reinsurance result

Reinsurance result

in EUR thousand	2012	2011
Gross written premium	13,774,244	12,096,113
Ceded written premium	1,407,851	1,069,745
Change in unearned premium	(146,108)	(269,189)
Change in ceded unearned premium	58,957	(5,668)
Net premium earned	**12,279,242**	**10,751,511**
Other technical income	1,455	8,841
Total net technical income	**12,280,697**	**10,760,352**
Claims and claims expenses paid	7,884,130	6,266,166
Change in loss and loss adjustment expense reserve	969,216	1,763,729
Claims and claims expenses	**8,853,346**	**8,029,895**
Change in benefit reserve	529,283	621,460
Net change in benefit reserve	**529,283**	**621,460**
Commissions	2,560,420	2,394,591
Change in deferred acquisition costs	(73,888)	75,682
Change in provision for contingent commissions	15,385	17,219
Other acquisition costs	17,353	10,675
Other technical expenses	4,575	8,954
Administrative expenses	310,790	289,063
Net technical result	**(84,343)**	**(535,823)**

With regard to the claims and claims expenses as well as the change in the benefit reserve the reader is also referred to Section 6.7 "Technical provisions". The change in the benefit reserve relates exclusively to the life and health reinsurance segment.

The administrative expenses amounted to altogether 2.5% (2.7%) of net premium earned.

Other technical income

in EUR thousand	2012	2011
Other technical income (gross)	2,357	9,129
Reinsurance recoverables	902	288
Other technical income (net)	**1,455**	**8,841**

Commissions and brokerage, change in deferred acquisition costs

in EUR thousand	2012	2011
Commissions paid (gross)	2,736,643	2,491,637
Reinsurance recoverables	176,223	97,046
Change in deferred acquisition costs (gross)	(56,628)	45,516
Reinsurance recoverables	17,260	(30,166)
Change in provision for contingent commissions (gross)	10,231	22,723
Reinsurance recoverables	(5,154)	5,504
Commissions and brokerage, change in deferred acquisition costs (net)	**2,649,693**	**2,336,128**

Other technical expenses

in EUR thousand	2012	2011
Other technical expenses (gross)	4,575	8,980
Reinsurance recoverables	–	26
Other technical expenses (net)	**4,575**	**8,954**

7.4 Other income/expenses

Other income/expenses

in EUR thousand	2012	2011
Other income		
Exchange gains	84,764	77,099
Reversals of impairments on receivables	8,511	11,878
Income from contracts recognised in accordance with the deposit accounting method	58,683	49,374
Income from services	4,132	2,996
Other interest income	4,249	73,139
Sundry income	20,620	19,883
	180,959	**234,369**
Other expenses		
Other interest expenses	75,850	43,460
Exchange losses	109,095	59,057
Expenses from contracts recognised in accordance with the deposit accounting method	11,369	7,877
Separate value adjustments	27,308	12,933
Expenses for the company as a whole	50,207	50,854
Depreciation	12,666	14,326
Expenses for services	5,210	4,339
Expenses from the disposal of Clarendon	–	10,015
Sundry expenses	54,098	38,309
	345,803	**241,170**
Total	**(164,844)**	**(6,801)**

The decrease 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 2010, which was booked in the previous year. Please see our explanatory remarks in Section 7.5 "Taxes on income".

The separate value adjustments were attributable principally to accounts receivable in an amount of EUR 26.9 million (EUR 9.2 million) as well as to reinsurance recoverables on unpaid claims in an amount of EUR 0.4 million (EUR 2.2 million) and other receivables in a minimal amount (EUR 0.6 million).

7.5 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" 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	2012	2011
Actual tax for the year under review	255,566	191,911
Actual tax for other periods	5,262	(124,812)
Deferred taxes due to temporary differences	99,670	42,515
Deferred taxes from loss carry-forwards	10,700	(43,830)
Change in deferred taxes due to changes in tax rates	(2,969)	(324)
Total	**368,229**	**65,460**

Domestic/foreign breakdown of recognised tax expenditure/income

in EUR thousand	2012	2011
Current taxes		
Germany	164,362	8,045
Outside Germany	96,466	59,053
Deferred taxes		
Germany	91,027	34,072
Outside Germany	16,374	(35,710)
Total	**368,229**	**65,460**

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	2012	2011
Deferred tax assets		
Tax loss carry-forwards	68,393	81,178
Loss and loss adjustment expense reserves	285,396	271,615
Benefit reserve	76,508	54,846
Other technical/non-technical provisions	174,094	216,240
Funds withheld	513,357	586,554
Deferred acquisition costs	22,671	14,073
Accounts receivable/reinsurance payable	3,809	7,156
Valuation differences relating to investments	22,857	19,210
Contract deposits	8,876	5,230
Other valuation differences	51,447	64,927
Value adjustments [1]	(43,228)	(43,203)
Total	**1,184,180**	**1,277,826**
Deferred tax liabilities		
Loss and loss adjustment expense reserves	24,797	22,542
Benefit reserve [2]	526,348	553,381
Other technical/non-technical provisions	52,805	87,485
Equalisation reserve	1,040,561	933,711
Funds withheld	27,961	39,951
Deferred acquisition costs	342,640	372,436
Accounts receivable/reinsurance payable	79,811	62,800
Valuation differences relating to investments	381,555	174,914
Present value of future profits on acquired life reinsurance portfolios (PVFP)	11,513	11,873
Other valuation differences	48,069	59,110
Total	**2,536,060**	**2,318,203**
Deferred tax liabilities	1,351,880	1,040,377

[1] Thereof on tax loss carry-forwards: -EUR 43,228 thousand (-EUR 42,760 thousand)

[2] Including reinsurance recoverables on benefit reserve; previous year was adjusted pursuant to IAS 1 in an amount of EUR 38,174 thousand charged to the other technical provisions.

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	2012	2011
Deferred tax assets	620,493	682,888
Deferred tax liabilities	1,972,373	1,723,265
Net deferred tax liabilities	**1,351,880**	**1,040,377**

The actual and deferred taxes recognised directly in shareholders' equity in the financial year increased by -EUR 174.5 million to -EUR 207.3 million (-EUR 32.8 million) against the backdrop of unrealised gains and losses on investments.

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	2012	2011
Profit before income taxes	1,301,952	742,248
Expected tax rate	32%	32%
Expected expense for income taxes	416,625	237,519
Change in deferred tax rates	(2,969)	(324)
Taxation differences affecting subsidiaries	(85,664)	(37,199)
Non-deductible expenses	67,002	56,022
Tax-exempt income	(26,747)	(66,664)
Tax income not attributable to the reporting period	3,788	(127,547)
Other	(3,806)	3,653
Actual expense for income taxes	**368,229**	**65,460**

The tax burden in the 2012 financial year rose sharply year-on-year by EUR 302.8 million to EUR 368.2 million (EUR 65.5 million). The increase can be attributed partly to a higher pre-tax profit in the year under review and partly to tax refunds in the previous year based on a decision of the Federal Fiscal Court (BFH) from 2010 regarding the taxation of investment income generated by the Group's reinsurance subsidiaries domiciled in Ireland as foreign-sourced income. The tax ratio amounted to 28.3% (8.8%).

Availability of non-capitalised loss carry-forwards

Unused tax loss carry-forwards of EUR 233.7 million (EUR 286.9 million) existed as at the balance sheet date. Making allowance for local tax rates, EUR 152.4 million (EUR 151.5 million) thereof was not capitalised since realisation is not sufficiently certain.

No deferred taxes were established on assets-side taxable temporary differences amounting to EUR 107.5 million (EUR 38.9 million) and liabilities-side temporary differences of EUR 70.7 million (EUR 108.2 million) in connection with interests in Group companies because the Hannover Re Group can control their reversal and will not reverse them in the foreseeable future.

Availability of loss carry-forwards 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	–	1,431	–	150,980	152,411
Total	**–**	**1,431**	**–**	**150,980**	**152,411**

8. Other notes

8.1 Derivative financial instruments and financial guarantees

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.

The change in equity from hedging instruments in an amount of -EUR 9.5 million that is recognised directly in equity pursuant to IAS 39 results exclusively from forward exchange contracts taken out within the year to hedge currency risks from long-term investments in foreign operations. Ineffective components of the hedge amounting to EUR 6.1 million were expensed under other expenses.

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 3.9 million (EUR 3.2 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 16.8 million (EUR 20.7 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 4.9 million (EUR 32.5 million) and other financial assets at fair value through profit or loss in an amount of EUR 13.1 million (EUR 12.2 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	2012				
	Less than three months	Three months to one year	One to five years	Five to ten years	Total
Interest rate hedges					
Fair values	–	–	(3,597)	(330)	(3,927)
Notional values	–	–	82,668	33,378	116,046
Currency hedges					
Fair values	(935)	(2,585)	(10,696)	(2,586)	(16,802)
Notional values	12,237	77,969	36,395	11,038	137,639
Inflation hedges					
Fair values	–	–	9,094	(877)	8,217
Notional values	–	–	2,544,433	304,822	2,849,255
Total hedging instruments					
Fair values	(935)	(2,585)	(5,199)	(3,793)	(12,512)
Notional values	12,237	77,969	2,663,496	349,238	3,102,940

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	Total
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

The net changes in the fair value of these instruments improved the result of the financial year by EUR 27.4 million (EUR 19.8 million).

Derivative financial instruments in connection with reinsurance

A 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 positive value of EUR 39.8 million as at the balance sheet date and was recognised under other financial assets at fair value through profit or loss (EUR 12.9 million under other liabilities).

In the course of the year the change in the fair value of the derivative gave rise to a positive profit contribution of EUR 51.8 million before tax (negative profit contribution of EUR 55.4 million).

A number of transactions concluded in the life and health reinsurance business group in 2012, under which Hannover Re companies offer their contracting parties coverage for risks from possible future payment obligations arising out of hedging instruments, are also to be classified as derivative financial instruments. The payment obligations result from contractually defined events and relate to the development of an underlying group of primary insurance contracts with statutory reserving requirements. The contracts are to be categorised and recognised as stand-alone credit derivatives pursuant to IAS 39. These derivative financial instruments were carried in equity on initial recognition because receivables recognised under other assets were to be carried in the same amount. Please see Section 6.6 "Other assets". The fair value of these instruments on the balance sheet date was EUR 54.8 million, which was recognised under other liabilities. The change in value in subsequent periods is dependent upon the risk experience.

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 7.5 million (EUR 8.2 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 investment income of EUR 0.7 million (EUR 1.1 million) as at 31 December 2012.

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 47.7 million (EUR 8.8 million) as well as recognition of liabilities from the derivatives resulting from technical items in an amount of EUR 60.9 million (EUR 13.0 million) as at the balance sheet date. Increases in investment income amounting to EUR 52.0 million (EUR 8.8 million) as well as charges to income of EUR 7.1 million (EUR 56.4 million) were recognised in the year under review from all separately measured derivatives in connection with the technical account.

Financial guarantees

Structured transactions were entered into in the life and health reinsurance business group in order to finance statutory reserves (so-called Triple-X or AXXX reserves) of US ceding companies. In each case such structures necessitate the involvement of a special purpose entity. The special purpose entities carry extreme mortality risks securitised by the cedant above a contractually defined retention and transfer these risks by way of a fixed/floating swap with a ten-year term to a member company of the Hannover Re Group. The maximum capacity of the transactions is equivalent to EUR 1,137.9 million; an amount equivalent to EUR 848.1 million had been taken up as at the balance sheet date. The variable payments to the special purpose entities that are guaranteed by Hannover Re cover their payment obligations. By way of compensation agreements Hannover Re is reimbursed by the parent companies of the cedants for all payments resulting from the swap in the event of a claim. Under IAS 39 these transactions are to be recognised at fair value as financial guarantees. 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 recognised at the point in time when utilisation is considered probable. This was not the case as at the balance sheet date. In this case the reimbursement claims from the compensation agreements are to be capitalised separately from and up to the amount of the provision.

8.2 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 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 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, business travel collision and construction all risk. Divisions of Talanx AG also 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 grants Hannover Re and E+S Rückversicherung AG a preferential position as reinsurers of cedants within the Talanx Group. In addition, Hannover Re and E+S Rückversicherung AG 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	2012		2011	
	Premium	Underwriting result	Premium	Underwriting result
Business assumed				
Non-life reinsurance	443,469	39,727	408,359	54,912
Life and health reinsurance	209,342	17,083	246,051	23,748
	652,811	56,810	654,410	78,660
Business ceded				
Non-life reinsurance	(13,894)	558	(23,341)	31,749
Life and health reinsurance	(51,869)	(9,023)	(48,389)	(10,015)
	(65,763)	(8,465)	(71,730)	21,734
Total	**587,048**	**48,345**	**582,680**	**100,394**

The reinsurance relationships with related parties in the year under review are shown with their total amounts in the table.

In October 2012 Funis GmbH & Co. KG acquired 30% of the shares in the Liechtenstein-based ASPECTA Assurance International AG from Talanx International AG for a purchase price of EUR 1. At the same time the remaining shares were sold by Talanx International AG to an investor outside the Group. The negative difference of EUR 0.7 million resulting from netting of the purchase price with the proportionate shareholders' equity was recognised in income.

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 of the previous year was EUR 51.5 million. The carrying amount included accrued interest of EUR 1.5 million. The loan was repaid by Talanx AG on schedule.

The Group companies E+S Rückversicherung AG, Hannover Finance (Luxembourg) S.A., Hannover Re (Ireland) Plc and Hannover Re (Bermuda) Ltd. invested in a nominal amount of altogether 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 153.0 million (EUR 153.9 million) and included accrued interest of EUR 3.9 million (EUR 3.9 million) as at the balance sheet date.

Under long-term lease arrangements companies belonging to the Hannover Re Group rented out business premises in 2012 to Talanx Service AG, Hannover, which also entered into the existing lease agreements. In the year under review a lease arrangement with Talanx Service AG was taken over with the purchase of the office building at Karl-Wiechert-Allee 57. Under this agreement Hannover Re rents out office space to Talanx Service AG at normal market conditions. In addition, lease agreements exist with Talanx Service AG 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 Rückversicherung AG by Talanx Pensionsmanagement AG and HDI Lebensversicherung AG under an actuarial service contract.

In December 2012 Hannover Re concluded a service agreement with Talanx AG, Hannover, regarding the purchase of services for operation of data acquisition software.

Remuneration and shareholdings of the management boards of the parent company

The remuneration of the Executive Board of Hannover Re amounted to altogether EUR 7.5 million (EUR 9.4 million). The total remuneration (excluding pension payments) of former members of the Executive Board and their surviving dependants stood at EUR 2.4 million (EUR 0.1 million). The pension payments to previous members of the Executive Board and their surviving dependants, for whom 13 (13) pension commitments existed, totalled EUR 1.4 million (EUR 1.2 million) in the year under review; altogether, a provision of EUR 22.5 million (EUR 15.8 million) has been set aside for these commitments.

The total remuneration of the Supervisory Board of Hannover Re amounted to EUR 0.8 million (EUR 0.9 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. Nor were there any other reportable circumstances or contractual relationships as defined by IAS 24 between companies of the Hannover Re Group and the members of the governing bodies or their related parties 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 Paragraph 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 83 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 2012 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.

8.3 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".

The Conditions for the Granting of Stock Appreciation Rights were cancelled for the 2011 financial year 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). The Conditions for the Granting of Stock Appreciation Rights were also cancelled for the other eligible recipients for the year under review by a resolution of the Executive Board dated 14 March 2011. Awarded stock appreciation rights continue to be exercisable until the end of their period of validity.

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) 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 Rückversicherung AG.

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 2003, 2004 as well as 2006, 2007 and 2009 to 2011 gave rise to commitments in the 2012 financial year shown in the following table. No allocations were made for 2005 or 2008.

Stock appreciation rights of Hannover Re

	Allocation year						
	2011	2010	2009	2007	2006	2004	2003
Award date	15.3.2012	8.3.2011	15.3.2010	28.3.2008	13.3.2007	24.3.2005	25.3.2004
Period	10 years	10 years	10 years	10 years	10 years	10 years	10 years
Waiting period	4 years	4 years	2 years	2 years	2 years	2 years	2 years
Basic price (in EUR)	40.87	33.05	22.70	34.97	30.89	27.49	24.00
Participants in year of issue	143	129	137	110	106	109	110
Number of rights granted	263,515	1,681,205	1,569,855	926,565	817,788	211,171	904,234
Fair value at 31.12.2012 (in EUR)	17.31	7.16	8.62	10.79	10.32	24.62	8.99
Maximum value (in EUR)	32.21	8.92	8.76	10.79	10.32	24.62	8.99
Weighted exercise price	–	–	8.76	9.84	10.32	21.49	8.99
Number of rights existing at 31.12.2012	262,789	1,661,890	932,372	240,852	26,491	3,354	0
Provisions at 31.12.2012 (in EUR million)	0.94	5.08	6.21	2.6	0.27	0.08	0
Amounts paid out in the 2012 financial year (in EUR million)	–	–	4.94	5.94	2.33	2.49	0.02
Expense in the 2012 financial year (in EUR million)	0.94	3.38	2.8	2.94	0.69	1.08	0

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 57.65 as at the reference date of 14 December 2012, expected volatility of 41.16% (historical volatility on a five-year basis), a dividend yield of 4.60% and risk-free interest rates of -0.07% for the 2004 allocation year, 0.19% for the 2006 allocation year, 0.39% for the 2007 allocation year, 0.84% for the 2009 allocation year, 1.06% for the 2010 allocation year and 1.26% for the 2011 allocation year.

In the 2012 financial year the waiting period expired for 100% of the stock appreciation rights awarded in 2003, 2004 and 2006, 80% of those awarded in 2007 and 40% of those awarded in 2009.

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	2011	2010	2009	2007	2006	2004	2003
Granted in 2004	–	–	–	–	–	–	904,234
Exercised in 2004	–	–	–	–	–	–	–
Lapsed in 2004	–	–	–	–	–	–	59,961
Number of options at 31.12.2004	**–**	**–**	**–**	**–**	**–**	**–**	**844,273**
Granted in 2005	–	–	–	–	–	211,171	–
Exercised in 2005	–	–	–	–	–	–	–
Lapsed in 2005	–	–	–	–	–	6,397	59,834
Number of options at 31.12.2005	**–**	**–**	**–**	**–**	**–**	**204,774**	**784,439**
Granted in 2006	–	–	–	–	–	–	–
Exercised in 2006	–	–	–	–	–	–	278,257
Lapsed in 2006	–	–	–	–	–	14,511	53,578
Number of options at 31.12.2006	**–**	**–**	**–**	**–**	**–**	**190,263**	**452,604**
Granted in 2007	–	–	–	–	817,788	–	–
Exercised in 2007	–	–	–	–	–	12,956	155,840
Lapsed in 2007	–	–	–	–	8,754	13,019	38,326
Number of options at 31.12.2007	**–**	**–**	**–**	**–**	**809,034**	**164,288**	**258,438**
Granted in 2008	–	–	–	926,565	–	–	–
Exercised in 2008	–	–	–	–	–	1,699	121,117
Lapsed in 2008	–	–	–	–	3,103	1,443	2,162
Number of options at 31.12.2008	**–**	**–**	**–**	**926,565**	**805,931**	**161,146**	**135,159**
Granted in 2009	–	–	–	–	–	–	–
Exercised in 2009	–	–	–	–	–	1,500	79,262
Lapsed in 2009	–	–	–	17,928	16,158	3,192	–
Number of options at 31.12.2009	**–**	**–**	**–**	**908,637**	**789,773**	**156,454**	**55,897**
Granted in 2010	–	–	1,569,855	–	–	–	–
Exercised in 2010	–	–	–	10,399	95,380	29,832	52,581
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**
Granted in 2011	–	1,681,205	–	–	–	–	–
Exercised in 2011	–	–	–	41,583	437,491	7,183	602
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**
Granted in 2012	263,515	–	–	–	–	–	–
Exercised in 2012	–	–	563,518	603,379	225,952	116,085	2,714
Lapsed in 2012	726	4,070	–	–	–	–	–
Number of options at 31.12.2012	**262,789**	**1,661,890**	**932,372**	**240,852**	**26,491**	**3,354**	**–**

2,714 stock appreciation rights from the 2003 allocation year, 116,085 stock appreciation rights from the 2004 allocation year, 225,952 stock appreciation rights from the 2006 allocation year, 603,379 stock appreciation rights from the 2007 allocation year and 563,518 stock appreciation rights from the 2009 allocation year were exercised. The total amount paid out stood at EUR 15.7 million.

On this basis the aggregate provisions – included in the sundry non-technical provisions – amounted to EUR 15.2 million for the 2012 financial year (EUR 19.1 million). The expense totalled altogether EUR 11.8 million (EUR 5.2 million).

Share Award Plan

With effect from the 2011 financial year the Supervisory Board of Hannover Re implemented 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"). The Executive Board of Hannover Re decided to adopt a Share Award Plan for certain management levels at Hannover Re as well with effect from the 2012 financial year.

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. 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 and management of Hannover Re who are eligible recipients under the Share Award Plan are those who have been allowed a contractual claim to the granting of share awards and whose service / 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.

After share awards were already granted to the members of the Executive Board in the year under review for the 2011 financial year, share awards will be granted separately to managers for the first time for the 2012 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 the conditions applicable to members of the Executive Board 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 is envisaged for the calculation. For managers a period of twenty trading days before to ten trading days after the meeting of the Supervisory Board that approves the consolidated financial statement for the financial year just-ended has been agreed. The total number of share awards granted is established by dividing the amount available for the granting of share awards to the respective eligible recipients by the value per share, rounded up to the next full share. For members of the Executive Board 20% and for managers 40% or 35% – according to management levels – of the defined variable remuneration shall be granted in the form of share awards.

The share awards are granted automatically without any requirement for a declaration by Hannover Re or the eligible recipient. 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 eligible recipient 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 term 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.

In the event that the Board mandate or service relationship with the member of the Executive Board or the employment relationship with the manager ends, the eligible recipient shall retain his claims to payment of the value of already granted share awards after expiry of the applicable vesting period, unless such termination is based on resignation of office/voluntary termination on the part of the member of the Executive Board or voluntary termination on the part of the manager or dismissal by Hannover Re for a compelling reason. 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 eligible recipient in the event of exit from the company on account of non-reappointment, occurrence of the pensionable event or death.

The Share Award Plan is recognised as share-based payment with cash settlement.

The provisional fair value for the 2012 allocation year is measured according to the market price of the share on the valuation date of 28 December 2012 and amounts to EUR 58.96 (EUR 38.325) per share award. The probable allocation for the members of the Executive Board amounts to altogether 16,053 (24,390) share awards and for managers altogether 12,329 (0) share awards, in each case plus the total present value of the dividend entitlements acquired until the end of the period. No allowance is made for anticipated dividend payments.

For the 2011 allocation year the members of the Executive Board were ultimately awarded 22,232 share awards after adjustment of the fair value of EUR 38.325 recognised in the consolidated financial statement to the unweighted mean of EUR 42.09. Entitlements from dividends arose in the year under review as at the balance sheet date only for the share awards granted to the members of the Executive Board in an amount of EUR 45,5 thousand.

The personnel expense from share awards to members of the Executive Board is spread on an accrual basis across the period of the service contracts, while the personnel expense from share awards received by managers is spread across the four-year term of the share awards. Personnel expenses of EUR 0.8 million (EUR 0.2 million) in the case of the Executive Board and EUR 1.4 million (EUR 0) in the case of managers were allocated to the provision for share awards in the year under review in the context of the proportionate write-up of fair values.

The total amount of the provision of EUR 2.4 million (EUR 0.2 million) is shown under the sundry provisions.

8.4 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 2,263 (2,210). As at the balance sheet date altogether 2,312 (2,217) staff were employed by the Hannover Re Group, with 1,164 (1,110) employed in Germany and 1,148 (1,107) working for the consolidated Group companies abroad.

Personnel information

	2012					2011	
	31.3.	30.6.	30.9.	31.12.	Average	31.12.	Average
Number of employees (excluding Board members)	2,228	2,266	2,293	2,312	2,263	2,217	2,210

Nationality of employees

	2012								
	German	US	South African	UK	Swedish	Australian	Irish	Other	Total
Number of employees	1,081	287	157	210	90	74	36	377	2,312

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	2012	2011
a) Wages and salaries	197,664	171,362
	197,664	**171,362**
b) Social security contributions and expenditure on provisions and assistance		
ba) Social security contributions	18,295	15,201
bb) Expenditures for pension provision	20,369	23,134
bc) Expenditures for assistance	3,840	3,254
	42,504	**41,589**
Total	**240,168**	**212,951**

8.5 Earnings per share and dividend proposal

Calculation of the earnings per share

	2012	2011
Group net income in EUR thousand	858,312	605,973
Weighted average of issued shares	120,596,877	120,596,999
Basic earnings per share in EUR	7.12	5.02
Diluted earnings per share in EUR	7.12	5.02

The earnings per share is calculated by dividing the net income attributable to the shareholders of Hannover Re by the weighted average number of shares outstanding within the period under review.

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 6.13 "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 253.3 million (previous year: EUR 277.4 million) was paid in the year under review for the 2011 financial year.

It will be proposed to the Annual General Meeting on 7 May 2013 that a dividend of EUR 2.60 and a bonus of EUR 0.40 per share should be paid for the 2012 financial year. This corresponds to a total distribution of EUR 361.8 million. The dividend proposal does not form part of this consolidated financial statement.

8.6 Lawsuits

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

8.7 Contingent liabilities and commitments

Hannover Re has placed four 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, 2010 and 2012 financial years in amounts of EUR 500.0 million each.

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 2,855.7 million (EUR 2,756.1 million) and EUR 11.9 million (EUR 12.1 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 549.3 million (EUR 367.4 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 2,314.4 million (EUR 2,017.4 million) as at the balance sheet date.

The securities held in the blocked custody accounts and trust accounts are recognised predominantly as available-for-sale investments.

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 3,343.0 million (EUR 3,097.8 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 55, on the information pursuant to § 315 Para. 4 German Commercial Code (HGB) as well as in Section 6.12 "Debt and subordinated capital" on other financial facilities.

In addition, we keep own investments with a book value of EUR 67.3 million (EUR 37.4 million) in blocked custody accounts as collateral provided under existing derivative transactions. We received collateral with a fair value of EUR 9.5 million (EUR 5.2 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 288.3 million (EUR 309.3 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 575.9 million (EUR 451.9 million). These primarily involve as yet unfulfilled payment obligations from investment commitments given to private equity funds and venture capital firms.

The application of tax regulations may not have been resolved at the time when tax items are brought to account. The calculation of tax refund claims and tax liabilities is based on what we consider to be the regulations most likely to be applied in each case. The revenue authorities may, however, take a differing view, as a consequence of which additional tax liabilities could arise in the future.

Hannover Re enters into contingent liabilities as part of its normal business operations. A number of reinsurance treaties concluded by Group companies with outside third parties include letters of comfort, guarantees or novation agreements under which the parent company guarantees the liabilities of the subsidiary in question or enters into the rights and obligations of the subsidiary under the treaties if particular constellations materialise.

8.8 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.

8.9 Rents and leasing

Leased property

Future leasing commitments

in EUR thousand	Payments
2013	7,080
2014	6,579
2015	5,043
2016	4,413
2017	2,907
Subsequent years	9,633

Operating leasing contracts produced expenditures of EUR 6.0 million (EUR 6.6 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
2013	37,889
2014	36,029
2015	33,350
2016	31,030
2017	25,698
Subsequent years	77,852

Rental income totalled EUR 47.3 million (EUR 36.7 million) in the year under review. The rental income resulted principally from the renting out of properties by the Group's real estate companies.

8.10 Fee paid to the auditor

An expense of altogether EUR 3.2 million (EUR 2.0 million) was incurred in the year under review for the fee paid to the appointed auditor of the consolidated financial statement as defined by § 318 German Commercial Code (HGB). Of this total amount, EUR 1.5 million (EUR 1.3 million) was attributable to the fee for auditing services in relation to the financial statement, EUR 0.5 million (EUR 0.6 million) to other assurance services, EUR 0.1 million (previous year: minimal amount) to tax consultancy services and EUR 1.1 million (previous year: minimal amount) to other services.

8.11 Events after the balance sheet date

In a press release dated 21 February 2013 we announced the completion of another block transaction for longevity risks in our life and health reinsurance business group. Under the transaction pension obligations in the amount of GBP 3.2 billion assumed by a UK cedant are mostly transferred to Hannover Re with contractual effect from 31 January 2013. Hannover Re assumes only the biometric risk under this transaction, not the investment risk. Hannover Re will generate total premium income of roughly GBP 2.2 billion from this longevity transaction, with gross premium of around GBP 100.0 million attributable to the 2013 financial year.

Sizeable major loss events were recorded in non-life reinsurance at the beginning of 2013 in connection with floods along the east coast of Australia – caused in particular by Tropical Cyclone Oswald – and the failed launch of the communications satellite Intelsat 27. Hannover Re anticipates losses in the low double-digit million euros from both events.

The Annual General Meeting of Hannover Rückversicherung AG on 3 May 2012 adopted a resolution to convert the company to a European limited company (Societas Europaea or SE). The SE will be created upon entry in the commercial register, which is expected to take place in the first quarter of the 2013 financial year.

Hannover, 5 March 2013

Executive Board

Wallin

Arrago

Chèvre

Gräber

Dr. Miller

Dr. Pickel

Vogel

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, consolidated statement of changes in equity, consolidated cash flow statement and notes to the consolidated financial statements – as well as the group management report for the business year from 1 January to 31 December 2012. 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, 5 March 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

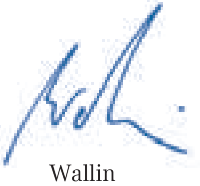
Husch	Busch
Wirtschaftsprüfer	Wirtschaftsprüfer

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, 5 March 2013

Executive Board


Wallin


Arrago


Chèvre


Gräber


Dr. Miller


Dr. Pickel


Vogel

The word Longji from the Longji Terraced Rice Fields describes their similarity to a dragon's backbone

Asia/China

Over the next ten years market watchers expect property and casualty insurance in China to grow by at least 15% annually on average.

Report by the Supervisory Board
of Hannover Rückversicherung AG

In our function as the Supervisory Board we considered at length during the 2012 financial year the position and development of the company and its major subsidiaries. We advised the Executive Board on the direction of the company and monitored the management of business on the basis of written and verbal reports from the Executive Board. The Supervisory Board held four regular meetings and one constituent meeting in order to adopt the necessary resolutions after appropriate discussion. A resolution was adopted by a written procedure with respect to one matter requiring attention at short notice. We received quarterly written reports from the Executive Board on the course of business and the position of the company and the Group. These reports describe, inter alia, the current planned and expected figures for the company and the Group as a whole and the individual business groups. The quarterly reports with the quarterly financial statements and key figures for the Hannover Re Group constituted a further important source of information for the Supervisory Board. We received an analysis of the 2011 results in non-life and life and health reinsurance as well as a presentation from the Executive Board covering the profit expectations for the 2012 financial year and the operational planning for the 2013 financial year. In addition, the Chairman of the Supervisory Board was constantly advised by the Chairman of the Executive Board of major developments and impending decisions as well as of the risk situation within the company and the Group. All in all, we were involved in decisions taken by the Executive Board and assured ourselves of the lawfulness, regularity and efficiency of the company's management as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. No audit measures pursuant to § 111 Para. 2 Sentence 1 German Stock Corporation Act were required in the 2012 financial year.

Key points of deliberation

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

Committees of the Supervisory Board

Of the committees formed by the Supervisory Board within the meaning of § 107 Para. 3 German Stock Corporation Act, the Finance and Audit Committee met on four occasions and the Standing Committee met twice. The Standing Committee adopted a resolution by a written procedure with respect to one matter requiring attention at short notice. The Chairman of the Supervisory Board updated the full Supervisory Board on the major deliberations of the committee meetings at its next meeting and provided an opportunity for further questions.

The Finance and Audit Committee considered inter alia the consolidated annual and quarterly financial statements drawn up in accordance with IFRS and the corresponding individual financial statements of the parent company Hannover Re drawn up in accordance with the German Commercial Code (HGB) and discussed with the independent auditors their reports on these financial statements. As in the previous year, an expert opinion on the adequacy of the loss reserves in non-life reinsurance was noted, and a review of the accumulated prefinancing volume in life reinsurance including a comparison of the expected return flows with the repayments actually made, the risk reports, the compliance report/report on adherence to Corporate Governance principles and reports on the major subsidiaries were received and discussed. In addition, the Committee examined the investment structure and investment income – including the stress tests with regard to the investments and their implications for net income and the equity base – and defined the audit concentrations for the 2012 financial year. The Committee received a detailed description of the organisation of risk management in life and health reinsurance with a specific focus on the system for controlling reserves, received a report on the adequacy of the reserves constituted in life and health reinsurance and a report on the current situation and likely development of the UK subsidiary International Insurance Company of Hannover, which complements the core business of the Hannover Re Group – reinsurance – by writing direct business in selected markets. In addition, the Committee received an explanation of the European Commission's legislative proposals for reform of the audit sector and a detailed report on the audits conducted by the Internal Auditing unit as well as a summary presentation of key audit findings – including the implementation of measures arising out of audit reports – and a description of the audit plan for 2012.

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

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

Corporate Governance

The Supervisory Board once again devoted considerable attention to the issue of Corporate Governance. The Supervisory Board considered the various new items contained in the German Corporate Governance Code (DCKG) as amended on 15 May 2012 and defined the appropriate number of independent Supervisory Board members within the meaning of Item 5.4.2 of the Code. This also resulted in an adjustment to the Rules of Procedure of the Supervisory Board. The Rules of Procedure of the Executive Board were revised and the value limits for measures and transactions requiring the approval of the Supervisory Board were adjusted to reflect the increased business volume. In addition, the Supervisory Board adopted an Information Policy in which the Executive Board's duties to provide information and reporting obligations with respect to the Supervisory Board are specified in greater detail. Furthermore, the Supervisory Board was advised by the Executive Board of a concept to promote the advancement of female employees. Despite the high importance that the Supervisory Board attaches to the standards of good and responsible enterprise management defined in the German Corporate Governance Code, the Supervisory Board decided not to comply with the recommendations contained in Code Item 4.2.3 Para. 4 concerning a cap on severance payments in management board contracts, in Code Item 5.2 Para. 2 concerning the Chair of the Audit Committee and in Code Item 5.3.2 concerning the independence of the Chair of the Audit Committee. The justification in these respects is provided in the Declaration of Conformity pursuant to § 161 German Stock Corporation Act regarding compliance with the German Corporate Governance Code, which is reproduced in this Annual Report in the context of the Corporate Governance declaration. Further information on the topic of corporate governance is available on Hannover Re's website.

Audit of the annual financial statements and consolidated financial statements

The accounting, annual financial statements, consolidated financial statements and the corresponding management reports were audited by KPMG AG Wirtschaftsprüfungsgesellschaft. The Supervisory Board selected the auditor and the Chairman of the Supervisory Board awarded the audit mandate. The auditor's independence declaration was received. In addition to the usual tasks performed by the auditors, key points of focus in the audit of the individual and consolidated financial statements of Hannover Re for 2012 were the issues defined by the Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung) and the examination of the non-accounting-related internal control system with an eye to the effectiveness of the underwriting guidelines in selected areas of non-life reinsurance as well as adherence to investment guidelines. The mandate for the review report by the independent auditors on the interim financial report as at 30 June 2012 was also awarded again. The special challenges associated with the international aspects of the audits were met without reservation. Since the audits did not give rise to any objections KPMG AG issued unqualified audit certificates. The Finance and Audit Committee discussed the annual financial statements and the management reports with the participation of the auditors and in light of the audit reports, and it informed the Supervisory Board of the outcome of its examination. The audit reports were distributed to all members of the Supervisory Board and scrutinised in detail – with the participation of the auditors – at the Supervisory Board meeting held to consider the annual results. The auditors will also be present at the Annual General Meeting.

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

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

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

We have examined

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

– in each case drawn up as at 31 December 2012 – and have no objections. Nor do we have any objections to the statement reproduced in the dependent company report. The Supervisory Board thus concurred with the opinions of the auditors and approved the annual financial statements and the consolidated financial statements; the annual financial statements are thereby adopted. We concur with the Executive Board's proposal regarding the appropriation of the disposable profit for 2012.

Changes on the Supervisory Board and the Executive Board

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

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

Word of thanks to the Executive Board and members of staff

The very good result generated by Hannover Re for 2012 was made possible by the exceptional performance of the company's Executive Board and members of staff. The Supervisory Board would like to express its special appreciation to the Executive Board and all the employees for their efforts in the year under review.

Hannover, 6 March 2013

For the Supervisory Board

Herbert K. Haas
Chairman

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.

Frauke Heitmüller [5]
Hannover
(from 3 May 2012)

Uwe Kramp [5]
Hannover
(until 3 May 2012)

Otto Müller [5]
Hannover

Dr. Andrea Pollak
Vienna, Austria
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.

During the Great Depression the eastern part of Darling Harbour gained the sad nickname of "The Hungry Mile"

Australia/New Zealand

The pressure on insurers has increased following the enormous catastrophe losses of recent years. The industry expects premiums for major loss covers to rise.

Branch offices and subsidiaries of the Hannover Re Group abroad

Australia

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Managing Director:
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Andrew Parker
Head of Treaty:
Michael Eberhardt

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Fax +973 1721-4667
Managing Director:
Mahomed Akoob

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General Manager:
Mahomed Akoob

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Fax +1 441 295-2844
Managing Director:
Colin Rainier

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Fax +1 441 296-7568
President & CEO:
Dr. Konrad Rentrup

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China

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Wilbur Lo

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August Chow

Colombia

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India

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General Manager:
GLN Sarma

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Debbie O'Hare
Managing Director ASI:
Kathrin Scherff

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Korea

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Malaysia

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Rohan Kananathan

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Tzu-Chao Chen

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Managing Director:
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Sally Gilliver

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President & CEO:
Peter R. Schaefer

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President & CEO:
Peter R. Schaefer

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.

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.

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.

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.

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.

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.

Financial Solutions: refers to reinsurance transactions which – in addition to the transfer of biometric risks – also include financing components. They generally employ the future profits contained in a block of new or inforce business to enable a ceding company to achieve a desired financial objective. Such reinsurance solutions provide direct insurers with an alternative means of accessing capital in order, for example, to pursue new lines of business or increase capital reserves.

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.

Inflation swap: derivative financial instrument to hedge inflation risks, under which a fixed cash flow is swapped for a variable cash flow dependent on the inflation trend.

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.

Longevity risk: in general terms, the actuarial risk that a person receiving regular living benefits – such as annuities or pensions – lives longer than expected.

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

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

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

Major loss: loss which has special significance for the direct insurer or reinsurer due to the amount involved; it is defined as a major loss in accordance with a fixed loss amount or other criteria (in the case of Hannover Re more than EUR 10 million gross).

Major loss budget: modelled loss expectancy for business with natural perils exposure with respect to net losses larger than EUR 10 million plus the average of the past 10 years for man-made net losses larger than EUR 10 million.

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 with respect to all the policies reinsured and also establishes and retains the total reserves on the policies, 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.

Morbidity risk: in general terms, the actuarial risk that a person receiving health, disability or long-term-care benefits triggered by illness, malfunctioning of body parts, injury or frailty experiences a higher or longer than expected morbidity or disability leading to a higher payment amount, higher frequency or longer duration.

Mortality risk: in general terms, the actuarial risk that a person upon whose death a benefit is payable lives shorter than expected. From a (re)insurer's perspective, this is the risk that the observed mortality experience in an underlying portfolio deviates from what had previously been calculated on the basis of actuarial assumptions.

Net: cf. → Gross/Retro/Net

Non-life business: by way of distinction from operations in our life and health reinsurance business group, we use this umbrella term to cover our business group comprised essentially of property and casualty reinsurance, specialty lines and structured reinsurance products.

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 cannot be clearly allocated to the "trading" or "held-to-maturity" portfolios; these securities can be disposed of at any time and are reported at their fair value at the balance sheet date. Changes in fair value are not recognised in the statement of income.

Other securities, held-to-maturity: investments in debt securities that can and are 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 fair 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): a valuation ratio of a company's share price compared to its per-share earnings.

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% to 50% 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.

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.

Segment reporting: presentation of items in the balance sheet and income statement split according to functional criteria such as business sectors and regions.

Special purpose entity (SPE): entity with specific characteristics not bound to a particular legal form that is used to conduct closely defined activities or to hold assets and for which the traditional concept of consolidation – based on voting rights – is often inadequate for determining who exercises control over the entity.

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 reinsurance contract under which a reinsurer assumes (part of) a ceding company's portfolio in order to relieve strain on the insurer'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: balance of income and expenditure allocated to the insurance business and shown in the technical statement of income.

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

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.

xRoCA: cf. ➛ Excess Return on Capital Allocated

Financial calendar 2013/2014

7 March 2013
Annual Results Press Conference
Start 10:30 a.m.
Hannover Re
Karl-Wiechert-Allee 50
30625 Hannover, Germany

8 March 2013
DVFA Analysts' Meeting, Frankfurt
Analysts' Meeting, London

7 May 2013
Annual General Meeting
Start 11:00 a.m.
Hannover Congress Centrum
Theodor-Heuss-Platz 1-3
30175 Hannover, Germany

7 May 2013
Interim Report 1/2013

7 August 2013
Interim Report 2/2013

5 November 2013
Interim Report 3/2013

6 February 2014
Conference Call:
Non-life treaty renewals

11 March 2014
Annual Results Press Conference
Start 10:30 a.m.
Hannover Re
Karl-Wiechert-Allee 50
30625 Hannover, Germany

6 May 2014
Interim Report 1/2014

7 May 2014
Annual General Meeting
Start 11:00 a.m.
Hannover Congress Centrum
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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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