

# Report by the Supervisory Board

## of Hannover Re for the Hannover Re Group

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In our function as the Supervisory Board we considered at length during the 2011 financial year the position and development of the company and its major subsidiaries. We advised the Executive Board on the direction of the company and monitored the management of business on the basis of written and verbal reports from the Executive Board. The Supervisory Board held four meetings in order to adopt the necessary resolutions after appropriate discussion. Resolutions were adopted by a written procedure with respect to three matters requiring attention at short notice. We received quarterly written reports from the Executive Board on the course of business and the position of the company and the Group. These reports describe, inter alia, the current planned and expected figures for the Group as a whole and the individual business groups. The reporting also covers strains from major losses as well as the investment portfolio, investment income, ratings and the development of the Group's global workforce. The quarterly reports with the quarterly financial statements and key

figures for the Hannover Re Group constituted a further important source of information for the Supervisory Board. We received an analysis of the 2010 results in non-life and life/health reinsurance as well as a presentation from the Executive Board covering the profit expectations for the 2011 financial year and the operational planning for the 2012 financial year. In addition, the Chairman of the Supervisory Board was constantly advised by the Chairman of the Executive Board of major developments and impending decisions as well as of the risk situation within the company and the Group. All in all, we were involved in decisions taken by the Executive Board and assured ourselves of the lawfulness, regularity and efficiency of the company's management as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. No audit measures pursuant to § 111 Para. 2 Sentence 1 German Stock Corporation Act were required in the 2011 financial year.

### Key points of deliberation

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As in every year, we were given a description of the major pending legal proceedings. We were regularly updated on the work of the Supervisory Board committees and received reports on the current structure of the protection covers, especially in light of the heavy burden of major losses in 2011, on capital market risks as they affect the technical account of Hannover Life Re, on the insurance of energy-saving warranties in the United States and on the progress of moves to build a strategic equity portfolio. What is more, we again looked at the existing collateral structures for reinsurance liabilities and adopted the necessary resolutions in order to be able to quickly and flexibly maximise available opportunities in life reinsurance business. The operational planning for 2012, the medium-term outlook until 2016 as well as the development and status of the Market Consistent Embedded Value in life and health reinsurance and the strategy for as-

suming longevity risks were also considered at length. A focus of our deliberations was the adoption of a resolution regarding the updated strategic principles and objectives. The 2011 strategy contains for the first time a clear definition of the target business and specifies that – when it comes to enlarging the business volume – acquisitions are no longer restricted to life and health reinsurance but can also be contemplated in non-life reinsurance, provided their integration into the Hannover Re Group will generate value-added and the strategic objectives can be accomplished more quickly. Furthermore, active risk management was elaborated with considerably more prominence and attention to detail than had been previously been the case. In the context of the annual review of the investment guidelines, the work concentrated on the specification of the real estate limits, the restructuring of the liquidity requirements and organisational adjustments. With an eye to

§ 87 Para. 1 Sentence 1 German Stock Corporation Act, the full Supervisory Board again considered the definition of the performance bonuses of the members of the Executive Board.

One new member of the Executive Board was appointed, two Board members were reappointed and the schedule of Executive Board responsibilities was updated.

## Committees of the Supervisory Board

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

The Finance and Audit Committee considered inter alia the consolidated annual and quarterly financial statements drawn up in accordance with IFRS and the corresponding individual financial statements of the parent company Hannover Re drawn up in accordance with the German Commercial Code (HGB) and discussed with the independent auditors their reports on these financial statements. As in the previous year, an expert opinion on the adequacy of the loss reserves in non-life reinsurance, a review of the accumulated prefinancing volume in life reinsurance including a comparison of the expected return flows with the repayments actually made, the risk report pursuant to the Act on Control and Transparency in Business (KonTraG), the compliance report/report on adherence to Corporate Governance principles and reports on the major subsidiaries were received and discussed. In addition, the Committee examined the investment structure and investment income – including the stress tests with regard to the investments and their implications for net income and the equity base – and defined the audit concentrations for the 2011 financial year. The Committee received a detailed submission on the performance

of UK annuity business and was informed about risk management/controlling and the assessment of longevity risks in the life and health reinsurance portfolio. With an eye to IFRS 4 Phase II and Solvency II the current status and next steps planned were discussed. The Committee also received a detailed report on the audits conducted by the Internal Auditing unit as well as a summary presentation of key audit findings including the implementation of measures arising out of audit reports and a description of the audit plan for 2011.

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

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

The Supervisory Board once again devoted considerable attention to the issue of Corporate Governance. The Corporate Social Responsibility strategy defined by the Executive Board and the strategic orientation of Hannover Re towards sustainability were noted with approval after extensive discussion. Furthermore, a new remuneration scheme for the Supervisory Board was considered and a recommendation was submitted to the Annual General Meeting that the Articles of Association should be amended accordingly. The new arrangements include greater weighting of the fixed remuneration relative to the variable remuneration, which in future is to be measured by the company's average net income after tax and non-controlling interests over the last three years prior to the Annual General Meeting that ratifies the actions of the Supervisory Board for the most recent of these three years. The greater weighting of the fixed remuneration and the orientation of the variable remuneration towards a three-year average is in the spirit of sustainability and will reduce the volatility of the Supervisory Board remuneration. The revised remuneration

system conforms to both legal provisions and those of the German Corporate Governance Code (DCGK) and reflects the more exacting requirements placed on supervisory board work as well as the increased liability risks. An outside expert opinion confirms that the new remuneration concept is appropriate in all respects. Despite the high importance that the Supervisory Board attaches to the standards of good and responsible enterprise management defined in the German Corporate Governance Code, the Supervisory Board again decided not to comply with the recommendation in Code Item 4.2.3 Para. 4 of the German Corporate Governance Code concerning a cap on severance payments in management board contracts. The justification in this respect is provided in the Declaration of Conformity pursuant to § 161 German Stock Corporation Act regarding compliance with the German Corporate Governance Code, which is reproduced in this Annual Report in the context of the Corporate Governance declaration. Further information on the topic of corporate governance is available on Hannover Re's website.

## Audit of the annual financial statements and consolidated financial statements

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

Board meeting held to consider the annual results. The auditors will also be present at the Annual General Meeting.

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

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

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

We have examined

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

– in each case drawn up as at 31 December 2011 – and have no objections. Nor do we have any objections to the statement reproduced in the dependent company report. The Supervisory Board thus concurred with the opinions of the auditors and approved the annual financial statements and the con-

solidated financial statements; the annual financial statements are thereby adopted. We concur with the Executive Board's proposal regarding the appropriation of the disposable profit for 2011.

## Changes on the Supervisory Board and the Executive Board

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

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

## Word of thanks to the Executive Board and members of staff

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

Hannover, 13 March 2012

For the Supervisory Board  
Herbert K. Haas  
Chairman

# Supervisory Board of Hannover Re

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**HERBERT K. HAAS**<sup>1,2,4</sup>

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.**

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**DR. KLAUS STURANY**<sup>1,4</sup>

Dortmund

**Deputy Chairman**

**Member of various supervisory boards**

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**WOLF-DIETER BAUMGARTL**<sup>1,2,4</sup>

Berg

**Chairman of the Supervisory Board of Talanx AG**

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

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**UWE KRAMP**<sup>5</sup>

Hannover

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**KARL HEINZ MIDUNSKY**<sup>4</sup>

Gauting

(until 3 May 2011)

**Former Corporate Vice President and Treasurer Siemens AG**

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**ASS. JUR. OTTO MÜLLER**<sup>5</sup>

Hannover

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**DR. ANDREA POLLAK**

Vienna, Austria

(from 3 May 2011)

**Independent management consultant**

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**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.**

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**DR. ERHARD SCHIPPOREIT**<sup>2,3</sup>

Hannover

**Member of various supervisory boards**

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**GERT WÄCHTLER**<sup>5</sup>

Burgwedel

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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.