

Management report of the Hannover Re Group

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

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

Macroeconomic climate

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

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

USA

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

Europe

Economic developments in the Eurozone showed a very mixed picture in the year under review. The economy cooled appreciably after a brisk start to 2011. An increasingly restrictive financial policy as well as uncertainties surrounding the unfolding of the European sovereign debt crisis crippled in-

ternal economic activity. Export-oriented countries with relatively healthy public finances and a strong ability to compete internationally, such as Germany, the Netherlands, Finland and Austria, delivered above-average increases in output. The situation was a different one in Greece, Ireland, Portugal and Spain, where the tendencies towards recession became more marked on account of intensive consolidation efforts. Particularly dramatic in 2011 was the plight of Greece, which was only able to avert a sovereign default thanks to considerable assistance from the European Union. The onset of this economic slowdown was also apparent on labour markets. Most notably, countries on the Eurozone periphery were faced with high jobless levels that continued to rise.

Germany

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

Asia

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

Capital markets

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

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

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

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

Industry-specific environment

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

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

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

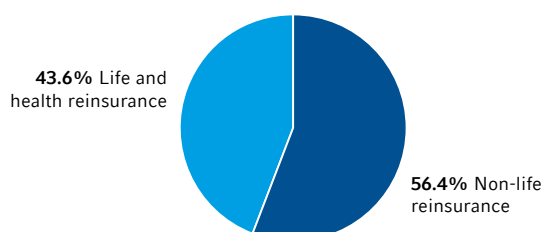
In Germany demand for insurance protection was stable. Investments, the profitability of the industry and employment in the insurance sector also remained largely unchanged. The industry has hitherto coped well with the challenges of the recent financial and economic crisis. The German Insurance Association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

Business development

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

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

Gross premium by business group



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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our business groups

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



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

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

Non-life reinsurance

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

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

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

In the aftermath of the devastating earthquake in Japan in March of the year under review, as anticipated, price increases were pushed through for non-proportional earthquake covers as well as improved conditions under proportional treaties. Prices also rose in personal accident reinsurance and for industrial fire programmes. During the renewals our company set great store by supporting our Japanese clients in these difficult times and providing them with the necessary capacity. The treaty negotiations for Australia and New Zealand as at 1 April and 1 July 2011 similarly brought about substan-

tial price adjustments, both for loss-impacted programmes and those that had been spared losses. This was especially true of New Zealand, which suffered extensive damage from earthquakes in both 2010 and 2011. We were also satisfied with the treaty renewals in other Asian markets; here, too, we slightly enlarged our premium volume.

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

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

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

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

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

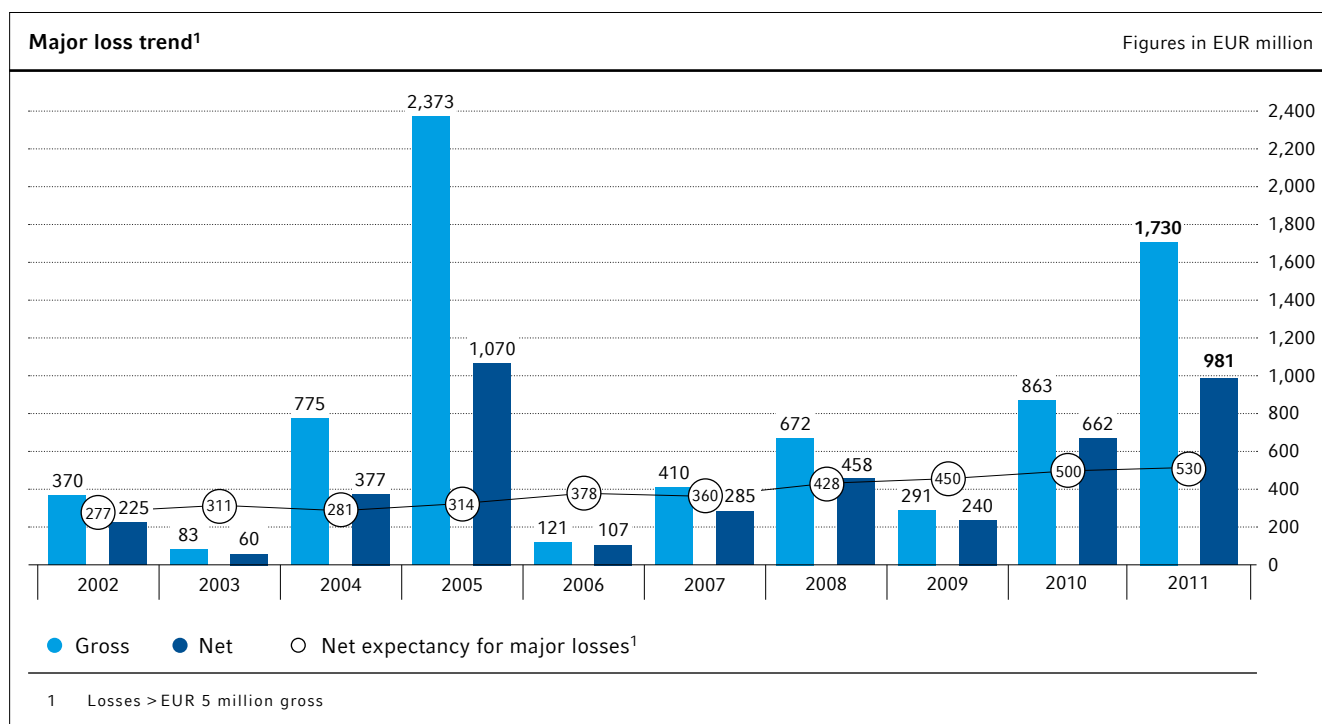
Key figures for non-life reinsurance			Figures in EUR million			
	2011	+/- previous year	2010	2009	2008	2007
Gross written premium	6,825.5	+7.7%	6,339.3	5,746.6	4,987.8	5,189.5
Net premium earned	5,960.8	+10.5%	5,393.9	5,229.5	4,276.7	4,497.6
Underwriting result	(268.7)		82.4	143.5	184.7	(26.7)
Net investment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

¹ Including expenses on funds withheld and contract deposits

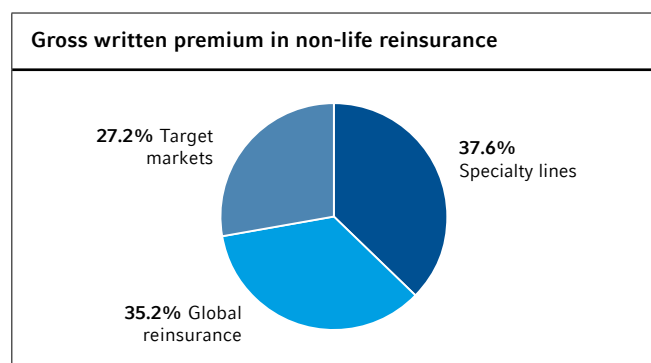
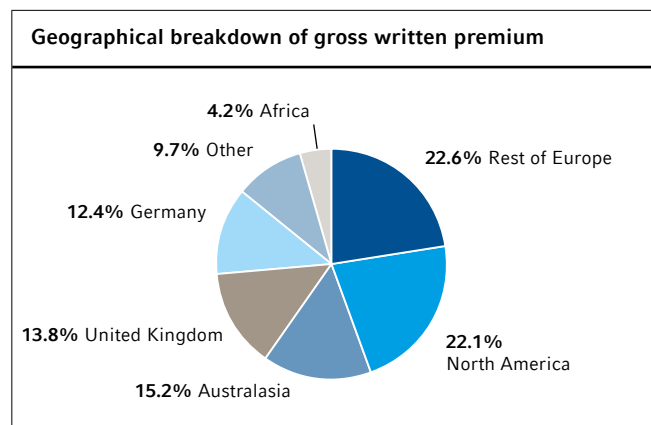
The gross premium volume for our non-life reinsurance business group increased by 7.7% in the year under review to EUR 6.8 billion (EUR 6.3 billion). At constant exchange rates, especially against the US dollar, growth would have come in at 9.4%. The level of retained premium climbed from 88.9% to 91.3%.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

Even though the hurricane season in North and Central America again passed off thoroughly moderately, the (re)insurance industry was nevertheless faced with extraordinarily

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



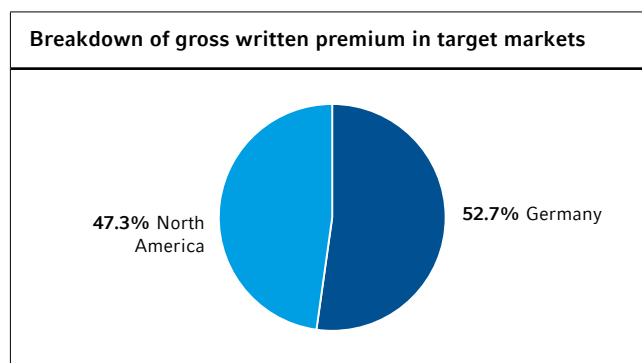
The underwriting result deteriorated to –EUR 268.7 million (EUR 82.4 million). Net investment income climbed by a very pleasing 17.2% to EUR 845.4 million (EUR 721.2 million). The operating profit (EBIT) for non-life reinsurance contracted to EUR 599.3 million (EUR 879.6 million) as at 31 December 2011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



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

Target markets

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



Germany

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

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

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

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

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

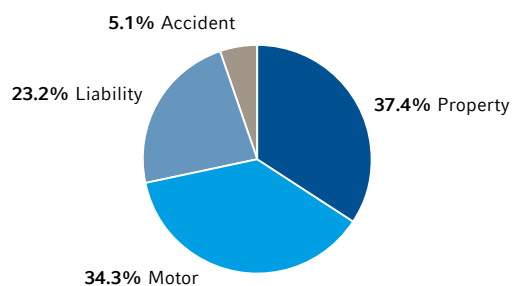
We are again thoroughly satisfied with the development of accident insurance. In this area we offer our cedants not only reinsurance covers, but also services such as training programmes and an Internet-based version of our accident manual – thereby enabling clients to extensively finalise the processing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

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

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

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

Breakdown of gross written premium in Germany by line of business



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

North America

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

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

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

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

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

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

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

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

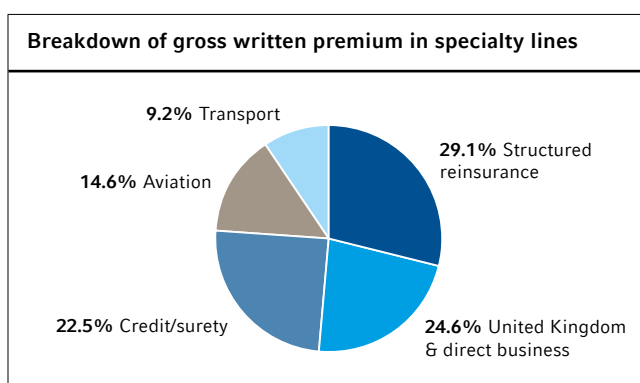
As in the preceding years, the hurricane season passed off moderately in 2011. Only hurricane “Irene” caused appreciable loss expenditure, costing our company around EUR 26 million. The series of tornadoes in April led to a strain of some EUR 15 million for our account. In May a tornado destroyed virtually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

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

Specialty lines

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

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



Marine

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

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

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

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

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

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

The combined ratio improved from 89.5% to 73.6%.

Aviation

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

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

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

After the average loss expenditure recorded in the previous year, the major loss experience in the year under review proved to be even better than expected. The largest single loss

was an accident during an air show in the United States, resulting in a net strain of around EUR 7 million for our account.

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

Credit and surety

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

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

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

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

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

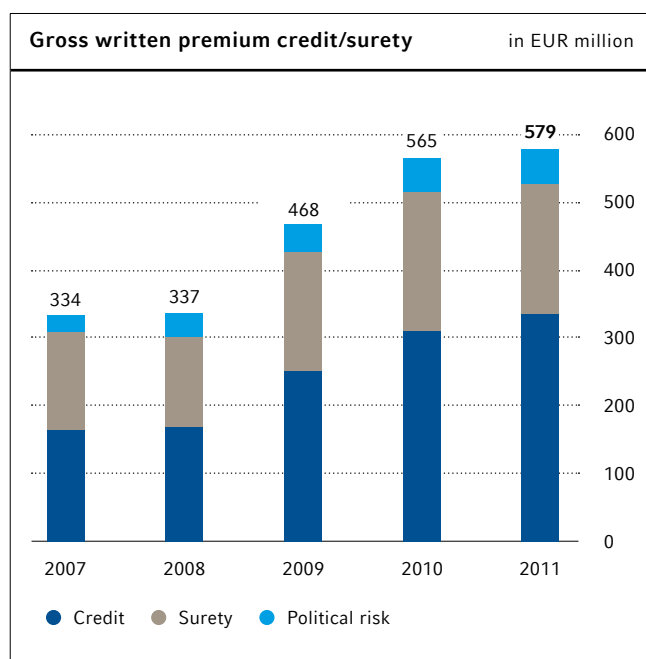
In view of the very good claims rates in the credit line rates in original business experienced a moderate decline; this trend had, however, softened by the end of the year. Commissions

**The customer is the measure
of the best solution.**

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



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



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

Structured reinsurance

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

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

We successfully pursued our strategy of regional diversification in 2011. Due to the implementation of risk-based capital

models and the associated more exacting solvency requirements, additional business opportunities are opening up for our company outside Europe too. In the year under review we concluded our first-ever transaction predicated on the Solvency II framework. In view of attractive prices in UK motor business, we made the most of the available market opportunities and wrote considerably more new business.

Insurance-Linked Securities

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

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

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

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

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

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

United Kingdom, London market and direct business

Traditional reinsurance

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

Direct business

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

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

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

other major English cities had any significant effect on our results.

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

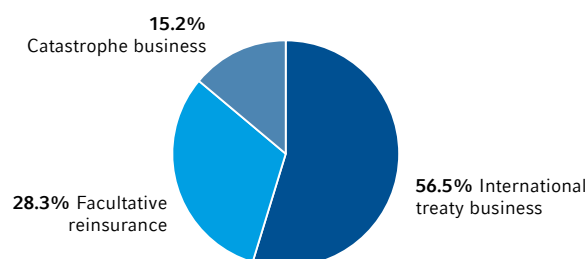
We were able to substantially enlarge our premium volume from direct business in the year under review. Our increased involvement in the UK motor sector was a contributory factor in this regard. Yet the premium volume that we write in South Africa also showed further growth in the year under review.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

Global reinsurance

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

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

Breakdown of gross written premium in global reinsurance



Western and Southern Europe

France

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

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

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

We slightly scaled back our premium volume in France.

Netherlands

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

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

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

Northern Europe

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

The year under review was overshadowed by several natural disasters: the second most expensive loss event in the history of Denmark was the severe rainfall in July, which left large

parts of Copenhagen under water. The total insured loss is in the order of EUR 650 million. At EUR 7.8 million, the loss expenditure for Hannover Re's account was rather moderate.

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

Central and Eastern Europe

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

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

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

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

Latin America

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

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

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

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

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

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

Japan

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

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

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

insurers were faced with tighter conditions in the form of increased retentions and/or reduced limits of liability.

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

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

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

Southeast Asia

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

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

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

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

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

China

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

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

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

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

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

Australia/New Zealand

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

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

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

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

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

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

Global catastrophe business

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

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

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

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

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

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

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

Agricultural risks

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

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

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

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

Retakaful business

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

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

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

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

Facultative reinsurance

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

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

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

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

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

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

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

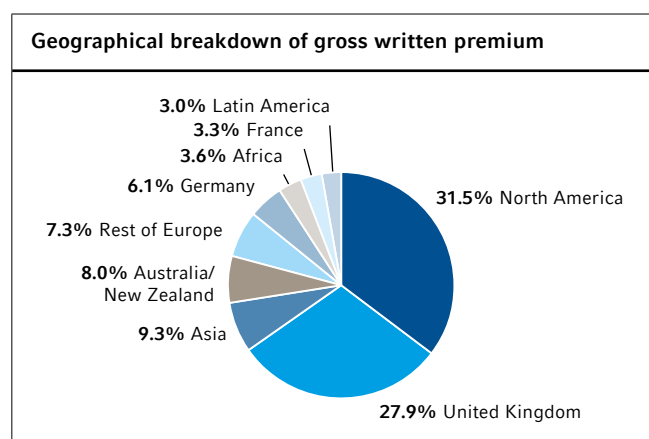
Life and health reinsurance

Business development

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

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

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



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

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

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

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

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

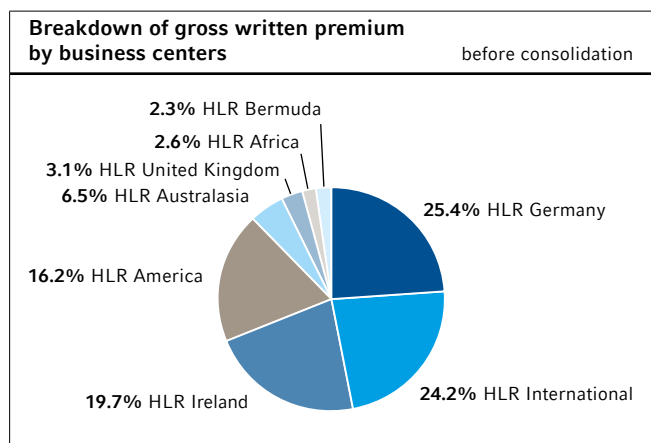
this development and – thanks to changes in the general business environment – has opened up fresh business potential for our company.

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

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

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

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



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

The business model

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

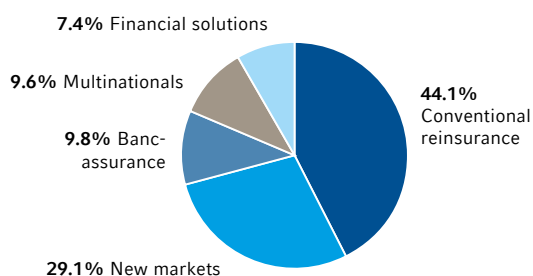
Our business model is integrated into the strategy of the Hannover Re Group and promotes outstanding diversification of the portfolio. Our core business policy is based on the tried and trusted Five Pillar model: conventional reinsurance, new markets, multinationals, bancassurance and financial solutions.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

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

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

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

Breakdown of gross written premium according to the Five Pillar model



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

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

Development of premium income

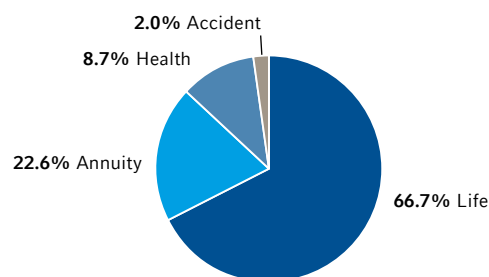
The gross premium income booked in the year under review totalled EUR 5.3 billion, an increase of 3.5% relative to the previous year's premium volume of EUR 5.1 billion. At constant exchange rates growth would have come in at 5.2%. With net premium earned standing at EUR 4.8 billion (EUR 4.7 billion),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

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

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

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

Breakdown of gross written premium by lines of business



Development of results

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

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

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

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

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

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

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

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

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

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

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

¹ Operating result (EBIT)/net premium earned

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

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

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

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

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

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

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

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

Germany

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

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

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

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

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

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

United Kingdom

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

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

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

In the area of enhanced annuities, which is handled from Hannover, we have built up considerable expertise over the past two decades and continue to operate as one of the market

leaders in this segment. For some years now we have also been working together with a number of specialist insurers and banks to reinsure UK pension funds. We are able to draw upon our know-how from enhanced annuities business in order to appropriately analyse the longevity risk associated with the pension funds and to adequately structure the reinsurance protection.

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

Ireland

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

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

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

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

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

France, Maghreb and Arab countries

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

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

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

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

Italy, Spain and Southeastern Europe

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

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

Scandinavia, Eastern Europe, Turkey and Israel

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

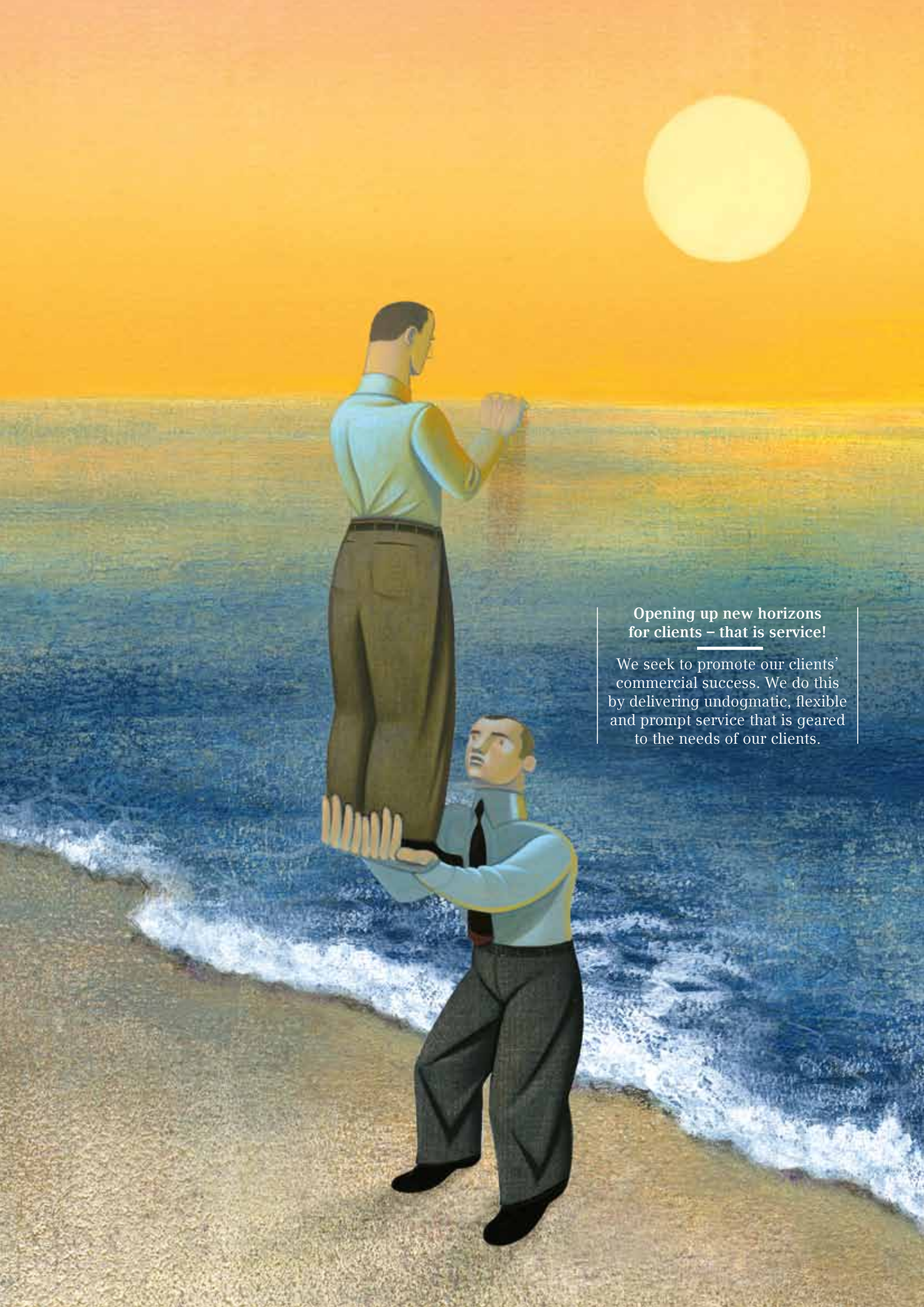
In Sweden and Norway we have ranked among the market-leading reinsurers for more than ten years now. We maintain long-term relationships with our clients and cooperate closely on developing tailored reinsurance solutions for conventional covers of the biometric risks of mortality and morbidity. We are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

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

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

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

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



**Opening up new horizons
for clients – that is service!**

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

North America incl. Bermuda

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

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

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

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

The premium income in the year under review totalled EUR 1,007.7 million (EUR 1,090.7 million), of which EUR 236.9 million was retained by HLR America after retrocessions. Owing to temporary valuation losses arising out of the fair value measurement of investments deposited with ceding

companies as required by the relevant accounting rules, the operating result recognised by our subsidiary in the year under review decreased to EUR 9.0 million (EUR 13.0 million). We were therefore only able to report a profit of EUR 2.5 million (EUR 5.8 million) after tax.

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

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

Other international markets

Africa

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

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

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

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

Central and South America

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

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

Asia

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

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

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

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

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

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

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

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

Australia and New Zealand

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

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

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

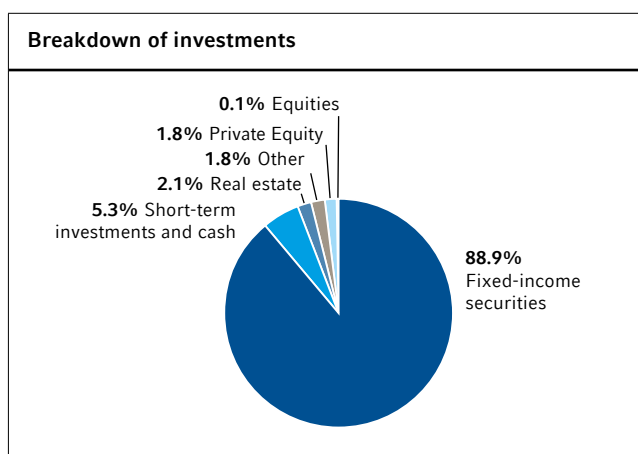
Gross premium increased by 25.7% to EUR 407.9 million (EUR 324.4 million). Owing to a poor biometric risk experience, the operating profit (EBIT) fell sharply to EUR 8.7 million (EUR 23.7 million), corresponding to an EBIT margin of 4.4%. The underwriting losses were offset by a non-recurring tax credit,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

Investments

Market development

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

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



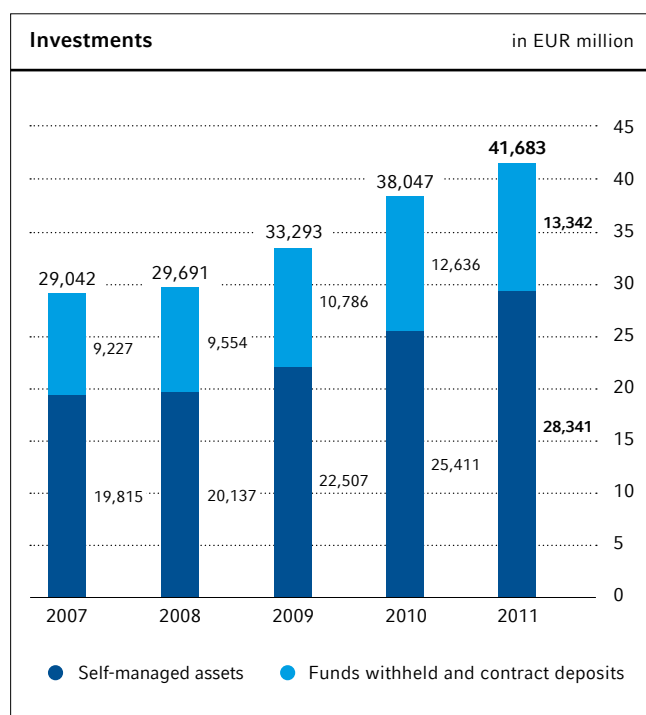
The picture on equity markets was a mixed one. The losses seen in March in response to the nuclear disaster in Japan were initially made good. In the second half of the year, however, a more depressed sentiment took hold again. Whereas the DAX recorded a loss of 15% for 2011, the US Dow Jones Index put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

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

Investment policy

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

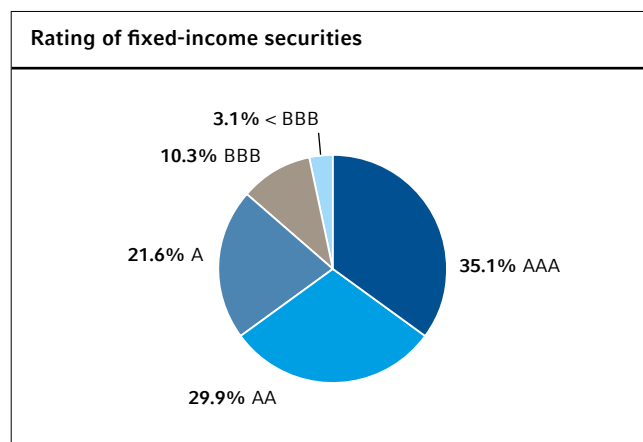
- generation of stable and risk-commensurate returns while at the same time maintaining the high quality standard of the portfolio;
- ensuring the liquidity and solvency of Hannover Re at all times;
- high diversification of risks;
- limitation of currency exposures and maturity risks in accordance with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



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

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

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



Investment performance

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

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

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

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

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

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

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

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

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

1 Excluding expenses on funds withheld and contract deposits

2 Including depreciation/impairments on real estate

3 Portfolio at fair value through profit or loss and trading

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

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

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

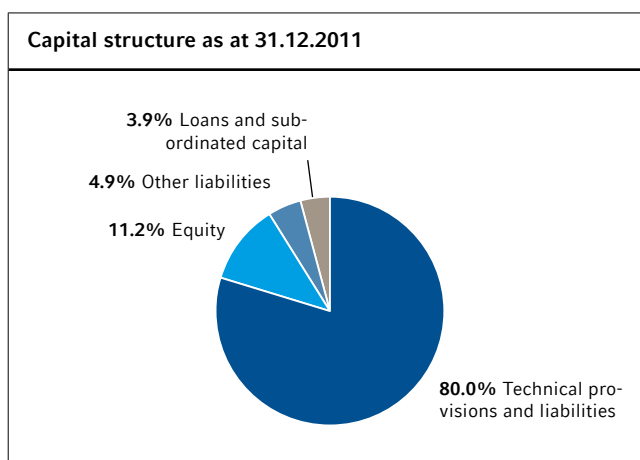
We held a total amount of EUR 1.5 billion (EUR 2.0 billion) in short-term investments and cash at the end of the year under review. Funds withheld amounted to EUR 13.3 billion (EUR 12.6 billion).

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

Financial position

Analysis of our capital structure

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



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

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

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

Asset/liability management

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

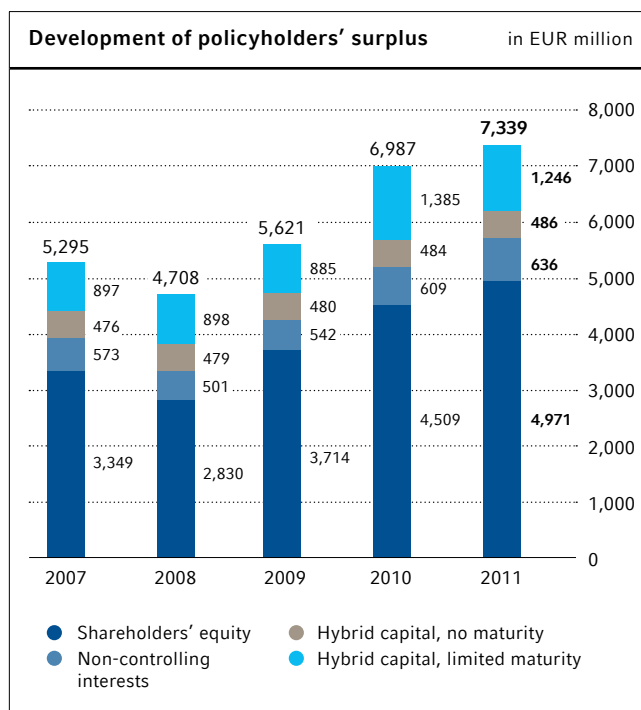
Management of policyholders' surplus

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

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

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

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



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

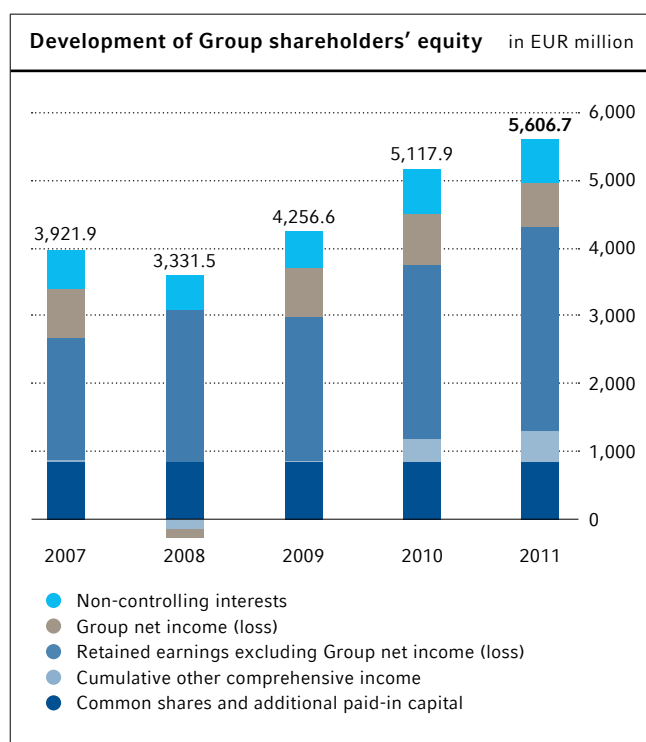
Group shareholders' equity

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

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

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

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



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

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

Financing and Group debt

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

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

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

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

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

1 This bond was exchanged in an amount of EUR 211.9 million in 2005

2 The outstanding volume of this debt in an amount of EUR 138.1 million was repaid on 14 March 2011

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

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

Analysis of the consolidated cash flow statement

Liquidity

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

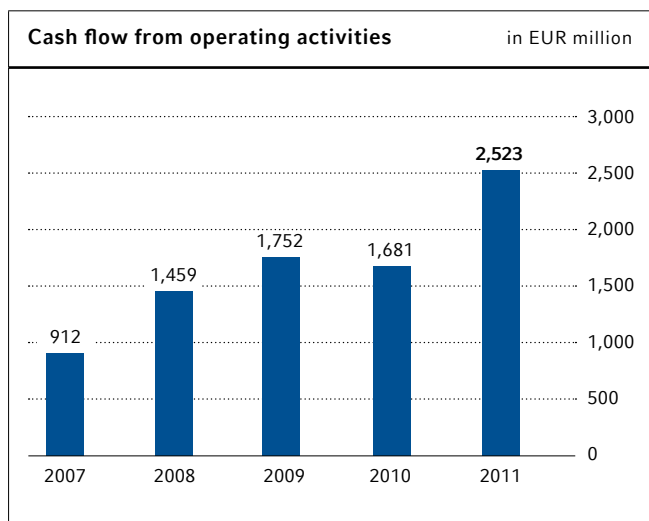
Hannover Re does not conduct any automated internal cash pooling within the Group. Liquidity surpluses are managed and invested by the Group companies. Various loan relationships exist within the Hannover Re Group for the optimal structuring and flexible management of the short- or long-term allocation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

Consolidated cash flow statement in EUR million		
	2011	2010
Cash flow from operating activities	2,522.9	1,681.3
Cash flow from investing activities	(2,041.3)	(1,993.7)
Cash flow from financing activities	(449.9)	283.3
Exchange rate differences on cash	0.0	46.9
Change in cash and cash equivalents	31.7	17.8
Cash and cash equivalents at the beginning of the period	475.2	457.4
Change in cash and cash equivalents according to cash flow statement	31.7	17.8
Cash and cash equivalents at the end of the period¹	507.0	475.2

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

Cash flow from operating activities

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



Cash flow from investing activities

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

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

Cash flow from financing activities

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

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

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

Financial strength ratings

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

Financial strength ratings of the Hannover Re Group		
	Standard & Poor's	A.M. Best
Rating	AA– (very strong)	A (excellent)
Outlook	stable	positive

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

Issue ratings of issued debt

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

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

Just to make doubly sure.

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



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

The common shares (share capital) of Hannover Re amount to EUR 120,597,134.00. They are divided into 120,597,134 registered no-par shares.

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

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

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

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

The powers of the Executive Board with respect to the issue and repurchase of shares are defined in Hannover Re's Articles of Association as well as in §§ 71 et seq. Stock Corporation Act (AktG). In this connection the Annual General

Meeting authorised the Executive Board on 4 May 2010 pursuant to § 71 Para. 1 No. 8 Stock Corporation Act (AktG) to acquire treasury shares on certain conditions for a period of five years, ending on 3 May 2015.

The following paragraphs explain major agreements concluded by the company that are subject to reservation in the event of a change of control, inter alia following a takeover bid, and describe the resulting effects. The letter of credit lines extended to Hannover Re contain standard market change-of-control clauses that entitle the banks to require early repayment if Talanx AG loses its majority interest or drops below the threshold of a 25 percent participation or if a third party acquires the majority interest in Hannover Rückversicherung AG. For details of the letter of credit lines please see our explanatory remarks on other financial facilities in the notes, Section 5.12 "Debt and subordinated capital", page 178 et seq.

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

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

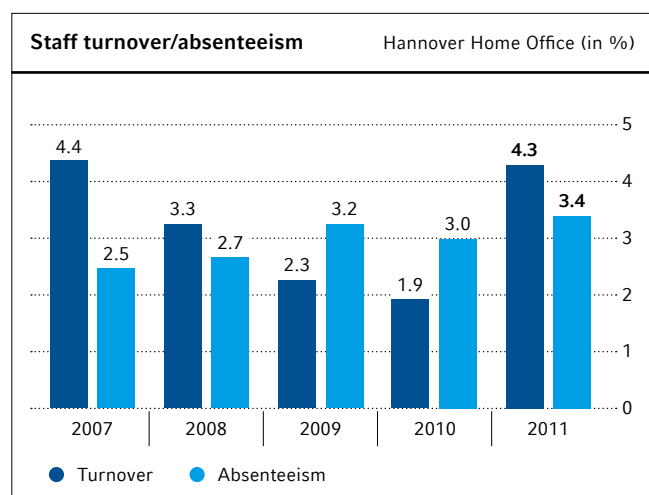
Human resources

Our staff

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

Key personnel ratios

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



Management feedback more strategically focused

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

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

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

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

New remuneration model for executive staff

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

Blended learning successfully implemented

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

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

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

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

Applicant targeting and Talentpool upgraded

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

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

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

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

Word of thanks to our staff

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

The sustainability strategy of the Hannover Re Group

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

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

Governance and dialogue

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

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

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

Product responsibility

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

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

Successful staff

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

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

Procurement and environmental protection

It is a stated aim of Hannover Re to keep the negative ecological impacts of its business activities as low as possible. The focus of our environmental efforts is on reducing CO₂ emissions caused by supplying power and heat to our premises as well as by our business travel. In addition, we make every effort to use (raw) materials in our offices in the most economic and environmentally friendly manner possible. In our procurement we pay close attention to compliance with social and environmental standards when it comes to selecting products and vendors.

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

Since 2008 the company has also compensated for the CO₂ pollution caused by business flights through voluntary offsetting payments to the international organisation “atmosfair”, thereby supporting selected climate protection projects in developing and emerging countries. We pay similar voluntary offsets for the CO₂ emissions from train travel in Germany as well. In addition, we purchased RECS (Renewable Energy Certificate System) certificates from our electricity supplier to promote the use of renewable forms of energy. From 2012 onwards Hannover Re will cover the power requirements at its Hannover location exclusively through renewable energies.

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

The carbon dioxide emissions of 8,123 tonnes caused by Hannover Re in 2011 at the Hannover Home Office location were 98% offset. All in all, CO₂ pollution increased by 438 tonnes

or 5.7% relative to the previous year. In the year under review, as in past years, Hannover Re again participated in the survey conducted as part of the “Carbon Disclosure Project” (CDP). The CDP serves to gather and publish qualitative data on the subject of climate change in order to motivate investors, businesses and countries to contribute actively to climate protection. Through our involvement we receive information on where we stand with our efforts to economise – especially as regards carbon dioxide emissions – relative to international standards.

The table on the following page breaks down Hannover Re’s consumption and emissions and presents the total figures for electricity, heat, water, paper, waste, business trips and CO₂ emissions.

Social commitment

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

Sponsorship

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

Research and learning

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

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

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

1 Karl-Wiechert-Allee 50 and Roderbruchstraße 26, Hannover

2 Karl-Wiechert-Allee 50, Roderbruchstraße 26 and infant daycare centre, Hannover

3 Radiative Forcing Index: 2.7

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

Music and art

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

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

Foundation

In 1991, on the occasion of the company's twenty-fifth anniversary, Hannover Re launched an art foundation that benefits the Sprengel Museum in Hannover. The Sprengel Museum ranks among the foremost German museums of twentieth-century art thanks to its extensive collection and diverse range

of temporary exhibitions. The Foundation's mission is to promote Hannover as a centre for the fine arts through the acquisition of contemporary pieces, which are then made available to the Sprengel Museum on permanent loan. The Foundation is further tasked with financing publications and events to accompany the exhibitions.

Donations

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

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

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

Opportunity and risk report

Risk report

Principles for the handling of opportunities and risks

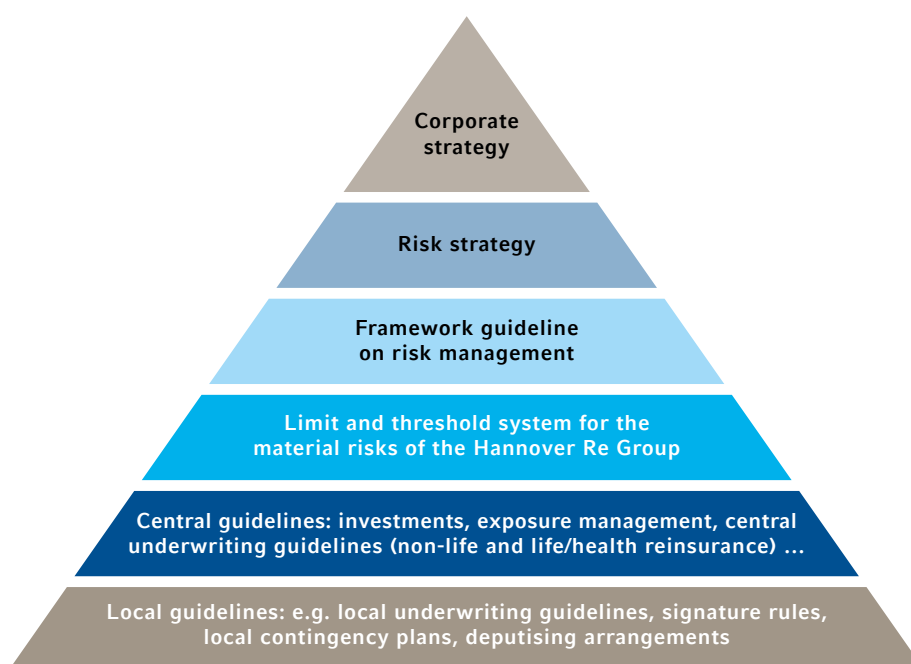
With a view to accomplishing our business objectives we enter into a broad variety of risks which, on the one hand, open up opportunities for profit but, on the other hand, can also have adverse implications for our company. Our goal is to make optimal use of opportunities while at the same time adequately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

ly leads into local guidelines, including for example the local underwriting guidelines used by our treaty departments.

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

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

Operationalisation of the risk strategy



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

Stronger demand for reinsurance covers can also be expected as a consequence of content-based adjustments to the natural catastrophe simulation models used by many companies (including Hannover Re) as well as the vigorous growth recorded in various target markets. Furthermore, we anticipate rising demand for individual protection against biometric risks in

major emerging markets such as China, India and Brazil. Business ideas and opportunities are systematically analysed by our Business Opportunity Management unit with the aim of generating new business and thereby enabling the Hannover Re Group to enjoy continued sustainable growth going forward. This is complemented by initiatives such as our “future radar”, a systematic analysis of relevant factors that will drive future success.

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

Functions within the risk management system

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

Central elements of the risk management system	
Body/function	Key risk management tasks
Supervisory Board	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Overall responsibility for Group-wide risk management Responsibility for the proper functioning of risk management Definition of the risk strategy
Risk Committee	<ul style="list-style-type: none"> Operational risk management, monitoring and coordinating body Implementation and safeguarding of a consistent Group-wide risk management culture
Chief Risk Officer	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Process-independent and Group-wide supervision on behalf of the Executive Board

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

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

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

Quantitative risk management methods

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

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

0.03%. The internal target capitalisation is therefore significantly higher than the future requirements under Solvency II, where the confidence level is 99.5%.

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

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

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

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

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

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

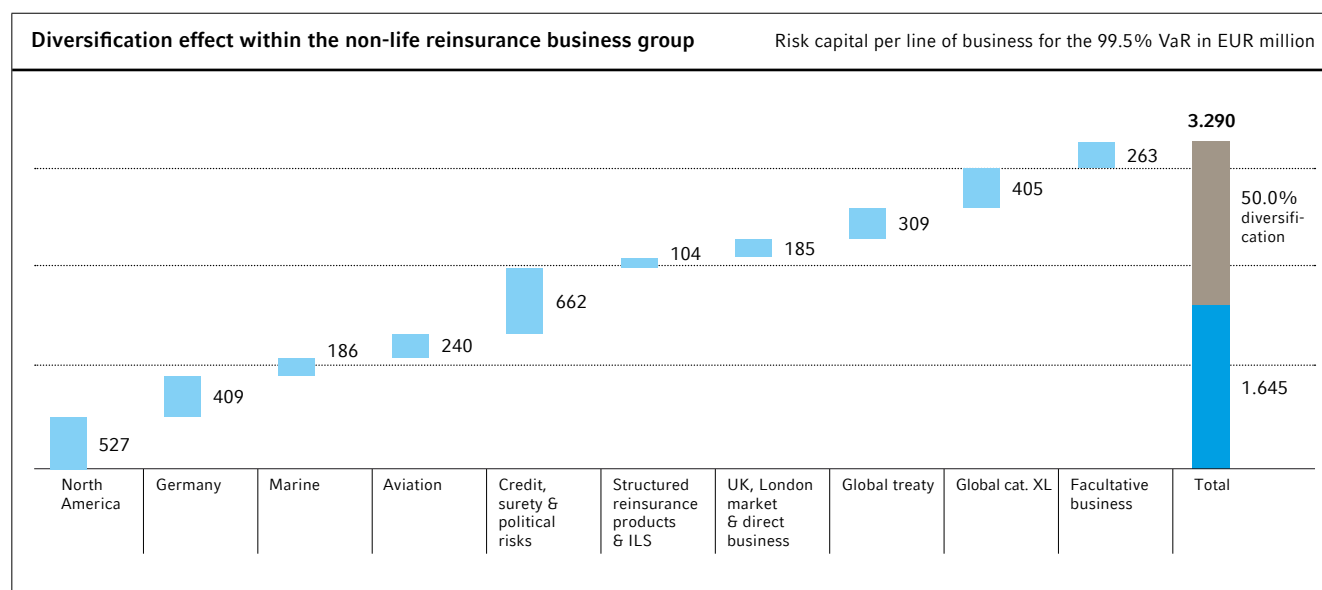
As already explained, the internal capital model of Hannover Re covers technical risks, market risks, credit risks and operational risks. These risks are carried over to Hannover Re's risk map and further broken down, e.g. into interest rate risks, catastrophe risks and reserving risks. Dependencies exist between these

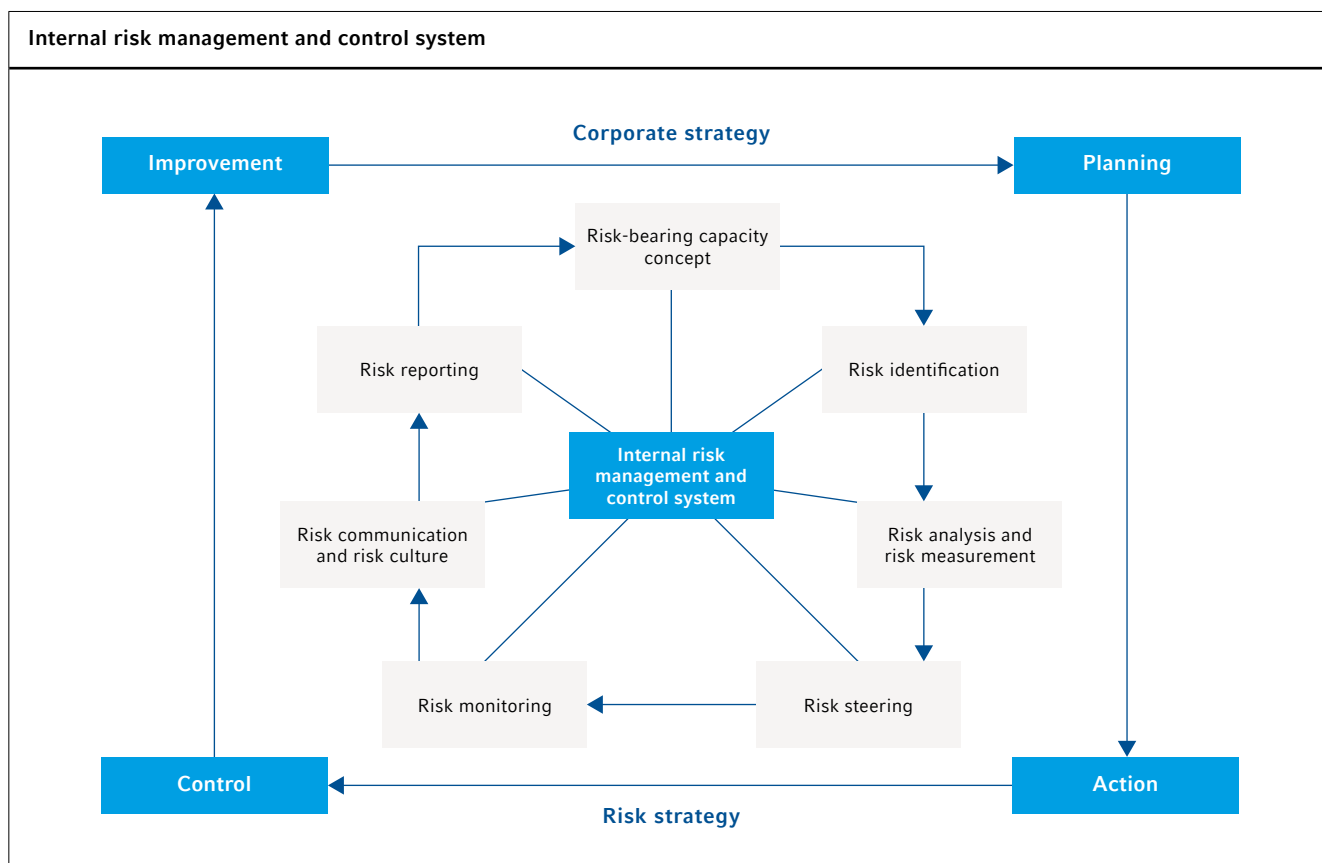
risks, which Hannover Re takes into account in order to adequately establish its target capitalisation. Dependencies arise, for example, as a consequence of market shocks such as the current financial crisis which simultaneously impact multiple market segments. What is more, several observation periods may be interrelated on account of market phenomena such as price cycles. In dealing with these dependencies, however, it is our assumption that not all extreme events occur at the same time. The absence of complete dependency is referred to as diversification.

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

Qualitative risk management methods

Qualitative methods and practices are a fundamental element of our internal risk management and control system as well as the future Own Risk and Solvency Assessment (ORSA) pursuant to Article 45 of the Solvency II Directive. Systematic risk identification, analysis, measurement, steering and monitoring as well as risk reporting are crucial to the effectiveness of risk management as a whole. Only by giving prompt consideration to risks can the continued existence of our Group be assured. The system that is in place – in common with the corporate and risk strategy – is subject to a constant cycle of planning, action, control and improvement.





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

monitored with the aid of qualitative measurement methods, such as expert assessments.

Internal control system

Another key element of the overall system is the Framework Guideline on the Internal Control System (ICS). The purpose of this set of rules is to systematically steer and monitor the execution of our corporate strategy. We therefore always organise our business activities in such a way that they are in conformity with all legal requirements. In accordance with these principles, the Framework Guideline puts in place a consistent understanding of controls as well as a uniform procedure and standards for implementation of the ICS across all organisational units of Hannover Re.

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

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

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

Data for the preparation of the consolidated financial statement audited by independent auditors is delivered by the relevant entities using a Web-based IT application. The individual items of the balance sheet, statement of income, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and the relevant data for the segmental reporting, notes and consolidation are stored in a database; this data is uploaded via automatic interfaces to a consolidation system, where it can be edited. Depending upon the findings produced by reconciliation of internal transactions within the Group, these values are

corrected as necessary. Provision is made for manual bookings in the case of extraordinary or unusual transactions. The control measures described above – among other checks – are performed in order to avoid false statements.

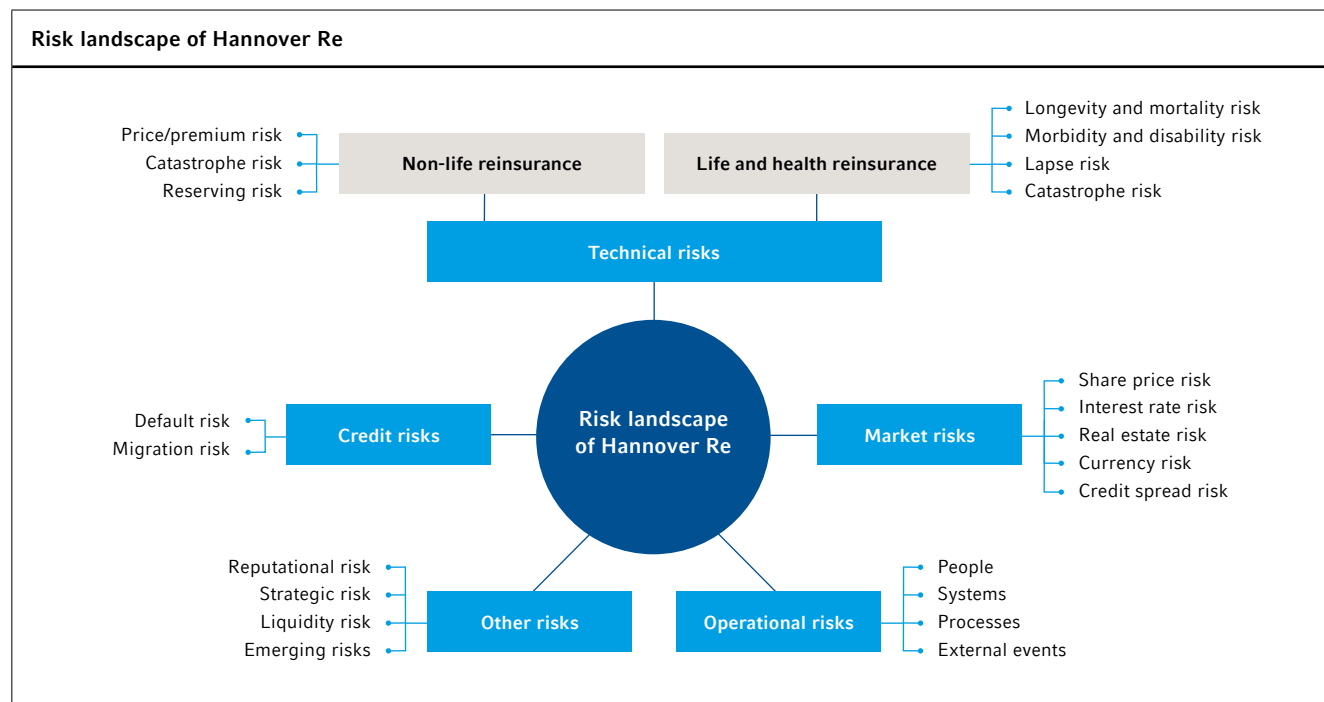
Risk landscape of Hannover Re

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

Technical risks in non-life reinsurance

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

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



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

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

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

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

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

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

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

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

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

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

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

As part of our holistic approach to risk management across business groups, we take into account numerous relevant scenarios and extreme scenarios, determine their effect on portfolio and performance data, evaluate them in relation to the planned figures and identify alternative courses of action.

The price/premium risk lies primarily in the possibility of a random claims realisation that diverges from the claims expectancy on which the premium calculation was based. Regular and independent reviews of the models used for treaty quotation as well as central and local underwriting guidelines

are vital management components. In addition, Hannover Re's regional and treaty departments prepare regular reports on the progress of their respective renewals. The reporting in this regard makes reference inter alia to significant changes in conditions, risks (such as inadequate premiums) as well as to emerging market opportunities and the strategy pursued in order to accomplish targets.

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

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

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

1 Incl. financial reinsurance and specialty insurance

2 Based on US GAAP figures

3 Natural catastrophes and other man-made major losses > EUR 5 million gross for the share of the Hannover Re Group as a percentage of net premium earned

Technical risks in life and health reinsurance

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

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

By monitoring compliance with these underwriting guidelines we minimise the risk of an inability to pay or deterioration in the financial status of cedants. Regular reviews and holistic analyses (e.g. with an eye to lapse risks) are carried out with respect to new business activities and the assumption of international portfolios. The interest rate risk, which in the primary sector is important in life business owing to the guarantees that are given, is of only minimal relevance to our company thanks to the structure of our contracts. The actuarial reports and documentation required by local regulators ensure that regular scrutiny also takes place on the level of the subsidiaries.

The Market Consistent Embedded Value (MCEV) is a ratio used for the valuation of life insurance and reinsurance business; it is calculated as the present value of the future shareholders' earnings from the worldwide life and health reinsurance portfolio plus the allocated capital. The calculation makes allowance as far as possible for all risks included in this business. The Market Consistent Embedded Value is established on the basis of the principles of the CFO Forum published in October 2009. The table shows the MCEV 2010 and its sensitivities in comparison with the corresponding sensitivities of the MCEV 2009. For more detailed information please see the Market Consistent Embedded Value Report 2010, which in a departure from the system used here shows the figures after non-controlling interests.

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

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

2 Before consolidation, excluding non-controlling interests

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

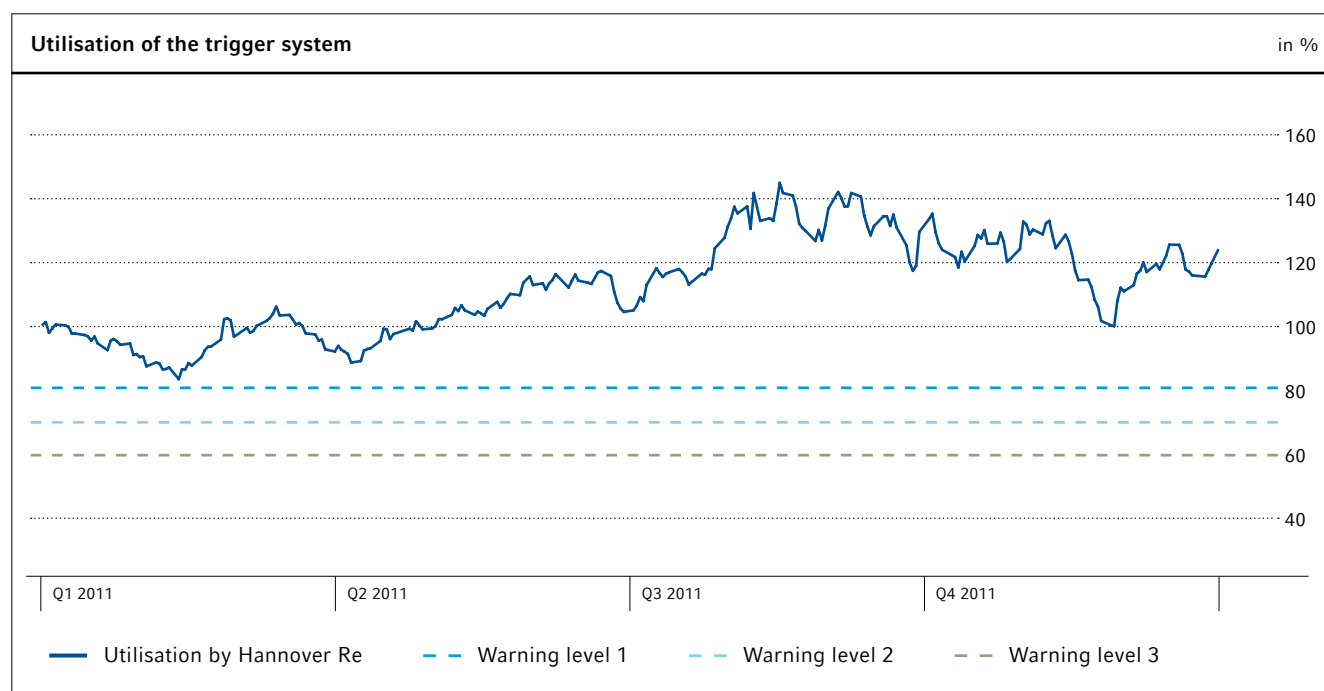
Market risks

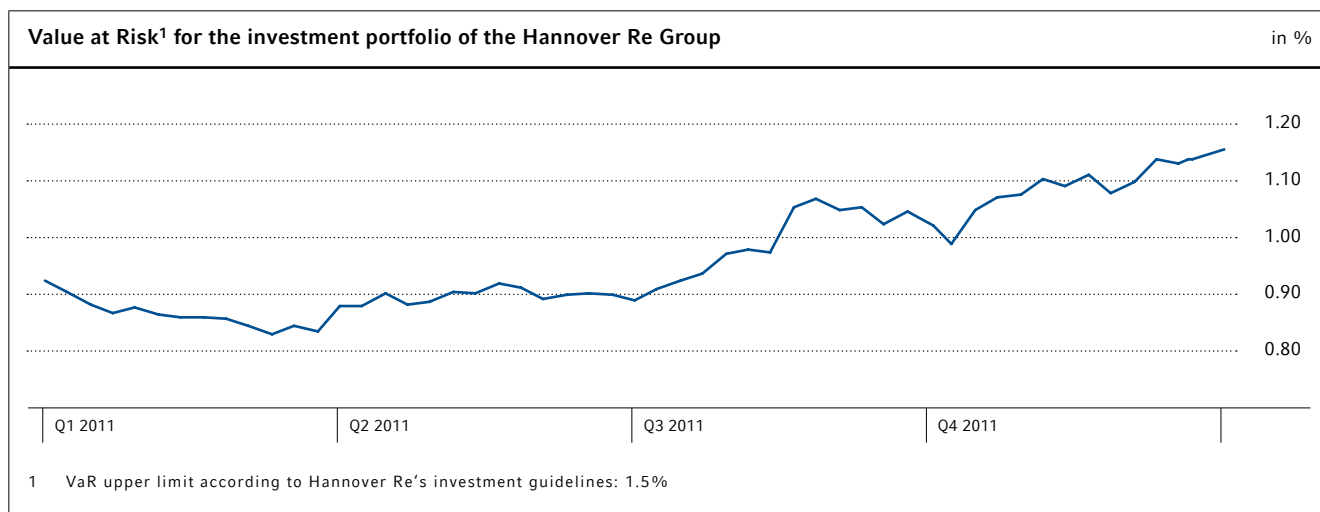
We pursue an investment policy in which the primary emphasis is on the stability of the generated return. With this in mind, our portfolio is guided by the principles of broad diversification and a balanced risk/return ratio. Risks in the investment sector consist primarily of market, credit default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

With a view to preserving the value of our assets under own management, we constantly monitor adherence to a trigger mechanism based on a clearly defined traffic light system that is applied across all portfolios. This system puts the accumulated fluctuations in fair value and realised gains/losses on investments since the beginning of the year in relation to a maximum loss amount, with an eye to clearly graduated trigger values. These are unambiguously defined in conformity

with our risk appetite and trigger specified actions if a corresponding fair value development is overstepped. Despite the sometimes difficult capital market environment in the year under review, our early-warning system consistently remained above the escalation levels (cf. graph below).

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





The model takes into account the following market risk factors:

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

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

Stress tests are conducted in order to be able to map extreme scenarios as well as normal market scenarios for the purpose

of calculating the Value at Risk. In this context, the loss potentials for fair values and shareholders' equity (before tax) are simulated on the basis of already occurred or notional extreme events. Further significant risk management tools – along with various stress tests used to estimate the loss potential under extreme market conditions – include sensitivity and duration analyses and our asset/liability management (ALM). The internal capital model provides us with quantitative support for the investment strategy as well as a broad diversity of VaR calculations. In addition, tightly defined tactical duration ranges are in place, within which the portfolio can be positioned opportunistically according to market expectations. The parameters for these ranges are directly linked to our calculated risk-bearing capacity.

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

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

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

Share price risks derive from the possibility of unfavourable changes in the value of equities, equity derivatives or equity index derivatives held in the portfolio. In the first quarter we disposed of our entire portfolio of listed equities in view of what was already a highly volatile market environment. Since then we have made corresponding new investments only on a very modest scale as part of strategic participations. The scenarios for changes in equity prices consequently have only extremely slight implications for our portfolio. We spread the risks through systematic diversification. Please see also our comments in Section 5.1 of the notes, “Investments under own management”, page 148 et seq.

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

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

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

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

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

Credit risks

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



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

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

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

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

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

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

- 90.9% of our retrocessionaires have an investment grade rating (“AAA” to “BBB”),
- 89.7% are rated “A” or better.
- Since 2007 we have reduced the level of recoverables by altogether 37.3%.
- 38.8% of our recoverables from reinsurance business are secured by deposits or letters of credit. What is more, for the majority of our retrocessionaires we also function as reinsurer, meaning that in principle recoverables can potentially be set off against our own liabilities.

- In terms of the Hannover Re Group’s major companies, EUR 276.9 million (8.8%) of our accounts receivable from reinsurance business totalling EUR 3,142.1 million were older than 90 days as at the balance sheet date.
- The average default rate over the past three years was 0.1%.

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

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

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

Credit risks from investments may arise out of the risk of a failure to pay (interest and/or capital repayment) or a change in the credit status (rating downgrade) of issuers of securities.

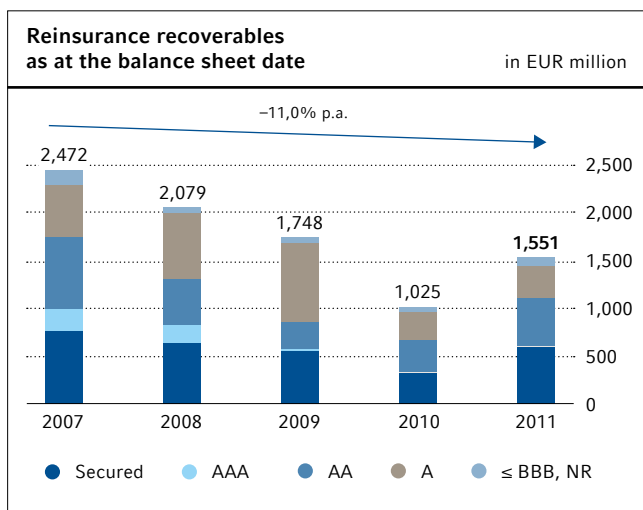
Ratios used to monitor and manage our credit risks					
Management ratios	2011	2010	2009	2008	2007
Solvency margin ¹	68.25%	69.5%	60.4%	66.7%	72.6%
Debt leverage ²	30.9%	36.5%	32.1%	41.3%	35.0%
Interest coverage ³	8.5x	13.8x	14.9x	1.9x	12.0x
Reserves/premium ⁴	292.7%	275.1%	270.1%	312.4%	291.3%
Combined ratio (non-life reinsurance)	104.3%	98.2%	96.6%	95.4%	99.7%

¹ (Shareholders’ equity + hybrid capital)/net earned premium

² Hybrid capital/shareholders’ equity

³ EBIT/interest on hybrid capital

⁴ Net reserves/net premium earned



We attach equally vital importance to exceptionally broad diversification as we do to credit assessment conducted on the basis of the quality criteria set out in the investment guidelines.

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

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

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

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

Operational risks

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

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

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

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

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

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

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

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

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

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

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

Other risks

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

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

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

concrete terms the contribution to be made by the business groups to attainment of the overarching objectives. With the “Strategy Cockpit” responsible managers have at their disposal strategy software that assists them with the planning, elaboration and management of strategic objectives and measures. Further details are provided in the section entitled “Our strategy” on page 14 et seq.

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

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

Above and beyond the foreseeable payments, unexpected and exceptionally large payments may pose a threat to liquidity. Yet in reinsurance business significant events (major losses) are normally paid out after a lead time that can be reliably planned. As part of our liquidity management we have nevertheless defined asset holdings that have proven to be highly liquid – even in times of financial stress such as the 2008 financial crisis. Our holdings of unrestricted German, UK and US government bonds as well as cash during the year under

review were larger than possible disbursements for assumed extreme scenarios, which means that our liquidity is assured even in the unlikely event of financial crises coinciding with an extreme event that needs to be paid out quickly. The liquid asset reserve stood at more than EUR 1.8 billion as at the balance sheet date. In addition, we manage the liquidity of the portfolio through ongoing monitoring of the liquidity of the instruments contained therein; liquidity is verified on a monthly and ad hoc basis. These measures serve to effectively reduce the liquidity risk.

Assessment of the risk situation

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

We are of the opinion that our risk management system affords us a transparent overview of the current risk situation at all times and that our overall risk profile is appropriate. Our assessment is reinforced by various developments and key data: the increase of 76% in our shareholders' equity since 2008, our strong market position as one of the world's leading reinsurers and our very good credit rating (Standard & Poor's: AA-). Based on our currently available insights arrived at from a holistic analysis of the risk situation, the Executive Board of Hannover Re cannot discern any risks that could jeopardise the continued existence of our company in the short or medium term or have a material and lasting effect on our assets, financial position or net income.

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

Value-based management

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

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

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

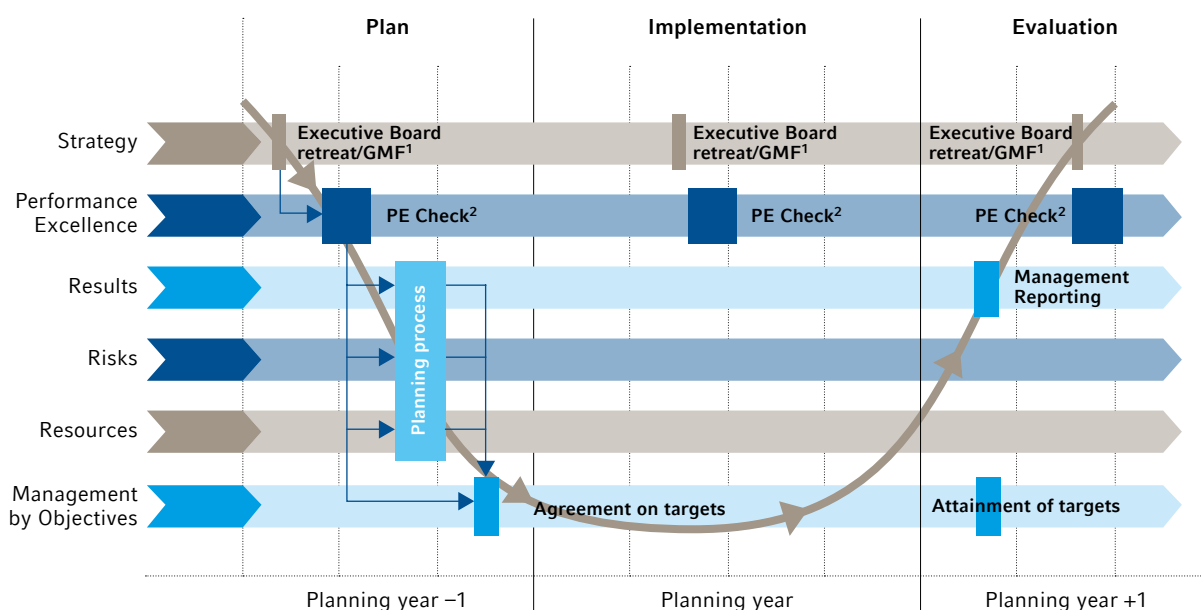
Planning process

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

Management by Objectives

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

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



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

Management Reporting

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

the Group's overall risk situation, capital is first allocated to the functional areas of underwriting and investments. We then further divide the capital within the underwriting sector, first between the business segments of non-life reinsurance and life/health reinsurance and then between the various reinsurance products (principally according to treaty types and lines). In this way, we ensure that when evaluating and pricing our various reinsurance products our profit targets are taken into consideration consistently and in light of risk/return aspects.

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

IVC – the decisive management ratio

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

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

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

The IVC (Intrinsic Value Creation) is calculated according to the following formula:

Adjusted operating profit – (capital allocated x weighted cost of capital) = IVC

The adjusted operating profit is comprised of two factors: the recognised IFRS Group net income after tax and the change in the balancing items for differences between economic valuations and amounts stated in the IFRS balance sheet (changes in the fair values of assets not recognised in income under IFRS, discount effect of the loss reserves and the Embedded Value Not Recognised (EVNR) in life/health

reinsurance). In addition, interest on hybrid capital already recognised in the IFRS Group net income and the non-controlling interest in profit and loss are included back in the calculation.

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

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

1 IVC/net premium earned

2 Income above risk-free after deduction of risk-appropriate cost of capital

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

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

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

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

1 Adjusted on the basis of IAS 1

2 Operating profit (EBIT)/net premium earned

3 IVC/net premium earned

4 MCEV increase on the basis of the adjusted MCEV of the previous year after elimination of capital changes and changes from currency effects.

5 The MCEV as at 31 December 2011 will be published on our website at the same time as the quarterly financial report for the first quarter of 2012.

6 Risk-free interest rate + cost of capital

7 750 basis points above the risk-free return

8 Excluding tax effect

Declaration on Corporate Governance

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

German Corporate Governance Code

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

Declaration of Conformity

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

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

The Executive Board and Supervisory Board declare pursuant to § 161 Stock Corporation Act (AktG) that in its implementation of the German Corporate Governance Code as amended

26 May 2010 Hannover Rückversicherung AG diverged in one respect from the Code recommendations:

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

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

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

Hannover, 13 December 2011

Executive Board

Supervisory Board

Statement of enterprise management practices

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

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

Corporate Governance

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

This above-average level of compliance testifies to the considerable importance that Hannover Re attaches to good enterprise management and supervision in the spirit of state-of-the-art Corporate Governance. Following thorough revision of the Rules of Procedure of the Supervisory Board in the previous year and specification of the goal that the number of women on the Supervisory Board should be increased, a woman was for the first time elected to this body as a shareholder representative on the occasion of a special election to the Supervisory Board held at the Annual General Meeting in 2011. The Supervisory Board shall do its utmost to further increase the quota of women in the context of the upcoming fresh elections to the Supervisory Board in 2012. The Executive Board and Supervisory Board also considered at length the issue of sustainability and Corporate Social Responsibility. Hannover Re's strategic orientation towards sustainability forms a key element of its corporate strategy. The aim here is to achieve commercial success on the basis of a solid business model in

accordance with the needs of our staff and the company as well as with an eye to protecting the environment and conserving natural resources. We strive to reduce as far as possible the greenhouse gas emissions produced by our day-to-day business activities in order to come closer to reaching our goal of carbon neutrality. In so doing, we are demonstrably taking responsibility for a sustainable future (<http://www.hannover-re.com/csr/index.html>).

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

Compliance

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

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

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

Risk monitoring and steering

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

Working practice of the Executive Board and Supervisory Board

The Executive Board and Supervisory Board of Hannover Re work together on a trusting basis to manage and monitor the company. In accordance with the Rules of Procedure of the Executive Board, matters of fundamental importance require the consent of the Supervisory Board. In addition, the Supervisory Board is kept informed on a regular and timely basis of the business development, the execution of strategic decisions, material risks and planning as well as relevant compliance issues. The Chairman of the Supervisory Board stays in regular contact with the Chairman of the Executive Board in order to discuss with him significant business occurrences. The composition of the Executive Board (including areas of responsibility) as well as of the Supervisory Board and its committees is set out on pages 8 and 210 respectively of the present Annual Report.

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

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

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

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

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

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

For further details of the activities of the Supervisory Board committees please see the explanations provided in the Supervisory Board Report from page 206 onwards.

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

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

Information on share-based payment pursuant to Item 7.1.3 of the German Corporate Governance Code is provided in Section 7.3 “Share-based payment” of the notes, page 194 et seq., and in the remuneration report with respect to the members of the Executive Board.

Remuneration report

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

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

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

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

Remuneration of the Executive Board

Responsibility

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

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

Objective, structure and system of Executive Board remuneration

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

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

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

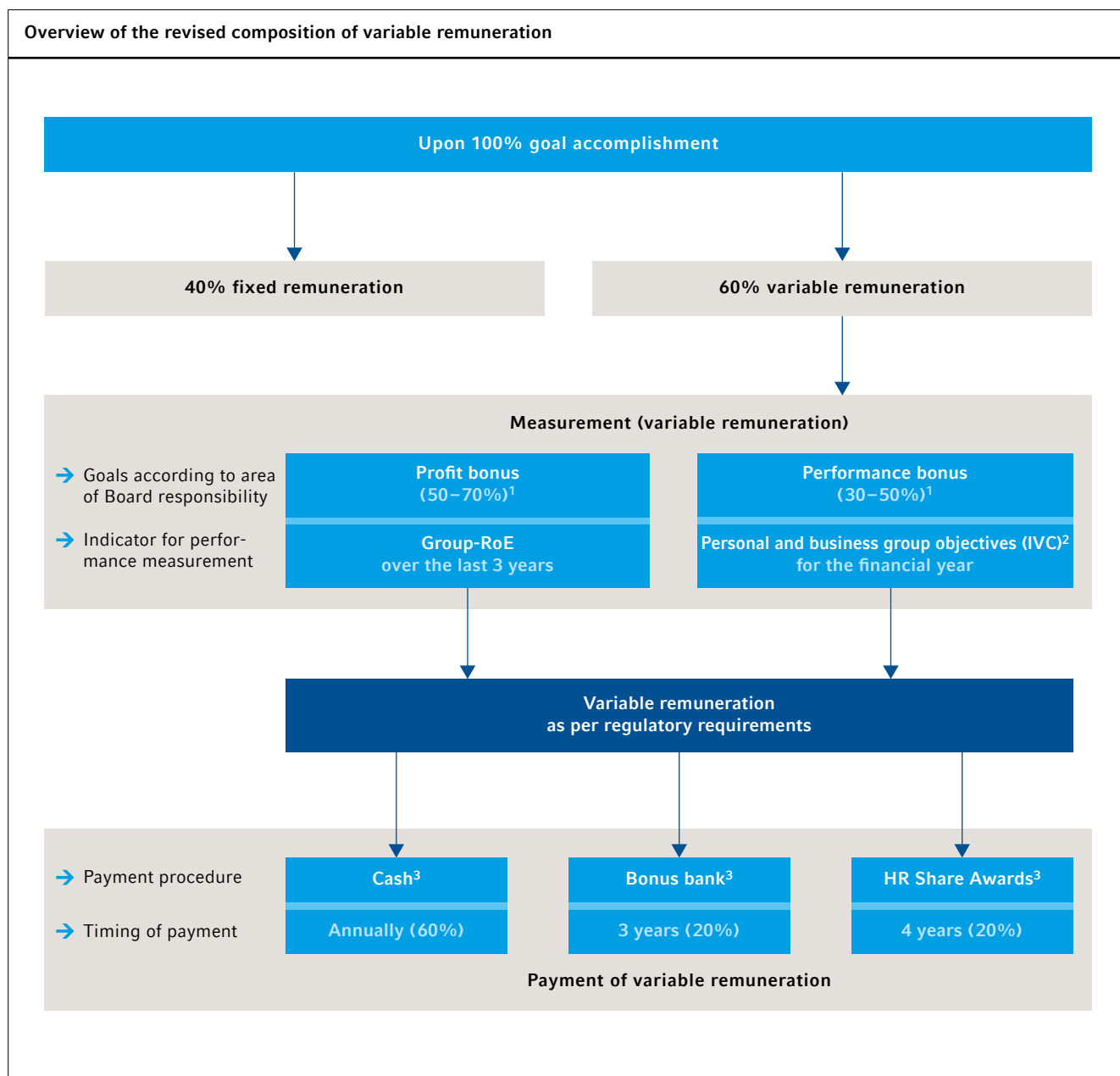
With an eye to these objectives, the remuneration system has two components: fixed salary/non-cash compensation and variable remuneration. The variable remuneration elements have a multi-year assessment basis and thereby promote the sustainable development of the company. In the event of 100% goal accomplishment,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

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

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

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

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



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

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

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

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

Fixed annual salary

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

Non-cash compensation/fringe benefits

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

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

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

Measurement of the variable remuneration

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

Profit bonus

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

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

The risk-free interest rate is the average market rate over the past five years for 10-year German government bonds and is set at an agreed value of 2.8%. The arrangements governing the profit bonus can be adjusted if the risk-free interest rate of

2.8% changes to such an extent that an (absolute) deviation of at least one percentage point arises.

Performance bonus

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

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

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

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

Total amount of variable remuneration

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

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

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

Payment of the variable remuneration

Payment arrangements

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

Retained portion of the variable remuneration

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

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

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

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

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

Share awards (vesting period of four years):

20% of the mathematically determined variable remuneration is granted as share-based remuneration in the form of virtual Hannover Re share awards (HR-SAs). The total number of HR-SAs granted is based on the value per share of Hannover Re at the time when the award is made. The value per share of Hannover Re is established according to the unweighted

arithmetic mean of the Xetra closing prices of the Hannover Re share in a period of five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement. The HR-SAs are awarded automatically without any requirement for a declaration by Hannover Re or the member of the Executive Board.

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

Handling of payment of variable remuneration components in special cases

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

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

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

Variable remuneration under the old remuneration structure

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

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

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

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

Continued payment in the event of disability/death

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

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

Other information

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

With regard to Item 4.2.3 Para. 4 of the German Corporate Governance Code – “Caps on severance payments in management board contracts” – we would refer the reader to our

remarks in the Declaration of Conformity contained in the section “Enterprise management” on page 84 of this Group Annual Report.

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

Amount of remuneration received by the Executive Board

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

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

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

Sideline activities of the members of the Executive Board

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

Total remuneration received by active members of the Executive Board pursuant to DRS 17 (amended 2010)						in EUR thousand
Name	Non-performance-based remuneration		Performance-based remuneration ¹			
	Basic salary	Non-cash compensation/ fringe benefits ²	Short-term		Medium-term	
			Variable remuneration payable		Bonusbank	
			60%	Remuneration from seats with Group bodies ³	20% (Granting) ⁴	
Ulrich Wallin	520.0	32.9	698.1		232.7	
André Arrago	320.0	10.1	352.5		117.5	
Dr. Wolf Becke ⁸	300.0	14.4	445.7	26.7		
Claude Chèvre ⁹	53.3	172.2	64.7		21.6	
Jürgen Gräber	400.0	24.1	490.1		163.4	
Dr. Klaus Miller	320.0	10.9	377.7		125.9	
Dr. Michael Pickel	320.0	12.9	374.1		124.7	
Roland Vogel	320.0	20.1	427.9	18.9	148.9	
Total 2011¹⁰	2,553.3	297.6	3,286.0	45.6	934.7	
Total 2010¹¹	1,672.5	111.5	2,449.8	60.9		

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

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

The following table shows the expense for share-based remuneration of the Executive Board in the financial year.

The table is to be viewed independently of the presentation of the total remuneration received by active members of the Executive Board pursuant to DRS 17.

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

¹ The expense for share awards is spread across the remaining period of the individual contracts of employment.

² The old remuneration structure (prior to 2011) applicable to Dr. Becke does not provide for the granting of share awards.

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

Retirement provision

Final-salary pension commitment (appointment before 2009)

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

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

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

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

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

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

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

Contribution-based pension commitment (appointment from 2009 onwards)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Adjustments

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

statutes and benefits plan of the Bochumer Verband (contracts prior to 1997).

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

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

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

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

1 Pension payment to Dr. Becke from 1 January 2012 onwards.

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

Defined contribution commitments			in EUR thousand
Name	Annual funding contribution ¹	Attainable annual pension (age 65)	Premium
Claude Chèvre ²	25%	68.1	80
Dr. Klaus Miller ²	25%	48.3	80
Total 2011		116.4	160

1 Percentage of pensionable income (fixed annual remuneration as at the reference date of 1 July of each year)

2 Guaranteed interest rate 2.25%

Remuneration of the Supervisory Board

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

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

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

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

All the members of the Supervisory Board receive an attendance allowance of EUR 1,000 for their participation in each meeting of the Supervisory Board and the Committees in

addition to the aforementioned remuneration. If a meeting of the Supervisory Board and one or more Committee meetings fall on the same day, the attendance allowance for this day is only paid once in total.

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

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

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

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

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

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

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

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

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

¹ Amounts excluding reimbursed VAT

² Including supervisory board remuneration and remuneration for committee work received from entities affiliated with the company

³ Employee representatives

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

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

Loans to members of the management boards and contingent liabilities

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

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

Securities transactions and shareholdings (directors' dealings)

Dealings in shares, options and derivatives of Hannover Rückversicherung AG effected by members of the Executive Board or Supervisory Board of Hannover Re or by other persons with

managerial functions who regularly have access to insider information concerning the company and who are authorised to take major business decisions – as well as such dealings conducted by certain persons closely related to the aforementioned individuals – in excess of EUR 5,000 are to be reported pursuant to § 15a Securities Trading Act (WpHG). No such reportable transactions took place in the 2011 financial year.

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

Remuneration of employees and managers

Structure and system

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

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

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

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

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

Remuneration of managers in the 2011 financial year

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

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

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

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

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

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

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

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

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

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

Remuneration of managers from the 2012 financial year onwards

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

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

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

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

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

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

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

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



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

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

Economic development

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

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

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

In the Eurozone the debt crisis and a strict budgetary policy in many countries should mean that the economy will manage only weak growth overall. In this context, the differences between individual countries will likely continue to be considerable. Internal demand will in all likelihood barely rise, since public consumption will contract on account of spending cuts

and private consumption will be flat as a consequence of sharp tax increases. Domestic demand is likely to be particularly soft in Italy, France and the countries on Europe's south-eastern periphery. Only the external sector will probably deliver positive stimuli in 2012, although this will merely be a reflection of the weak import trend rather than sharp growth in exports. Although the economic gloom is forecast to lift somewhat in the second half of the year, the Ifo Institute expects gross domestic product to contract overall by 0.2% in 2012.

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

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

Capital markets

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

Insurance industry

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

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

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

Non-life reinsurance

Overview

We are largely satisfied with market conditions in non-life reinsurance. The outcome of the renewals as at 1 January 2012 – the date when around two-thirds of our treaties in non-life reinsurance (excluding facultative business and structured reinsurance) were renegotiated – was pleasing for our company. Given the continuing uncertain capital market environment and the associated difficulties generating sufficient investment income, reinsurers exhibited considerable discipline

in quoting prices that were commensurate with the risks. On average, we obtained conditions and rates that were better than in the previous year. In light of this attractive climate, we enlarged our premium volume by around 6%.

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

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

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

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

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

Target markets

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

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

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

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

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

Specialty lines

We were satisfied with the treaty renewals in specialty lines.

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

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

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

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

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

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

Global reinsurance

Treaty reinsurance worldwide

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

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

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

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

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

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

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

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

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

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

Global catastrophe business

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

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

Global facultative reinsurance

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

Life and health reinsurance

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

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

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

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

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

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

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

Our business opportunities and risks

Non-life reinsurance

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

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

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

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

Life and health reinsurance

The global framework conditions in life and health reinsurance remain favourable. In industrialised nations such as the United States, United Kingdom, Japan and Germany the progressive demographic shift is generating steadily growing demand for seniors', long-term care and annuity insurance products. In emerging markets such as India, China and Brazil – as well as in Russia – the trend towards urbanisation continues. A mid-

dle-class with purchasing power is emerging here, and its ranks are increasingly interested in preservation of their wealth, healthcare and provision for their surviving dependents.

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

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

Investments

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

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

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

Outlook for the full 2012 financial year

In the current year we anticipate another very good overall result for the Hannover Re Group. The non-life reinsurance business group is expected to deliver an increase of 5% to 7% in gross premium income at constant exchange rates.

In the life and health reinsurance business group we are similarly aiming to grow our gross premium income organically by 5% to 7%.

We therefore expect to enlarge our total gross premium volume by 5% to 7%.

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

Bearing in mind the satisfactory to good market conditions described above in non-life and life/health reinsurance as well as our strategic orientation, we are looking forward to a good financial year in 2012. This is subject to the premise that the burden of major losses does not significantly exceed the expected level of around EUR 560 million and that there are no drastically adverse movements on capital markets. Given a growing volume of assets under management, a net return on investment in the order of 3.5% should be attainable. For 2012, as in recent years, we are therefore aiming for a dividend in the range of 35% to 40% of Group net income.

Matters of special significance arising after the closing date for the consolidated financial statements are discussed in Section 7.11 of the notes “Events after the balance sheet date” on page 203.

Outlook for 2013/2014

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

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

The life and health reinsurance business group expects to generate organic growth of between 5% and 7% in gross premium income. We continue to attach considerable importance to the profitability of the business written and are targeting – depending on the nature of the underlying business – an EBIT margin in the range of 4% to 8%.

It remains our aim to generate consistent double-digit growth in the value of new business.

On the Group level our return-on-equity target is at least 750 basis points above the risk-free interest rate. Both the earnings per share and the book value per share also constitute central management ratios and performance indicators for our company. Our strategic objective is to increase these key figures – together with the operating profit (EBIT) – by double-digit margins every year.

Profit and growth targets		
Business group	Key data	Strategic targets
Non-life reinsurance	Combined ratio	≤ 100%
	Net catastrophe loss expectancy in EUR million	≤ 560
	EBIT margin	≥ 10%
	IVC margin ¹	≥ 2%
Life and health reinsurance	Gross premium growth ²	5–7%
	EBIT margin	≥ 6%
	MCEV growth ³	≥ 10%
	Increase in the value of new business	≥ 10%
Group Triple-10 targets {	Investment return	≥ 3,5% ⁴
	Minimum return on equity	≥ 10,2% ⁵
	EBIT growth	≥ 10%
	Growth in earnings per share	≥ 10%
	Growth in book value per share	≥ 10%

1 IVC/net premium earned

2 Organic

3 MCEV increase on the basis of the adjusted MCEV of the previous year after elimination of capital changes and changes from currency effects

4 Risk-free interest rate + cost of capital

5 750 basis points above the risk-free return



Creativity and innovation
begin where
standard solutions end.

We open up fresh growth
prospects and business oppor-
tunities in response to our
clients' needs – and thereby
deliver the maximum benefit
for them.