Notes

1. Company information

The parent company Hannover Rückversicherung AG ("Hannover Re") and its subsidiaries (collectively referred to as the "Hannover Re Group") transact all lines of non-life and life/health reinsurance and maintain business relations with more than 5,000 insurance companies on every continent. With gross premium of approximately EUR 12.1 billion, Hannover Re is one of the largest reinsurance groups in the world. The company's network consists of more than 100 subsidiaries, affiliates, branches and representative offices worldwide with a total workforce of roughly 2,200. The Group's German business is conducted by the subsidiary E+S Rück. The parent company is a joint-stock corporation, the registered office of which is located at Karl-Wiechert-Allee 50, 30625 Hannover, Germany.

An interest of 50.22% in Hannover Rückversicherung AG is held by Talanx AG, which in turn is wholly owned by HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI).

2. Accounting principles

Hannover Re and its subsidiaries are obliged to prepare a consolidated financial statement and group management report in accordance with § 290 German Commercial Code (HGB).

Pursuant to EU Regulation (EC) No. 1606/2002, the present consolidated financial statement and group management report of Hannover Re have been drawn up in accordance with the International Financial Reporting Standards (IFRS) that are to be applied within the European Union. In addition, we have made allowance for the regulations that are also applicable pursuant to § 315a Para. 1 German Commercial Code (HGB) and the supplementary provisions of the parent company's Articles of Association as amended on 3 May 2011.

The consolidated financial statement reflects all IFRS in force as at 31 December 2011 as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), application of which was mandatory for the 2011 financial year. IFRS 4 "Insurance Contracts" requires disclosures on the nature and extent of risks stemming from reinsurance contracts, while IFRS 7 "Financial Instruments: Disclosures" requires similar information on risks from financial instruments. Additionally, § 315 Para. 2 No. 2 German Commercial Code (HGB) also contains requirements, specified more closely by German Accounting Standard (DRS) 15 "Management Reporting" and DRS 5 in conjunction with DRS 5-20 on risk reporting at insurance undertakings, with regard to information on the management of technical and financial risks to be provided in the management report. The disclosures resulting from these requirements are included in the risk report. We have dispensed with an additional presentation of the same content in the notes. In order to obtain a comprehensive overview of the risks to which Hannover Re is exposed it is therefore necessary to consider both the risk report and the relevant information in the notes. We refer the reader accordingly to the corresponding remarks in the risk report and the notes.

Since 2002 the standards adopted by the International Accounting Standards Board (IASB) have been referred to as "International Financial Reporting Standards (IFRS)"; the standards dating from earlier years still bear the name "International Accounting Standards (IAS)". Standards are cited in our notes accordingly; in cases where the notes do not make explicit reference to a particular standard, the term IFRS is used.

In addition, the German Accounting Standards (DRS) adopted by the German Accounting Standards Committee (DRSC) have been observed insofar as they do not conflict with currently applicable IFRS.

The declaration of conformity required pursuant to § 161 German Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code has been submitted and, as described in the Declaration of the Executive Board regarding the Corporate Governance of the Company, made permanently available on the Hannover Re website.

The annual financial statements included in the consolidated financial statement were for the most part drawn up as at 31 December. Pursuant to IAS 27 "Consolidated and Separate Financial Statements" there is no mandatory requirement to compile interim accounts for Group companies with diverging reporting dates because their closing dates are no earlier than three months prior to the closing date for the consolidated financial statement. Insofar no interim financial statements have been prepared, allowance has been made for the effects of significant transactions between the diverging reporting dates and the closing date for the consolidated financial statement.

The annual financial statements of all companies were drawn up in accordance with standard Group accounting and measurement rules pursuant to IFRS.

The consolidated financial statement was drawn up in euros (EUR), the amounts shown have been rounded to EUR thousands and – provided this does not detract from transparency – to EUR millions. Figures indicated in brackets refer to the previous year.

The present consolidated financial statement was prepared by the Executive Board on 13 February 2012 and hence released for publication.

New accounting principles

In the 2011 financial year the following IFRS requiring mandatory application were of relevance to Hannover Re:

A major new feature of the revised IAS 24 "Related Party Disclosures" is the requirement for disclosures of "commitments", for example guarantees, undertakings and other commitments, which are dependent upon whether (or not) a particular event occurs in the future. The definitions of a related entity and a related person are also clarified. Hannover Re applied the revised IAS 24 for the first time with effect from the beginning of the financial year. There were no significant implications.

By way of the collection of amendments "Improvements to IFRSs (Issued May 2010)" the IASB published various minor modifications to IFRS, the majority of which are to be applied from the 2011 financial year onwards. Insofar as these amendments were of practical relevance to the Group, they had no significant effect on the assets, financial position or net income of Hannover Re.

Standards or changes in standards that have not yet entered into force or are not yet applicable

The IASB has issued the following standards, interpretations and amendments to existing standards with possible implications for the consolidated financial statement of Hannover Re, application of which is not yet mandatory for the year under review and which are not being applied early by Hannover Re:

In May 2011 the IASB published five new or revised standards governing consolidation, the accounting of investments in associated companies and joint ventures and the related disclosures in the notes.

In this connection IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements" will replace the previous standards governing consolidated financial statements and special purpose entities (IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities") as well as the standards governing the accounting of interests in joint ventures (IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers").

The major new feature of IFRS 10 is that it identifies control as the single basis for verifying the consolidation requirement, irrespective of whether control is substantiated in company law, contractually or economically.

In accordance with IFRS 11 a proportionate inclusion of interests in joint ventures will no longer be permissible in future. Rather, interests in joint ventures must be accounted for using the equity method.

In addition, the disclosure requirements previously contained in IAS 27 and IAS 31 have been combined and restructured in IFRS 12 "Disclosure of Interests in Other Entities". With the aim of clarifying for the users of financial statements the nature of an entity's interest in other entities as well as the effects of those interests on its financial position, financial performance and cash flows, significantly expanded disclosures of information are required in comparison with the previous requirements.

The revised version of IAS 27 will in future consist solely of requirements for the accounting of investments in subsidiaries, jointly controlled entities and associates in separate (non-consolidated) financial statements of the parent company. In this context, only minimal changes were made relative to the previous wording of the standard.

The revised version of IAS 28 "Investments in Associates and Joint Ventures" extends the content of standards governing the accounting of investments in associated companies to include rules governing the accounting of investments in joint ventures. In both instances application of the equity method is required.

The requirements of IFRS 10, 11 and 12 as well as the revised IAS 27 and 28 are to be applied to financial years beginning on or after 1 January 2013. All of these standards have still to be endorsed by the EU.

IFRS 13 "Fair Value Measurement", a new standard also published in May of this year, is intended to establish uniform and consistent requirements for the measurement of fair value, which had hitherto been contained in various standards. In this context, the fair value is defined as the exit price, the calculation of which shall be based as far as possible on relevant observable inputs. In addition, extensive explanatory and qualitative disclosures are required; these are intended, in particular, to describe the quality of the calculation of fair value. IFRS 13 must be applied to financial years beginning on or after 1 January 2013 and has still to be endorsed by the EU.

In June 2011 the IASB published amendments to IAS 1 "Presentation of Financial Statements" and IAS 19 "Employee Benefits". IAS 1 requires entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently, i.e. those that might be reclassified and those that will not be reclassified. Tax associated with items presented before tax is to be shown separately for each of the groups of OCI items. In future the revised IAS 19 eliminates the use of the so-called "corridor approach" to defer remeasurement impacts in connection with defined benefit obligations. Actuarial gains and losses will therefore have to be recognised entirely in OCI. In addition to extended disclosure requirements, the treatment of termination benefits is changed.

The amendments to IAS 1 are to be applied to financial years beginning on or after 1 July 2012. It is envisaged that the amended IAS 19 will be applicable for the first time to financial years beginning on or after 1 January 2013. The amendments to IAS 1 and IAS 19 have still to be endorsed by the EU.

In November 2009 the IASB issued IFRS 9 "Financial Instruments" on the classification and measurement of financial instruments. IFRS 9 is the first step in a three-phase project intended to replace IAS 39 "Financial Instruments: Recognition and Measurement" with a new standard. IFRS 9 introduces new requirements for classifying and measuring financial assets. The provisions of IFRS 9 were expanded in October 2010 with an eye to financial liabilities for which the fair value option is chosen. The standard has not yet been endorsed by the EU.

The following table provides an overview of all other standards and interpretations that have not yet entered into force or are not yet applicable. Hannover Re is currently reviewing the potential implications of their application in future reporting periods.

Standards	Applicable to financial years beginning on or after	Endorsement by European Commission
Amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets	1 July 2011	22 November 2011
Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013	Pending
Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets	1 January 2012	Pending
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	1 January 2014	Pending

3. Accounting policies

3.1 Changes in accounting policies

With respect to collateralised debt obligations, collateralised loan obligations and high yield funds Hannover Re has adjusted the calculation logic used for model-based fair value measurement and for establishing the share of fair value changes attributable to impairments with the aim of measuring such items on a more market-oriented basis. This represents a change in an accounting estimate, which pursuant to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" is to be performed prospectively in the period under review without adjustment of the comparative figures for previous years. Retention of the parameters and methods used until 31 December 2010 would have increased the impairments in the period under review by EUR 0.3 million and increased the write-ups by EUR 4.8 million. The amount recognised for the fair values of the specified instruments would have been EUR 1.4 million higher. The effect of this adjustment of the calculation logic in future reporting periods could only have been determined with a disproportionately high effort.

The hybrid capital shown under debt and subordinated capital is recognised according to the effective interest rate method at amortised cost. Components of income arising out of the amortisation of transaction costs and premiums/discounts occurring in the context of issuance were previously recognised in other income and expenses, while the nominal interest was recognised as interest on hybrid capital. In order to better reflect the character of the effective interest rate method we shall henceforth recognise all expenses consistently as interest on hybrid capital. The amended recognition of the previous period pursuant to IAS 1 thus improved the other income and expenses by an amount of EUR 4.1 million to the detriment of the interest on hybrid capital.

3.2 Summary of major accounting policies

Reinsurance contracts: in March 2004 the IASB published IFRS 4 "Insurance Contracts". The first standard governing the accounting of insurance contracts, it divides the "Insurance Contracts" project into two phases. IFRS 4 "Insurance Contracts" represents the outcome of Phase I and serves as a transitional arrangement until the IASB defines the measurement of insurance contracts after completion of Phase II. Underwriting business is to be subdivided into insurance and investment contracts. Contracts with a significant insurance risk are considered to be insurance contracts, while contracts without significant insurance risk are to be classified as investment contracts. The standard is also applicable to reinsurance contracts. IFRS 4 contains fundamental rules governing specific circumstances, such as the separation of embedded derivatives and unbundling of deposit components. In conformity with these basic rules of IFRS 4 and the IFRS Framework, Hannover Re is availing itself of the option of retaining the previously used accounting policies for underwriting items (US GAAP).

Financial assets: as a basic principle we recognise the purchase and sale of directly held financial assets including derivative financial instruments as at the settlement date. The recognition of fixed-income securities includes apportionable accrued interest.

Financial assets held to maturity are comprised of non-derivative assets that entail fixed or determinable payments on a defined due date and are acquired with the intent and ability to be held until maturity. They are measured at amortised cost. The corresponding premiums or discounts are recognised in profit or loss across the duration of the instruments using the effective interest rate method. Depreciation is taken in the event of permanent impairment. Please refer to our comments on impairments in this section.

Loans and receivables are non-derivative financial instruments that entail fixed or determinable payments on a defined due date and are not listed on an active market or sold at short notice. They are carried at amortised cost; premiums or discounts are deducted or added within the statement of income using the effective interest rate method until the amount repayable becomes due. Impairment is taken only to the extent that repayment of a loan is unlikely or no longer expected in the full amount. Please refer to our comments on impairments in this section.

Financial assets at fair value through profit or loss consist of securities held for trading and those classified as measured at fair value through profit or loss since acquisition. This refers principally to unsecured debt instruments issued by corporate issuers and derivative financial instruments. Within the scope of the fair value option provided under IAS 39 "Financial Instruments: Recognition and Measurement", according to which financial assets may be carried at fair value on first-time recognition subject to certain conditions, all structured securities that would have needed to have been broken down had they been recognised as available for sale or under loans and receivables are also recognised here. Hannover Re makes use of the fair value option solely for selected subportfolios of its assets. In addition, derivative financial instruments that Hannover Re does not recognise as a valuation unit with underlying risks are recognised here. Securities held for trading and securities classified as measured at fair value through profit or loss since acquisition are carried at their fair value on the balance sheet date. If stock market prices are not available for use as fair values, the carrying values are determined using generally acknowledged measurement methods. All unrealised gains or losses from this valuation are recognised in net investment income. The classification of financial assets at fair value through profit or loss is compatible with Hannover Re's risk management strategy and investment strategy, which are oriented extensively towards economic fair value variables.

Financial assets classified as available for sale are carried at fair value; accrued interest is recognised in this context. We allocate to this category those financial instruments that do not satisfy the criteria for classification as held to maturity, loans and receivables, at fair value through profit or loss, or trading. Unrealised gains and losses arising out of changes in the fair value of securities held as available for sale are recognised – with the exception of currency valuation differences on monetary items – directly in shareholder's equity after deduction of deferred taxes.

Establishment of the fair value of financial instruments carried as assets or liabilities: the fair value of a financial instrument corresponds to the amount that Hannover Re would receive or pay if it were to sell or settle the said financial instrument on the balance sheet date. Insofar as market prices are listed on markets for financial instruments, their bid price is used. In other cases the fair values are established on the basis of the market conditions prevailing on the balance sheet date for financial assets with similar credit rating, duration and return characteristics or using recognised models of mathematical finance. Hannover Re uses a number of different valuation models for this purpose. The details are set out in the table on page 132. For further information please see our explanatory remarks on the fair value hierarchy in Section 5.1 "Investments under own management".

Impairments: As at each balance sheet date we review our financial assets with an eye to the need to take impairments. Permanent impairments on all invested assets are recognised directly in the statement of income. In this context we take as a basis the same indicators as those discussed below for fixed-income securities and securities with the character of equity. Qualitative case-by-case analysis is also carried out. IAS 39 "Financial Instruments: Recognition and Measurement" contains a list of objective, substantial indications for impairments of financial assets. In the case of fixed-income securities and loans reference is made, in particular, to the rating of the instrument, the rating of the issuer/borrower as well as the individual market assessment in order to establish whether they are impaired. With respect to held-to-maturity instruments as well as loans and receivables recognised at amortised cost, the level of impairment is arrived at from the difference between the book value of the asset and the present value of the expected future earnings flows. The book value is reduced directly by this amount which is then recognised as an expense. With the exception of value adjustments taken on accounts receivable, we recognize impairments directly on the assets side – without using an adjustment account – separately from the relevant items. If the reasons for the write-down no longer apply, a write-up is made in income up to at most the original amortised cost for fixed-income securities.

With respect to impairments on securities with the character of equity, IAS 39 "Financial Instruments: Recognition and Measurement" states, in addition to the aforementioned principles, that a significant or prolonged decrease in fair value below acquisition cost constitutes objective evidence of impairment. Hannover Re considers securities to be impaired under IAS 39 if their fair value falls significantly, i.e. by at least 20%, or for a prolonged period, i.e. at least nine months, below acquisition cost. In accordance with IAS 39 the reversal of impairment losses on equities to the statement of income once impairment has been taken is prohibited, as is adjustment of the cost basis. Impairment is tested in each reporting period using the criteria defined by Hannover Re. If a security is considered to be impaired on the basis of these criteria, IAS 39 requires that a value adjustment be recognised in the amount of the fair value less historical cost and less prior value adjustments, meaning that depreciation is taken on the fair value as at the closing date – if available, on the publicly quoted stock exchange price. We also apply this method to participations in funds that invest in private equity. In order to reflect the specific character of these funds (in this case initially negative yield and liquidity flows from the so-called

Valuation models			
Financial instrument	Pricing method	Parameter	Pricing model
Fixed-income securities			
Unlisted plain vanilla bonds, interest rate swaps	Theoretical price	Interest rate curve	Present-value method
Unlisted structured bonds	Theoretical price	Interest rate curve, Volatility surfaces	Hull-White, Black-Karasinski, LIBOR market model etc.
Unlisted bond funds	Theoretical price	Audited net asset values (NAV)	Net asset value method
ABS/MBS for which no market prices are available	Theoretical price	Prepayment speed, incurred losses, default probabilities, recovery rates	Future cash flow method, liquidation method
CDOs/CLOs Profit participation certificates	Theoretical price	Risk premiums, default rates, recovery rates, redemptions	Present-value method
Equities			
Unlisted equities	Theoretical price	Acquisition cost, cash flows, EBIT multiples, as applicable book value	Net asset value method
Other invested assets			
Private equity	Theoretical price	Acquisition cost, cash flows, EBIT multiples, market prices	Net asset value method
Other financial assets – at fair value through profit or loss			
Currency forwards	Theoretical price	Interest-rate curves, spot and forward rates	Interest parity model
OTC stock options, OTC stock index options	Theoretical price	Listing of the underlying share, implicit volatilities, money-market interest rate, dividend yield	Black-Scholes
Insurance derivatives	Theoretical price	Market values of the cat. bonds, interest rate curve	Present-value method

"J curve" effect during the investment period of the funds), we take an impairment to net asset value as an approximation of the fair value for the first time after a two-year waiting period if there is a significant or prolonged decrease in value.

Netting of financial instruments: financial assets and liabilities are only netted and recognised in the appropriate net amount if a corresponding legal claim (reciprocity; similarity and maturity) exists or is expressly agreed by contract, in other words if the intention exists to offset such items on a net basis or to effect this offsetting simultaneously.

Other invested assets are for the most part recognised at nominal value. Insofar as such financial assets are not listed on public markets (e.g. participating interests in private equity firms), they are carried at the latest available net asset value as an approximation of the fair value. Loans included in this item are recognised at amortised cost.

Investments in associated companies are valued at equity on the basis of the proportionate shareholders' equity attributable to the Group. Under IAS 28 "Investments in Associates", which requires the application of the equity method based on the investor's share of the results of operations of the investee, the goodwill apportionable to the associated companies must be recognised together with the investments in associated companies. The year-end result of an associated company relating to the Group's share is included in the net investment income and shown separately. The shareholders' equity and net income are taken from the associated company's latest available financial statement.

Real estate used by third parties (investment property) is valued at cost less scheduled depreciation and impairment. Straight-line depreciation is taken over the expected useful life – at most 50 years. Under the impairment test the market value of real estate for third-party use (recoverable amount) is determined using acknowledged valuation methods and compared with the carrying value; arising impairments are recognised. Maintenance costs and repairs are expensed. Value-enhancing expenditures are capitalised if they extend the useful life.

Cash is carried at face value.

Funds withheld are receivables due to reinsurers from their clients in the amount of the cash deposits contractually withheld by such clients; they are recognised at acquisition cost (nominal amount). Appropriate allowance is made for credit risks.

Contract deposits: under this item we report receivables and liabilities under insurance contracts that satisfy the test of a significant risk transfer to the reinsurer as required by IFRS 4 "Insurance Contracts" but fail to meet the risk transfer required by US GAAP. IFRS 4 in conjunction with FASB ASC 944-20-15 requires insurance contracts that transfer a significant technical risk from the ceding company to the reinsurer to be differentiated from those under which the risk transfer is of merely subordinate importance. Since the risk transfer under the affected transactions is of subordinate importance, these contracts are recognised using the "deposit accounting" method and hence eliminated from the technical account. The compensation for risk assumption booked to income under these contracts is netted under other income and expenses. The payment flows resulting from these contracts are shown in the cash flow statement under operating activities.

Accounts receivable: the accounts receivable under reinsurance business and the other receivables are carried at nominal value; value adjustments are made where necessary on the basis of a case-by-case analysis. We use adjustment accounts for value adjustments taken on reinsurance accounts receivable, while all other write-downs are booked directly against the underlying position.

Deferred acquisition costs principally consist of commissions and other variable costs directly connected with the acquisition or renewal of existing reinsurance contracts. These acquisition costs are capitalised and amortised over the expected period of the underlying reinsurance contracts. Deferred acquisition costs are regularly tested for impairment.

Reinsurance recoverables on technical reserves: shares of our retrocessionaires in the technical reserves are calculated according to the contractual conditions on the basis of the gross technical reserves. Appropriate allowance is made for credit risks.

Intangible assets: in accordance with IFRS 3 "Business Combinations" scheduled depreciation is not taken on goodwill; instead, impairment is taken where necessary after an annual impairment test. For the purposes of the impairment test, goodwill is to be allocated pursuant to IAS 36 "Impairment of Assets" to so-called "cash generating units" (CGUs). Each CGU to which goodwill is allocated should represent the lowest level on which goodwill is monitored for internal management purposes and may not be larger than a segment. Following allocation of the goodwill it is necessary to determine for each CGU the recoverable amount, defined as the higher of the value in use and the fair value less costs to sell. The fair value is calculated using a discounted cash flow method on the basis of a five-year detailed plan and allowing for a perpetuity factor. The recoverable amount is to be compared with the book value of the CGU including goodwill. When the latter exceeds the recoverable amount, an impairment expense is to be recognised.

The other intangible assets largely consist of purchased and self-developed software. This is recognised at acquisition cost less scheduled depreciation. The other intangible assets also contain the present value of expected profits (PVFP) from acquired life reinsurance portfolios at the time of acquisition; amortisation is taken according to the periods of the underlying acquired contracts. Intangible assets are regularly tested for impairment and impairment is taken where necessary.

Deferred tax assets: IAS 12 "Income Taxes" requires that assets-side deferred taxes be established if assets have to be recognised in a lower amount or liabilities in a higher amount in the consolidated balance sheet than in the tax balance sheet and if these temporary differences will lead to reduced tax burdens in the future. In principle, temporary differences result from the valuation differences between the tax balance sheets drawn up in accordance with national standards and the IFRS balance sheets of the companies included in the consolidated financial statement drawn up in accordance with uniform group standards as well as from consolidation processes. Deferred tax assets are also recognised on tax loss carry-forwards and for tax credits. Insofar as the deferred taxes refer to items carried directly in equity, the resulting deferred taxes are also recognised directly in equity. Value adjustments are taken on deferred tax assets as soon as realisation of the receivable no longer appears likely. Deferred taxes are measured according to the tax regulations specific to the country concerned that are applicable or have been adopted as at the closing date.

Deferred tax assets may only be netted with deferred tax liabilities if an enforceable right exists to net actual tax refund claims with actual taxes owing. A precondition here is that the deferred tax assets and deferred tax liabilities refer to income taxes that are levied by the same revenue authority either for (i) the same taxable entity or for (ii) different taxable entities. In this regard, there must be an intention – in every future period in which the discharge or realisation of substantial amounts of deferred tax liabilities/deferred tax assets is to be expected – either to bring about the settlement of the actual taxes owing and refund claims on a net basis or to discharge the liabilities at the same time as the claims are realised. The recognition of deferred tax assets and deferred tax liabilities in the consolidated balance sheet makes no distinction between short-term and long-term.

Own-use real estate: The portfolio of own-use real estate is measured at cost less scheduled straight-line depreciation over useful lives of 10 to 50 years. The fair values are determined for comparative purposes using the discounted cash flow method.

Other assets are accounted for at amortised cost.

Technical reserves: the technical reserves are shown for gross account in the balance sheet, i.e. before deduction of the share attributable to our reinsurers; cf. here the remarks concerning the corresponding assets. The reinsurers' portion is calculated and accounted for on the basis of the individual reinsurance contracts.

Loss and loss adjustment expense reserves are constituted for payment obligations from reinsurance losses that have occurred but have not yet been settled. They are subdivided into reserves for reinsurance losses reported by the balance sheet date and reserves for reinsurance losses that have already been incurred but not yet reported (IBNR) by the balance sheet date. The loss and loss adjustment expense reserves are based on estimates that may diverge from the actual amounts payable. In reinsurance business a considerable period of time may elapse between the occurrence of an insured loss, notification by the insurer and pro-rata payment of the loss by the reinsurer. For this reason the best estimate of the future settlement amount is carried. With the aid of actuarial methods, the estimate makes allowance for past experience and assumptions relating to the future development. With the exception of a few reserves, future payment obligations are not discounted.

Benefit reserves are comprised of the underwriting reserves for guaranteed claims of ceding companies in life and health reinsurance. Benefit reserves are determined using actuarial methods on the basis of the present value of future payments to cedants less the present value of premium still payable by cedants. The calculation includes assumptions relating to mortality, disability, lapse rates and the future interest rate development. The actuarial bases used in this context allow an adequate safety margin for the risks of change, error and random fluctuation. They correspond to those used in the premium calculation and are adjusted if the original safety margins no longer appear to be sufficient.

Deferred tax liabilities: in accordance with IAS 12 "Income Taxes" deferred tax liabilities must be recognised if assets are to be recognised in a higher amount or liabilities in a lower amount in the consolidated balance sheet than in the tax balance sheet and if these temporary differences will lead to additional tax loads in the future; please see our explanatory remarks on deferred tax assets.

Long-term liabilities principally consist of subordinated debts that can only be satisfied after the claims of other creditors in the event of liquidation or bankruptcy. They are measured at amortised cost. Liabilities to holders of minority shares in partnerships arising out of long-term capital commitments are measured at the fair value of the redemption amount as at the balance sheet date.

Financial liabilities at fair value through profit or loss: Hannover Re does not make use of the fair value option provided by IAS 39 "Financial Instruments: Recognition and Measurement" to classify financial liabilities in this category upon first-time recognition.

Shareholders' equity: the items "common shares" and "additional paid-in capital" are comprised of the amounts paid in by the parent company's shareholders on its shares. In addition to the statutory reserves of the parent company and the allocations from net income, the retained earnings consist of reinvested profits generated by the Hannover Re Group companies in previous periods. What is more, in the event of a retrospective change of accounting policies, the adjustment for previous periods is recognised in the opening balance sheet value of the retained earnings and comparable items of the earliest reported period. Unrealised gains and losses from the fair value measurement of financial instruments held as available for sale are carried in cumulative other comprehensive income under unrealised gains and losses on investments. Translation differences resulting from the currency translation of separate financial statements of foreign subsidiaries are recognised under gains and losses from currency translation.

Non-controlling interests are shares in the equity of affiliated companies not held by companies belonging to the Group. IAS 1 "Presentation of Financial Statements" requires that non-controlling interests be recognised separately within Group shareholders' equity. The non-controlling interest in profit or loss is shown separately as profit appropriation following the net income ("thereof" note). This item refers mainly to non-controlling interests in E+S Rück.

Disclosures about financial instruments: IFRS 7 "Financial Instruments: Disclosures" requires more extensive disclosures according to classes of financial instruments. In this context, the term "class" refers to the classification of financial instruments according to their risk characteristics. A minimum distinction is required here between measurement at amortised cost or at fair value. A more extensive or divergent distinction should, however, be geared to the purpose of the corresponding disclosures in the notes. In contrast, the term "category" is used within the meaning of the measurement categories defined in IAS 39 "Financial Instruments: Recognition and Measurement" (held to maturity, loans and receivables, available for sale and financial assets at fair value through profit or loss with the subcategories of trading and designated financial instruments). Essentially, the following classes of financial instruments are established:

- Fixed-income securities
- Equities, equity funds and other variable-yield securities
- Other financial assets – at fair value through profit or loss
- Other invested assets
- Short-term investments
- Funds held and contract deposits (assets)
- Accounts receivable
- Other receivables
- Funds held and contract deposits (liabilities)
- Other liabilities
- Long-term debt
- Subordinated debt
- Other long-term liabilities

This grouping into classes is not, however, solely determinative for the type and structure of each disclosure in the notes. Rather, guided by the underlying business model of reinsurance, the disclosures are made on the basis of the facts and circumstances existing in the financial year and in light of the principle of materiality.

Currency translation: financial statements of Group subsidiaries were drawn up in the currencies corresponding to the economic environment in which each subsidiary primarily operates. These currencies are referred to as functional currencies. The euro is the reporting currency in which the consolidated financial statement is prepared.

Transactions in foreign currencies reported in Group companies' individual financial statements are converted into the functional currency at the transaction rate. In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" the recognition of exchange differences on translation is guided by the nature of the underlying balance sheet item. Exchange differences from the translation of monetary assets and liabilities are recognised directly in the statement of income. Currency translation differences from the translation of non-monetary assets measured at fair value via the statement of income are recognised with the latter as profit or loss from fair value measurement changes. Exchange differences from non-monetary items – such as equity securities – classified as available for sale are initially recognised outside income in a separate item of shareholders' equity and only booked to income when such non-monetary items are settled.

The individual companies' statements of income prepared in the local currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statement. The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange on the balance sheet date. In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" differences from the currency translation of financial statements of foreign Group companies must be recognised in the consolidated financial statement as a separate item in shareholders' equity. Currency translation differences resulting from long-term loans or lendings without specified maturity between Group companies are similarly recognised outside the statement of income in a separate item of shareholders' equity.

Earned premium and unearned premium: assumed reinsurance premiums, commissions and claim settlements as well as assumed portions of the technical reserves are recognised according to the terms and conditions of the reinsurance treaties, giving due consideration to the underlying contracts for which reinsurance was taken out.

Ceded reinsurance premiums are deducted from the gross written premium. Assets and liabilities in connection with reinsurance ceded are recognised on a gross basis. The reinsured portions of the reserves are estimated on a basis consistent with the reserves attributable to the reinsured risk. Income and expenses in connection with reinsurance treaties are recognised on a basis consistent with the underlying risk of the reinsured business.

Premiums for reinsurance treaties are booked to income as earned across the period of the contracts in proportion to the insurance protection already provided or when they become due. Unearned premiums are calculated individually for each treaty in order to establish the portion of the premium volume that is not booked to income. This applies principally to non-life reinsurance and parts of accident and health reinsurance. Premiums already collected that are attributable to future risk periods are deferred pro rata temporis and recognised in conformity with the pertinent standards of US GAAP. In this context, assumptions are to be made if the data required for

Key exchange rates				1 EUR corresponds to:
	31.12.2011	31.12.2010	2011	2010
	Mean rate of exchange on the balance sheet date		Average rate of exchange	
AUD	1.2723	1.3068	1.3419	1.4510
BHD	0.4881	0.4997	0.5253	0.5009
CAD	1.3198	1.3259	1.3765	1.3758
CNY	8.1489	8.7511	9.0027	8.9895
GBP	0.8362	0.8585	0.8704	0.8592
HKD	10.0565	10.3146	10.8451	10.3232
KRW	1,500.6009	1,501.6346	1,541.9185	1,541.5994
MYR	4.1038	4.0869	4.2592	4.2915
SEK	8.9063	9.0119	9.0121	9.5582
USD	1.2946	1.3254	1.3934	1.3287
ZAR	10.4800	8.7907	10.0559	9.7204

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

Non-current assets held for sale and discontinued operations: in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", non-current assets and disposal groups are classified as held for sale if the relevant carrying amount is realised largely through sale rather than through continued use. Components of an entity that can be clearly distinguished from the rest of the entity for operational and accounting purposes and were classified as sold or for sale are recognised as discontinued operations. Measurement is at the lower of carrying amount and fair value less costs to sell. Scheduled depreciation is not taken on non-current assets classified as held for sale. Impairment losses on fair value less costs to sell are recognised in profit or loss; a gain for any subsequent increase in fair value less costs to sell leads to the realisation of profit up to the amount of the cumulative impairment. If the impairment loss to be taken on a disposal group exceeds the carrying amount of the corresponding non-current assets, the need to establish a provision within the meaning of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" is reviewed.

3.3 Segmentation

Hannover Re's segmental report is based on IFRS 8 "Operating Segments" and on the principles set out in German Accounting Standard No. 3 "Segment Reporting" (DRS 3) of the German Accounting Standards Board as well as the requirements of DRS 3–20 "Segment Reporting of Insurance Enterprises".

The segmentation in non-life reinsurance and life/health reinsurance and the segment information presented follow the system used for internal reporting purposes, on the basis of which the full Executive Board regularly evaluates the performance of the segments and decides on the allocation of resources to the segments.

During the financial year no material changes occurred in the organisational structure that could have influenced the composition of the segments. Since the performance indicators used to steer the segments correspond to the system according to which the consolidated financial statement is prepared, a separate reconciliation of the segment results with the Group result is not provided.

3.4 Major discretionary decisions and estimates

In the consolidated financial statement it is to some extent necessary to make estimates and assumptions which affect the assets and liabilities shown in the balance sheet, the information on contingent claims and liabilities as at the balance sheet date and the disclosure of income and expenses during the reporting period. Key facts and circumstances subject to such assumptions and estimates include, for example, the recoverability of contingent reinsurance liabilities, the recoverability of investments in associated companies, the valuation of derivative financial instruments as well as assets and liabilities relating to employee benefits. The actual amounts may diverge from the estimated amounts.

In order to measure the "ultimate liability" in non-life business the expected ultimate loss ratios are calculated for all lines. Actuarial methods such as the "chain ladder" method provide the starting point for these calculations. The best possible estimated future settlement amount is recognised in the balance sheet. The development until completion of the run-off is projected on the basis of statistical triangles from the original notifications of ceding companies. In this context it is generally assumed that the future rate of inflation of the loss run-off will be analogous to the average rate of the past inflation contained in the data. The more recent underwriting years in actuarial projections are of course subject to greater uncertainty, although this can be considerably reduced with the aid of a variety of additional information on improvements in the rates and conditions of the business written and on loss trends. The amounts arrived at as the difference between the ultimate losses and the reported losses are set aside as the IBNR reserve for losses that have been incurred but are not yet known or have still to be reported.

By analysing a broad range of observable information it is possible to classify losses as major individual loss events. Measurement of the obligations existing in this connection is carried out using a separate process, which is based largely on contract-specific estimates.

For further details, for example concerning the modelling of natural catastrophe scenarios and the assumptions relating to asbestos and pollution risks, the reader is referred to our comments in the risk report on page 68 et seq. We would further refer to our explanatory remarks on the technical reserves in Section 3.2 "Summary of major accounting policies", page 130 et seq., and Section 5.7 "Technical provisions", page 167 et seq.

In life business too the calculation of reserves and assets is crucially dependent on actuarial projections of the covered business. So-called model points are defined according to the type of business covered. The main distinguishing criteria are the age, sex and (non-)smoker status of the insured, tariff, policy period, period of premium payment and amount of insurance. The portfolio development is simulated for each model point, in which regard the key input parameters are either predefined by the tariff (e.g. allowance for costs, amount of premium, actuarial interest rate) or need to be estimated (e.g. mortality or disability rates, lapse rates). These assumptions are heavily dependent on country-specific parameters and on the sales channel, quality of the cedant's underwriting and claims handling, type of reinsurance and other framework conditions of the reinsurance treaty. The superimposition of numerous model points gives rise to a projection, which incorporates inter alia assumptions concerning the portfolio composition and the commencement of covered policies within the year. Such assumptions are estimated at the inception of a reinsurance treaty and subsequently adjusted to the actual projection.

The projections, which cover various model scenarios ("conservative assumptions" versus "best estimate"), constitute the starting point for numerous areas of application encompassing quotation, the determination of carrying values and embedded values as well as contract-specific analyses, e.g. regarding the appropriateness of the recognised reinsurance liabilities ("liability adequacy test"). In this context we would refer the reader to our comments on technical assets and provisions in Section 3.2 "Summary of major accounting policies", page 130 et seq., and on the liability adequacy tests in Section 5.7 "Technical provisions", page 167 et seq.

In determining the carrying values for certain financial assets it is sometimes necessary to make assumptions in order to calculate fair values. In this regard we would refer the reader to our remarks in Section 3.2 "Summary of major accounting policies" concerning financial assets at fair value through profit or loss and securities held as available for sale. Assumptions concerning the appropriate applicability criteria are necessary when determining the need for impairments on non-monetary financial assets held as available for sale. In this regard we would again refer the reader to our explanatory remarks in Section 3.2 "Summary of major accounting policies".

4. Consolidation

4.1 Consolidation principles

Capital consolidation

The capital consolidation complies with the requirements of IAS 27 "Consolidated and Separate Financial Statements". Subsidiaries are consolidated as soon as Hannover Re acquires a majority voting interest or de facto controlling influence. The same is true of special purpose entities, the consolidation of which is discussed separately below.

Only subsidiaries which are of minor importance – both individually and in their entirety – for the net assets, financial position and results of operations of the Hannover Re Group are exempted from consolidation. Hannover Re assesses whether a subsidiary is of minor importance on the basis of the company's total assets and net income relative to the corresponding values for the Group as a whole on average over the last three years. For this reason 30 (26) companies at home and abroad, the business object of which is primarily the rendering of services for reinsurance companies within the Group, were not consolidated in the year under review.

The capital consolidation is based on the revaluation method. In the context of the "purchase accounting" method the acquisition costs of the parent company are netted with the proportionate shareholders' equity of the subsidiary at the time when it is first included in the consolidated financial statement after the revaluation of all assets and liabilities. After recognition of all acquired intangible assets that in accordance with IFRS 3 "Business Combinations" are to be accounted for separately from goodwill, the difference between the revalued shareholders' equity of the subsidiary and the purchase price is recognised as goodwill. Under IFRS 3 scheduled amortisation is not taken on goodwill. Instead, impairment is taken where necessary on the basis of annual impairment tests. Immaterial and negative goodwill are recognised in the statement of income in the year of their occurrence.

Non-controlling interests in shareholders' equity are reported separately within Group shareholders' equity in accordance with IAS 1 "Presentation of Financial Statements". The non-controlling interest in profit or loss, which forms part of net income and is shown separately after net income as a "thereof" note, amounted to EUR 70.8 million (EUR 82.0 million) in the year under review.

Non-controlling interests in partnerships are reported in accordance with IAS 32 "Financial Instruments: Presentation" under long-term liabilities.

Companies over which Hannover Re is able to exercise a significant influence are normally consolidated "at equity" as associated companies with the proportion of the shareholders' equity attributable to the Group. A significant influence is presumed to exist if a company belonging to the Hannover Re Group directly or indirectly holds at least 20% – but no more than 50% – of the voting rights. Income from investments in associated companies is recognised separately in the consolidated statement of income.

Consolidation of business transactions within the Group

Receivables and liabilities between the companies included in the consolidated financial statement were offset against each other. Profits and expenses from business transactions within the Group were also eliminated. Transactions between a disposal group and the continuing operations of the Group were similarly eliminated in accordance with IAS 27 "Consolidated and Separate Financial Statements".

4.2 Consolidated companies and complete list of shareholdings

In addition to Hannover Rückversicherung AG as the parent company of the Group, the scope of consolidation of the Hannover Re Group encompasses the companies listed in the table below.

Scope of consolidation (number of companies)	2011	2010
Consolidated companies		
Germany	16	15
Abroad[1]	52	54
Total	**68**	**69**
Consolidated special purpose entities and special funds		
Abroad[1]	3	3
Sum total	**71**	**72**
Companies included at equity		
Germany	3	3
Abroad[2]	6	7
Total	**9**	**10**

1 Consists of: 19 (18) individual companies and 36 (39) companies which are fully consolidated in 3 (3) subgroups.
2 Consists of: 1 (1) associated companies and 5 (6) companies which are included at equity in 1 (1) subgroup.

Notes

The following list of shareholdings is provided in full in the present Group annual financial report in accordance with the requirements of § 313 German Commercial Code (HGB) as amended by the Act on the Modernisation of Accounting Law (BilMoG).

In conformity with Item 7.1.4 of the recommendations of the German Corporate Governance Code as amended on 26 May 2010, the following table also lists the percentage share in capital, the capital and reserves and the result for the last financial year for major participations in unconsolidated third companies.

The figures for the capital and reserves as well as the result for the last financial year are taken from the local financial statements drawn up by the companies.

With regard to the major acquisitions and disposals in the year under review please see our remarks in the following paragraphs of this section.

Companies included in the consolidated financial statement

Name and registered office of the company Figures in currency units of 1,000	Participation in %	Capital and reserves		Result for the last financial year	
Affiliated companies resident in Germany					
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany[1]	100.00	EUR	2,621,855	EUR	–
Hannover Life Re AG, Hannover/Germany[1,2]	100.00	EUR	1,032,596	EUR	–
HILSP Komplementär GmbH, Hannover/Germany[3]	100.00	EUR	26	EUR	2
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover/Germany[3]	100.00	EUR	39,274	EUR	7,068
Funis GmbH & Co. KG, Hannover/Germany[3]	100.00	EUR	25,040	EUR	44
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover/Germany[3]	95.28	EUR	171,011	EUR	3,202
HAPEP II Holding GmbH, Hannover/Germany[3]	95.28	EUR	27,016	EUR	3,487
HAPEP II Komplementär GmbH, Cologne/Germany[3]	81.84	EUR	27	EUR	–
Hannover Re Euro PE Holdings GmbH & Co. KG, Cologne/Germany[3]	90.92	EUR	46,685	EUR	474
Hannover Re Euro RE Holdings GmbH, Cologne/Germany[3]	81.84	EUR	142,612	EUR	1,105
Hannover Euro Private Equity Partners III GmbH & Co. KG, Hannover/Germany[3]	67.08	EUR	47,892	EUR	1,159
HEPEP III Holding GmbH, Hannover/Germany[3]	67.08	EUR	9,152	EUR	(523)
E+S Rückversicherung AG, Hannover/Germany[4]	63.69	EUR	716,413	EUR	133,000
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Hannover/Germany[3]	60.17	EUR	82,836	EUR	5,812
Hannover Euro Private Equity Partners II GmbH & Co. KG, Hannover/Germany[3]	57.63	EUR	2,056	EUR	232
HEPEP II Holding GmbH, Hannover/Germany[3]	57.63	EUR	6,181	EUR	6,136

Name and registered office of the company Figures in currency units of 1,000	Participation in %	Capital and reserves		Result for the last financial year	
Affiliated companies resident abroad					
Hannover Finance (Luxembourg) S.A., Luxembourg/Luxembourg[4]	100.00	EUR	31,719	EUR	475
Hannover Finance (UK) Limited, Virginia Water/United Kingdom[4]	100.00	GBP	131,122	GBP	27
Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda	100.00	EUR	183,262	EUR	23,815
Hannover Life Reassurance Company of America, Orlando/USA[4]	100.00	USD	175,264	USD	4,103
Hannover Life Reassurance (Ireland) Ltd., Dublin/Ireland[4]	100.00	EUR	981,765	EUR	31,700
Hannover Life Reassurance (UK) Ltd., Virginia Water/United Kingdom[4]	100.00	GBP	34,654	GBP	(5,856)
Hannover Life Re of Australasia Ltd., Sydney/Australia[4]	100.00	AUD	297,281	AUD	45,537
Hannover Re Advanced Solutions Ltd., Dublin/Ireland[5]	100.00	EUR	31	EUR	–
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda[4]	100.00	EUR	888,307	EUR	30,260
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland	100.00	EUR	460,232	EUR	36,853
Hannover ReTakaful B.S.C. (c), Manama/Bahrain[4]	100.00	BHD	34,302	BHD	6,103
Hannover Services (UK) Ltd., Virginia Water/United Kingdom	100.00	GBP	663	GBP	(60)
International Insurance Company of Hannover Ltd., Bracknell/United Kingdom[4]	100.00	GBP	116,406	GBP	5,702
Inter Hannover (No.1) Limited, London/United Kingdom[4]	100.00	GBP	(1,314)	GBP	1
Secquaero ILS Fund Ltd., George Town, Grand Cayman/Cayman Islands[6]	100.00	USD	53,277	USD	1,805
Hannover Re (Guernsey) PCC Limited, St Peter Port/Guernsey[4]	100.00	EUR	258	EUR	(3)
Fracom FCP, Paris/France[7]	100.00	EUR	842,369	EUR	25,906
Kaith Re Ltd., Hamilton/Bermuda[4]	88.00	USD	386	USD	(254)
Integra Insurance Solutions Limited, Bradford/UK[8]	74.99	GBP	115	USD	100
Subgroups resident abroad					
Hannover Finance, Inc., Wilmington/USA[4]	100.00	USD	494,803	USD	61,969
Hannover Finance, Inc. compiles its own subgroup financial statement in which the following major companies are included:					
Consolidated companies					
Clarendon Insurance Group, Inc., Wilmington/USA	100.00	USD	221,640	USD	66,885
Atlantic Capital Corporation, Wilmington/USA[6,9,10]	100.00	USD	(111,867)	USD	1,520
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR	155,600	ZAR	109,787
Hannover Reinsurance Group Africa (Pty) Ltd. compiles its own subgroup financial statement in which the following companies are included:					
Consolidated companies					
Hannover Life Reassurance Africa Ltd., Johannesburg/South Africa	100.00	ZAR	368,337	ZAR	22,482

Notes

Name and registered office of the company Figures in currency units of 1,000	Participation in %		Capital and reserves		Result for the last financial year
Hannover Reinsurance Africa Ltd., Johannesburg/South Africa	100.00	ZAR	755,497	ZAR	147,341
Compass Insurance Company Limited, Johannesburg/South Africa	100.00	ZAR	109,365	ZAR	(21,717)
Micawber 185 (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR	20,355	ZAR	2,098
Peachtree (Pty) Ltd., Johannesburg/South Africa[9]	100.00	ZAR	–	ZAR	–
Indoc Holdings S.A., Luxembourg/Luxembourg[9]	100.00	CHF	–	CHF	–
Hannover Reinsurance Mauritius Ltd., Port Louis/Mauritius	100.00	MUR	46,393	MUR	(4,220)
Lireas Holdings (Pty) Ltd., Johannesburg/South Africa	51.00	ZAR	199,836	ZAR	57,019
Transit Underwriting Managers (Pty) Ltd., Cape Town/South Africa	51.00	ZAR	806	ZAR	1,474
MUA Insurance Company Ltd., Cape Town/South Africa	51.00	ZAR	9,784	ZAR	111
MUA Insurance Acceptances (Pty) Ltd., Cape Town/South Africa	40.80	ZAR	4,376	ZAR	4,624
Garagesure Consultants and Acceptances (Pty) Ltd., Johannesburg/South Africa	40.80	ZAR	541	ZAR	815
Cargo Transit Insurance (Pty) Ltd., Helderkruin/South Africa	40.80	ZAR	(2,522)	ZAR	(2,252)
Landmark Underwriting Agency (Pty) Ltd., Bloemfontein/South Africa	38.51	ZAR	2,948	ZAR	3,802
Hospitality Industries Underwriting Consultants (Pty) Ltd., Johannesburg/South Africa	36.82	ZAR	1,603	ZAR	2,981
SUM Holdings (Pty) Ltd., Johannesburg/South Africa	36.82	ZAR	20,811	ZAR	5,689
Gem & Jewel Acceptances (Pty) Ltd., Johannesburg/South Africa[4]	35.70	ZAR	157	ZAR	998
Thatch Risk Acceptances (Pty) Ltd., Cape Town/South Africa	33.14	ZAR	1,246	ZAR	2,233
Envirosure Underwriting Managers (Pty) Ltd., Durban/South Africa	30.60	ZAR	(1,690)	ZAR	159
Woodworking Risk Acceptances (Pty) Ltd., Pietermaritzburg/South Africa	30.60	ZAR	1,910	ZAR	2,409
Construction Guarantee (Pty) Ltd., Parktown/South Africa	30.60	ZAR	(831)	ZAR	3,455
Film & Entertainment Underwriters SA (Pty) Ltd., Northcliff/South Africa	26.01	ZAR	(1,479)	ZAR	(620)
Associated companies					
Takafol South Africa (Pty) Ltd., Johannesburg/South Africa[4]	24.99	ZAR	601	ZAR	(181)
Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg/South Africa[4]	20.40	ZAR	6,218	ZAR	19,901
Flexible Accident and Sickness Acceptances (Pty) Ltd., Johannesburg/South Africa[4]	20.40	ZAR	5,053	ZAR	3,322
Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg/South Africa[4]	19.04	ZAR	3,893	ZAR	47,912
Camargue Underwriting Managers (Pty) Ltd., Parktown/South Africa[4]	13.26	ZAR	3,504	ZAR	504
Participations (non-consolidated)					
Clarenfin (Pty) Ltd., Johannesburg/South Africa[5]	19.04	ZAR	–	ZAR	–

Name and registered office of the company Figures in currency units of 1,000	Participation in %	Capital and reserves		Result for the last financial year	
Subgroups resident abroad					
Hannover Re Real Estate Holdings, Inc., Orlando/USA[6]	95.10	USD	280,345	USD	12,939
Hannover Re Real Estate Holdings, Inc. compiles its own subgroup financial statement in which the following companies are included:					
Consolidated companies					
5115 Sedge Corporation, Chicago/USA[6]	95.10	USD	1,899	USD	(585)
GLL HRE CORE PROPERTIES LP, Wilmington/USA[6]	95.00	USD	111,771	USD	391
11 Stanwix LLC, Wilmington/USA[6]	95.00	USD	30,292	USD	941
One Winthrop Square LLC, Wilmington/USA[6]	95.00	USD	23,816	USD	693
402 Santa Monica Blvd LLC, Wilmington/USA[6]	95.00	USD	32,352	USD	679
300 South Orange Avenue LLC, Wilmington/USA[6]	95.00	USD	56,694	USD	1,302
465 Broadway LLC, Wilmington/USA[6]	95.00	USD	43,175	USD	788
5115 Sedge Boulevard LP, Chicago/USA[6]	79.88	USD	149	USD	(1,084)
GLL Terry Francois Blvd. LLC, Wilmington/USA[6]	48.40	USD	25,542	USD	741
Associated companies resident in Germany					
Oval Office Grundstücks GmbH, Hannover/Germany[4]	50.00	EUR	59,553	EUR	1,765
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover/Germany[11,12]	32.74	EUR	77,311	EUR	3,112
HANNOVER Finanz GmbH, Hannover/Germany[11]	25.00	EUR	69,063	EUR	5,629
Associated companies resident abroad					
ITAS Vita S.p.A., Trient/Italy[11]	34.88	EUR	76,299	EUR	1,449
Participations in Germany (non-consolidated)					
International Hannover Holding AG, Hannover/Germany	100.00	EUR	41	EUR	–
Capital System GmbH, Hannover/Germany[13]	49.00	EUR	25	EUR	–
Participations abroad (non-consolidated)					
International Mining Industry Underwriters Ltd., London/United Kingdom[4]	100.00	GBP	419	GBP	60
HR Hannover Re, Correduría de Reaseguros S.A., Madrid/Spain[4]	100.00	EUR	231	EUR	33
LRA Superannuation Plan Pty Ltd., Sydney/Australia[5]	100.00	AUD	–	AUD	–
Mediterranean Reinsurance Services Ltd., Hong Kong/China[9,14]	100.00	USD	125	USD	–
Hannover Re Services Japan, Tokyo/Japan	100.00	JPY	92,870	JPY	2,573
Hannover Re Consulting Services India Private Limited, Mumbai/India[8]	100.00	INR	50,647	INR	5,004
Hannover Life Re Consultants, Inc., Orlando/USA[11]	100.00	USD	199	USD	26

Name and registered office of the company Figures in currency units of 1,000	Participation in %	Capital and reserves		Result for the last financial year	
Participations abroad (non-consolidated)					
Hannover Services (México) S.A. de C.V., Mexico City/Mexico[11]	100.00	MXN	10,552	MXN	561
Hannover Re Services USA, Inc., Itasca/USA	100.00	USD	845	USD	50
Hannover Rückversicherung AG Escritório de Representação no Brasil Ltda., Rio de Janeiro/Brazil[11]	100.00	BRL	377	BRL	3
Hannover Re Services Italy Srl, Milan/Italy	99.64	EUR	485	EUR	80
Glencar Underwriting Managers, Itasca/USA[13]	95.90	USD	2,502	USD	–
Svedea AB, Stockholm/Sweden[11]	71.20	SEK	255	SEK	(18,515)
Hannover Care AB, Stockholm/Sweden[11]	30.00	SEK	522	SEK	(2,656)
Energi, Inc., Peabody/USA[11,15]	28.50	USD	7,381	USD	(817)
Energi Insurance Services, Inc., Peabody/USA[11]	28.50	USD	1,305	USD	(1,381)
Energi of Canada, Ltd., Toronto/Canada[13]	28.50	CAD	–	CAD	–
Energi Re LLC, Dover/USA[13]	28.50	USD	250	USD	–
Hurst Holme Insurance Company Limited - account 2006 - 03 SCC, Hamilton/Bermuda[11]	28.50	USD	780	USD	(113)
Hurst Holme Insurance Company Limited - account 2009 - 01 SCC, Hamilton/Bermuda[11]	28.50	USD	1,577	USD	1,440
XS Direct Holdings Limited, Dublin/Ireland[11]	25.00	EUR	4,870	EUR	2,962
SimShare Limited, Dublin/Ireland[11,16]	25.00	EUR	3,093	EUR	(777)
XS Direct Insurance Brokers Limited, Dublin/Ireland[11]	25.00	EUR	(172)	EUR	(725)
Indemnity Guarantee Company Limited, Dublin/Ireland[9,11]	25.00	EUR	(6)	EUR	–
Sciemus Power MGA Limited, London/United Kingdom[11]	25.00	GBP	1	GBP	–
PlaNet Guarantee (SAS), Saint-Ouen/France[11]	23.58	EUR	1,447	EUR	(549)
Acte Vie S.A. Compagnie d'Assurances sur la Vie et de Capitalisation, Strasbourg/France[11]	9.38	EUR	8,203	EUR	226

1 Year-end result after profit transfer
2 Formerly Zweite Hannover Rück Beteiligung Verwaltungs-GmbH
3 Financial year as at 30 September 2011
4 Provisional (unaudited) figures
5 Company is inactive and does not compile an annual report
6 IFRS figures
7 Financial year as at 30 October 2010
8 Financial year as at 31 March 2011
9 Company is in liquidation
10 Certain equity items are not counted under IFRS, as a consequence of which the amount of capital and reserves can be negative here. According to the local accounting practice relevant for supervisory purposes, the company is adequately capitalised.
11 Figures as at 31 December 2010
12 Formerly WeHaCo Unternehmensbeteiligungs-AG
13 Company was newly established in 2011; an annual financial statement is not yet available
14 Last annual financial statement compiled as at 31 December 1999
15 Formerly Energi Holdings, Inc. (until 5 December 2011)
16 Formerly XS Reinsurance Limited (until 2 June 2011)

Consolidation of special purpose entities

Business relations with special purpose entities are to be examined in accordance with SIC-12 "Consolidation – Special Purpose Entities" with an eye to their implications for consolidation. In cases where IFRS do not currently contain any specific standards, Hannover Re's analysis – in application of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – also falls back on the relevant standards of US GAAP.

Retrocessions and Insurance-Linked Securities (ILS)

Since 2010, as part of its extended Insurance-Linked Securities (ILS) activities, Hannover Re has written a number of so-called collateralised fronting arrangements under which risks assumed from ceding companies are passed on to institutional investors outside the Group using special purpose entities. The purpose of such transactions is to directly transfer clients' business. Due to the lack of a controlling influence over the special purpose entities involved, there is no consolidation requirement for Hannover Re with respect to these structures. One of the major transactions, "FacPool Re", under which Hannover Re transferred a portfolio of facultative reinsurance risks to the capital market from September 2009 to January 2011, was in run-off as at the balance sheet date. A number of special purpose entities participated in the reinsurance cessions within "FacPool Re"; Hannover Re did not hold any shares in these special purpose entities and did not bear the majority of the economic benefits or risks arising out of their activities through any of its business relations.

In connection with the sale of the operational companies of the subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton/Bermuda, a partial portfolio of CIGI was retroceded to a special purpose entity. The retrocession treaty entered into force together with the entire disposal transaction at the time when it was approved by US regulators ("closing condition"). Approval was given on 8 July 2011 and the transaction commenced upon closing of the sale with simultaneous deconsolidation of the operational companies. Since Hannover Re is not the major beneficiary of the special purpose entity and does not exercise either indirect or direct control over it, there is no requirement to consolidate this special purpose entity.

Securitisation of reinsurance risks

The securitisation of reinsurance risks is largely structured through the use of special purpose entities.

Effective 30 March 2011 a structured transaction was entered into in order to finance the statutory reserves (so-called TripleX reserves) of a US cedant. The structure necessitates the involvement of a special purpose entity, namely the Delaware-based Maricopa LLC. The special purpose entity carries extreme mortality risks securitised by the cedant above a contractually defined retention and transfers these risks by way of a fixed/floating swap with a ten-year term to a Group company of the Hannover Re Group. The maximum capacity of the transaction is equivalent to EUR 386.2 million; an amount equivalent to EUR 193.1 million had been taken up as at the balance sheet date. The variable payments to the special purpose entity guaranteed by Hannover Re cover its payment obligations. By way of a compensation agreement Hannover Re is reimbursed by the cedant's parent company for all payments resulting from the swap in the event of a claim. Since Hannover Re does not bear the majority of the economic risks or benefits arising out of its business relations with the special purpose entity and does not exercise a controlling influence over it, there is no consolidation requirement for Hannover Re. Under IAS 39 this transaction is to be recognised at fair value as a financial guarantee. To this end Hannover Re uses the net method, according to which the present value of the agreed fixed swap premiums is netted with the present value of the guarantee commitment. The fair value on initial recognition therefore amounted to zero. The higher of the fair value and the amount carried as a provision on the liabilities side pursuant to IAS 37 is recognized at the point in time when utilization is considered probable. This was not the case as at the balance sheet date. In this case the reimbursement claims from the compensation agreement are to be capitalized separately from and up to the amount of the provision.

In July 2009 Hannover Re issued a catastrophe ("CAT") bond with the aim of transferring to the capital market peak natural catastrophe exposures deriving from European windstorm events. The term of the CAT bond, which has a volume of nominally EUR 150.0 million, runs until 31 March 2012; it was placed with institutional investors from Europe and North America by Eurus II Ltd., a special purpose entity domiciled in the Cayman Islands. Hannover Re does not exercise a controlling influence over the special purpose entity. Under IFRS this transaction is to be recognised as a financial instrument.

By way of its "K" transactions Hannover Re has raised further underwriting capacity for catastrophe risks on the capital market. The "K Cession" (formerly "K6"), which was placed with investors in North America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. The volume of this securitisation, which was increased in the year under review, was equivalent to EUR 258.8 million (EUR 248.5 million) as at the balance sheet date. The transaction henceforth has an indefinite term and can be cancelled annually by the investors. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is being used for the securitisation.

Hannover Re also uses the special purpose entity Kaith Re Ltd. for various retrocessions of its traditional covers to institutional investors. In accordance with SIC–12 Kaith Re Ltd. is included in the consolidated financial statement.

Investments

Within the scope of its asset management activities Hannover Re has participated since 1988 in numerous special purpose entities – predominantly funds –, which for their part transact certain types of equity and debt capital investments. On the basis of our analysis of our relations with these entities we concluded that the Group does not exercise a controlling influence in any of these transactions and a consolidation requirement therefore does not exist.

Hannover Re participates – primarily through the companies Secquaero ILS Fund Ltd. and Hannover Insurance-Linked Securities GmbH & Co. KG – in a number of special purpose entities for the securitisation of catastrophe risks by investing in "disaster bonds" (or "CAT bonds"). Since Hannover Re does not exercise a controlling influence in any of these transactions either there is no consolidation requirement.

4.3 Major acquisitions and new formations

International Hannover Holding AG was established in the second quarter with its registered office in Hannover. The company, the share capital of which amounts to EUR 50,000, is a wholly owned subsidiary of International Insurance Company of Hannover Ltd., Bracknell, United Kingdom, which in turn is wholly owned by Hannover Re. The business object of the company is to hold, acquire and sell participating interests in other companies.

In the course of the second quarter Funis GmbH & Co. KG, a wholly owned subsidiary of Hannover Re, acquired a participating interest in Glencar Underwriting Managers, Inc., based in Chicago, United States, with a capital contribution of USD 98,000 (corresponding to 49% of the share capital). The business object of the company will primarily be to underwrite specialty lines as well as property and casualty program business. Preference shares in an amount of roughly USD 2.3 million were purchased in the course of the third quarter of 2011.

Funis GmbH & Co. KG acquired roughly 75% of the shares in Integra Insurance Solutions Ltd. for a purchase price of GBP 7.5 million effective 18 August 2011. Incidental acquisition costs of EUR 0.1 million were recognised as other expenses in the statement of income. As an agency, Integra mediates insurance business to International Insurance Company of Hannover Ltd., which is also a company belonging to the Hannover Re Group. In addition, a contingent purchase price payment of at most GBP 11.3 million was agreed; this is conditional principally on the volume and profitability of the business acquired by Integra until 2014. Based on the probable business experience, the fair value of the contingent purchase price payments at the time of acquisition was around GBP 5.1 million, thereby increasing the difference arising in the context of initial consolidation.

The shareholders' equity of Integra at the time of acquisition amounted to GBP 0.1 million. The company's assets are comprised largely of accounts receivable and payable. In the context of allocation of the purchase price, no effects arose out of the measurement of the assumed assets, nor was it possible to identify any intangible assets or liabilities that had hitherto not been brought to account. For this reason, the difference of

GBP 12.6 million arising in the context of initial consolidation was recognised in full as goodwill. In the period of its affiliation with the Group Integra generated a positive result after tax of GBP 0.3 million.

In the fourth quarter Funis GmbH & Co. KG also subscribed to 49% of the shares in the newly established Capital Systeme GmbH in an amount of EUR 12,250. In addition, a capital contribution of EUR 250,000 was made. The business object of the company is the sale and mediation of insurance products.

In the 2011 financial year Hannover Re and E+S Rück each acquired 50% interests in HAPEP II Komplementär GmbH from Talanx Asset Management GmbH, which is wholly owned by Talanx AG. No goodwill had to be capitalised with respect to this transaction between companies under common control.

4.4 Major disposals

On 21 December 2010 Hannover Re reached agreement on the sale of the operational companies of its US subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton, Bermuda, a company specialising in the run-off of insurance business. The transaction received the customary regulatory approvals on 8 July 2011; closing and deconsolidation subsequently took place on 12 July 2011. Hannover Re holds all shares of CIGI indirectly through the intermediate holding company Hannover Finance, Inc. (HFI), Wilmington, which is also included in full in the consolidated financial statement. The agreed purchase price is USD 219.1 million.

Pursuant to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" the subsidiaries of CIGI constituted a disposal group, which was to be measured at the lower of the carrying amount and fair value less costs to sell. The measurement of the disposal group gave rise to income of EUR 7.9 million in the current financial year. The income was recognised in other income and expenses.

The cumulative other comprehensive income of –EUR 23.1 million arising out of the currency translation of the assets and liabilities belonging to the disposal group was realised in the context of deconsolidation. Profits from the measurement of available-for-sale financial assets were realised in an amount of EUR 5.2 million upon deconsolidation and recognised in other income and expenses.

In compliance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" we recognised the assets and liabilities of the disposal group in corresponding balance sheet items that were distinct from continuing operations. Transactions between the disposal group and the Group's continuing operations were entirely eliminated in conformity with IAS 27 "Consolidated and Separate Financial Statements".

The assets and liabilities of the disposal group are presented in the following table and broken down into their major components.

Assets and liabilities of the disposal group in EUR thousand	12.07.2011	31.12.2010
Assets		
Total investments	577,503	643,060
Cash	15,679	27,474
Reinsurance recoverables on unpaid claims	782,520	831,093
Accounts receivable	4,515	16,916
Other assets	15,722	10,812
Assets held for sale	**1,395,939**	**1,529,355**
Liabilities		
Technical provisions	1,205,679	1,309,860
Funds withheld	18,350	26,713
Reinsurance payable	10,794	17,612
Other liabilities	21,281	26,935
Liabilities related to assets held for sale	**1,256,104**	**1,381,120**

Notes

5. Notes on the individual items of the balance sheet

5.1 Investments under own management

Investments are classified and measured in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”.

Hannover Re classifies investments according to the following categories: held-to-maturity, loans and receivables, financial assets at fair value through profit or loss and available-for-sale. The allocation and measurement of investments are determined by the investment intent.

The investments under own management also encompass investments in associated companies, real estate and real estate funds (also includes: investment property), other invested assets, short-term investments and cash.

The following table shows the regional origin of the investments under own management.

Investments[1] in EUR thousand	**31.12.2011**	31.12.2010
Regional origin		
Germany	6,144,974	6,402,667
United Kingdom	2,356,400	1,731,362
France	1,828,923	2,188,048
Other	5,486,964	4,856,718
Europe	**15,817,261**	**15,178,795**
USA	6,744,589	6,145,130
Other	1,472,776	1,057,850
North America	**8,217,365**	**7,202,980**
Asia	1,235,331	673,879
Australia	2,020,017	1,577,157
Australasia	**3,255,348**	**2,251,036**
Africa	413,093	409,767
Other	638,132	368,493
Total	**28,341,199**	**25,411,071**

1 After elimination of internal transactions within the Group across segments

Maturities of the fixed-income and variable-yield securities				in EUR thousand
	2011		2010	
	Amortised cost[1]	Fair value	Amortised cost[1]	Fair value
Held to maturity				
due in one year	486,965	491,332	293,247	296,019
due after one through two years	926,846	942,245	481,951	497,863
due after two through three years	613,913	643,263	530,917	556,296
due after three through four years	1,097,347	1,161,746	402,290	435,132
due after four through five years	562,175	597,596	842,291	896,024
due after five through ten years	461,311	462,789	458,201	489,910
due after more than ten years	7,532	8,091	19,121	18,143
Total	**4,156,089**	**4,307,062**	**3,028,018**	**3,189,387**
Loans and receivables				
due in one year	106,731	107,501	61,280	61,845
due after one through two years	205,235	209,847	129,327	129,184
due after two through three years	505,043	523,717	348,915	356,739
due after three through four years	306,484	318,696	576,421	592,242
due after four through five years	321,807	348,653	330,110	342,088
due after five through ten years	1,174,558	1,250,207	806,953	840,900
due after more than ten years	904,877	983,320	61,423	58,741
Total	**3,524,735**	**3,741,941**	**2,314,429**	**2,381,739**
Available for sale				
due in one year[2]	3,063,034	3,070,822	4,127,663	4,146,256
due after one through two years	1,781,899	1,802,286	1,856,401	1,892,437
due after two through three years	2,197,915	2,228,729	1,841,265	1,892,893
due after three through four years	2,308,598	2,331,561	2,184,191	2,238,279
due after four through five years	1,807,404	1,844,680	2,277,464	2,294,991
due after five through ten years	5,204,281	5,299,165	3,710,502	3,727,430
due after more than ten years	2,074,463	2,276,517	1,629,312	1,703,603
Total	**18,437,594**	**18,853,760**	**17,626,798**	**17,895,889**
Financial assets at fair value through profit or loss				
due in one year	35,186	35,186	76,542	76,542
due after one through two years	66,826	66,826	28,498	28,498
due after two through three years	5,399	5,399	60,257	60,257
due after three through four years	7,510	7,510	4,876	4,876
due after four through five years	2,595	2,595	–	–
due after five through ten years	5,625	5,625	–	–
due after more than ten years	37,989	37,989	47,424	47,424
Total	**161,130**	**161,130**	**217,597**	**217,597**

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

Notes

The stated maturities may in individual cases diverge from the contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

Variable-rate bonds (so-called "floaters") are shown under the maturities due in one year and constitute our interest-related, within-the-year reinvestment risk.

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as held to maturity as well as their fair value — Figures in EUR thousand

	2011				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	356,246	24,036	370	7,509	387,421
US treasury notes	920,424	43,554	–	6,769	970,747
Other foreign government debt securities	56,748	924	–	158	57,830
Debt securities issued by semi-governmental entities	820,844	38,595	3,201	13,996	870,234
Corporate securities	545,719	15,265	3,890	11,469	568,563
Covered bonds/asset-backed securities	1,388,592	45,401	9,341	27,615	1,452,267
Total	**4,088,573**	**167,775**	**16,802**	**67,516**	**4,307,062**

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as held to maturity as well as their fair value — Figures in EUR thousand

	2010				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	324,564	13,960	1,252	6,884	344,156
US treasury notes	382,844	44,791	–	3,038	430,673
Other foreign government debt securities	11,618	743	–	28	12,389
Debt securities issued by semi-governmental entities	709,181	35,252	978	13,305	756,760
Corporate securities	563,779	26,219	1,132	12,453	601,319
Covered bonds/asset-backed securities	979,452	48,562	4,796	20,872	1,044,090
Total	**2,971,438**	**169,527**	**8,158**	**56,580**	**3,189,387**

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

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

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value					Figures in EUR thousand
	2011				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	10,375	424	–	203	11,002
Debt securities issued by semi-governmental entities	2,039,867	144,690	–	28,451	2,213,008
Corporate securities	275,329	14,545	500	4,161	293,535
Covered bonds/asset-backed securities	1,149,976	61,088	3,041	16,373	1,224,396
Total	**3,475,547**	**220,747**	**3,541**	**49,188**	**3,741,941**

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value					Figures in EUR thousand
	2010				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	–	–	–	305	305
Debt securities issued by semi-governmental entities	996,339	29,986	88	14,622	1,040,859
Corporate securities	467,355	15,317	829	6,335	488,178
Covered bonds/asset-backed securities	818,053	27,541	4,617	11,420	852,397
Total	**2,281,747**	**72,844**	**5,534**	**32,682**	**2,381,739**

The carrying amount of the loans and receivables is arrived at from the cost or amortised cost plus accrued interest.

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as available for sale as well as their fair value					Figures in EUR thousand
	2011				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,514,373	67,635	12,909	19,062	1,588,161
US treasury notes	1,181,810	54,293	159	6,457	1,242,401
Other foreign government debt securities	1,206,891	31,295	900	9,519	1,246,805
Debt securities issued by semi-governmental entities	3,302,451	161,466	10,992	46,694	3,499,619
Corporate securities	7,402,064	234,916	149,209	124,754	7,612,525
Covered bonds/asset-backed securities	1,921,998	71,997	46,179	32,294	1,980,110
Investment funds	144,400	17,411	2,521	–	159,290
	16,673,987	**639,013**	**222,869**	**238,780**	**17,328,911**
Equity securities					
Shares	12,231	2,980	1	–	15,210
Investment funds	26,688	798	2,309	–	25,177
	38,919	3,778	2,310	–	40,387
Short-term investments	1,009,578	25	3	8,286	1,017,886
Total	**17,722,484**	**642,816**	**225,182**	**247,066**	**18,387,184**

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as available for sale as well as their fair value					Figures in EUR thousand
	2010				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	2,091,535	29,356	28,204	27,268	2,119,955
US treasury notes	2,011,438	68,669	3,530	13,532	2,090,109
Other foreign government debt securities	777,750	13,659	1,466	3,922	793,865
Debt securities issued by semi-governmental entities	3,453,861	90,835	10,100	50,883	3,585,479
Corporate securities	4,951,023	105,530	61,778	89,912	5,084,687
Covered bonds/asset-backed securities	2,015,755	100,579	42,381	31,513	2,105,466
Investment funds	90,815	8,773	1,515	–	98,073
	15,392,177	**417,401**	**148,974**	**217,030**	**15,877,634**
Equity securities					
Shares	374,338	29,020	5,038	–	398,320
Investment funds	128,132	10,373	70	–	138,435
	502,470	39,393	5,108	–	536,755
Short-term investments	1.568,528	939	275	1,310	1,570,502
Total	**17,463,175**	**457,733**	**154,357**	**218,340**	**17,984,891**

The carrying amounts of the fixed-income securities and equity securities classified as available for sale as well as the short-term investments allocated to this category correspond to their fair values, in the case of interest-bearing assets including accrued interest.

Fair value of financial assets at fair value through profit or loss before and after accrued interest as well as accrued interest on such financial assets

Figures in EUR thousand

	2011	2010	2011	2010	2011	2010
	Fair value before accrued interest		Accrued interest		Fair value	
Financial assets at fair value through profit or loss						
Fixed-income securities						
Debt securities of semi-governmental entities	9,998	9,995	115	80	10,113	10,075
Corporate securities	81,974	97,770	1,194	542	83,168	98,312
Covered bonds/ asset-backed securities	67,849	108,598	–	612	67,849	109,210
	159,821	216,363	1,309	1,234	161,130	217,597
Other financial assets						
Derivatives	21,026	54,756	–	–	21,026	54,756
	21,026	54,756	–	–	21,026	54,756
Total	180,847	271,119	1,309	1,234	182,156	272,353

The carrying amounts of the financial assets at fair value through profit or loss correspond to their fair values including accrued interest.

Hannover Re recognised in this category as at the balance sheet date derivative financial instruments in an amount of EUR 21.0 million (EUR 54.8 million) that are originally allocable to this item as well as fixed-income securities amounting to EUR 161.1 million (EUR 217.6 million) designated in this category.

Analysis of the fair value changes in the portfolio of fixed-income securities at fair value through profit or loss indicated that an amount of –EUR 4.1 million was due to changes in the ratings of callable bonds. This contrasted with an increase in fair values of EUR 0.6 million in the previous year.

We additionally use an internal rating method to back up this analysis. Our internal rating system is based on the corresponding credit ratings of securities assigned by the agencies Standard & Poor's and Moody's and in each case reflects the lowest of the available ratings.

For further information please see the explanatory remarks in Section 7.1 "Derivative financial instruments".

Carrying amounts before impairment				Figures in EUR thousand
	2011		2010	
	Carrying amount before impairment	Impairment	Carrying amount before impairment	Impairment
Fixed-income securities – held to maturity	4,156,089	–	3,028,149	131
Fixed-income securities – loans and receivables	3,524,756	21	2,315,964	1,535
Fixed-income securities – available for sale	17,334,335	5,424	15,883,874	6,240
Short-term investments	1,017,886	–	1,570,502	–
Equity securities – available for sale	41,263	876	537,324	569
Participating interests and other invested assets, real estate funds	1,075,051	15,569	940,538	7,976
Total	**27,149,380**	**21,890**	**24,276,351**	**16,451**

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

Valuation of the available-for-sale portfolio affecting shareholders' equity		in EUR thousand
	2011	2010
Changes in the other comprehensive income from fair value measurement and transactions	Other comprehensive income from investments	
Allocation to gains/losses from the fair-value measurement of the available-for-sale portfolio	245,396	208,751
Transfer of gains/losses from the fair-value measurement of the available-for-sale portfolio to the result for the period	(126,617)	(55,857)
Total	**118,779**	**152,894**

Rating structure of fixed-income securities									Figures in EUR thousand
	2011								
	AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity	1,775,632	1,783,998	478,168	118,291	–	–	–	–	4,156,089
Fixed-income securities – loans and receivables	1,598,652	1,676,610	132,617	70,559	5,302	4,242	–	36,753	3,524,735
Fixed-income securities – available-for-sale	5,472,083	4,063,262	4,826,757	2,347,271	415,233	76,694	3,092	124,519	17,328,911
Fixed-income securities – at fair value through profit or loss	–	12,728	9,134	57,322	48,404	24,990	52	8,500	161,130
Total fixed-income securities	**8,846,367**	**7,536,598**	**5,446,676**	**2,593,443**	**468,939**	**105,926**	**3,144**	**169,772**	**25,170,865**
Derivatives	(1,582)	(6,647)	(12,525)	(2,078)	(127)	(65)	(253)	(25,105)	(48,382)
Total fixed-income securities incl. derivatives	**8,844,785**	**7,529,951**	**5,434,151**	**2,591,365**	**468,812**	**105,861**	**2,891**	**144,667**	**25,122,483**

Rating structure of fixed-income securities									Figures in EUR thousand
	2010								
	AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity	1,685,201	723,446	496,375	115,027	4,000	3,969	–	–	3,028,018
Fixed-income securities – loans and receivables	1,118,414	776,712	241,609	94,831	5,303	–	–	77,560	2,314,429
Fixed-income securities – available-for-sale	8,444,249	2,542,309	3,441,409	1,092,359	133,890	59,984	10,643	152,791	15,877,634
Fixed-income securities – at fair value through profit or loss	3,306	10,075	26,130	73,000	57,963	39,656	51	7,416	217,597
Total fixed-income securities	**11,251,170**	**4,052,542**	**4,205,523**	**1,375,217**	**201,156**	**103,609**	**10,694**	**237,767**	**21,437,678**
Derivatives	18,121	1,243	(33,080)	4,200	(2,387)	51	25	(10,622)	(22,449)
Total fixed-income securities incl. derivatives	**11,269,291**	**4,053,785**	**4,172,443**	**1,379,417**	**198,769**	**103,660**	**10,719**	**227,145**	**21,415,229**

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

Breakdown of investments by currencies									Figures in EUR thousand
	2011								
	AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
Fixed-income securities – held to maturity	–	142,211	2,244,930	161,123	–	1,607,825	–	–	4,156,089
Fixed-income securities – loans and receivables	–	6,948	2,576,691	42,192	–	881,588	–	17,316	3,524,735
Fixed-income securities – available-for-sale	1,597,327	438,940	5,445,934	1,884,464	163,937	6,658,778	209,623	929,908	17,328,911
Fixed-income securities – at fair value through profit or loss	–	–	45,486	–	–	86,553	29,091	–	161,130
Equity securities – available-for-sale	13,472	–	15,168	57	–	11,690	–	–	40,387
Other financial assets – at fair value through profit or loss	–	–	20,413	75	–	538	–	–	21,026
Other invested assets	–	–	598,214	15	–	984,178	1,665	–	1,584,072
Short-term investments, cash	199,877	34,775	367,031	79,179	36,639	377,176	158,988	271,184	1,524,849
Total investments and cash	**1,810,676**	**622,874**	**11,313,867**	**2,167,105**	**200,576**	**10,608,326**	**399,367**	**1,218,408**	**28,341,199**

Breakdown of investments by currencies									Figures in EUR thousand
	2010								
	AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
Fixed-income securities – held to maturity	15,593	22,766	1,917,315	81,476	–	986,863	4,005	–	3,028,018
Fixed-income securities – loans and receivables	–	6,916	1,683,975	6,280	–	593,892	–	23,366	2,314,429
Fixed-income securities – available-for-sale	1,223,302	455,694	5,973,882	1,478,993	100,013	5,772,300	282,866	590,584	15,877,634
Fixed-income securities – at fair value through profit or loss	–	–	67,433	–	–	116,699	33,465	–	217,597
Equity securities – available-for-sale	–	11,515	276,625	41,725	6,528	178,737	–	21,625	536,755
Other financial assets – at fair value through profit or loss	–	–	9,495	–	–	45,261	–	–	54,756
Other invested assets	–	–	510,792	19	–	850,963	1,853	–	1,363,627
Short-term investments, cash	145,714	42,632	883,049	131,932	18,432	442,878	120,004	233,614	2,018,255
Total investments and cash	**1,384,609**	**539,523**	**11,322,566**	**1,740,425**	**124,973**	**8,987,593**	**442,193**	**869,189**	**25,411,071**

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

Associated companies

Investments in associated companies Figures in EUR thousand	2011	2010
Net book value at 31 December of the previous year	**127,644**	**128,316**
Currency translation at 1 January	(297)	289
Net book value after currency translation	**127,347**	**128,605**
Additions	2,174	590
Disposals	395	50
Adjustment recognised in income	1,534	1,127
Adjustment recognised outside income	(3,101)	(2,643)
Currency translation at 31 December	(5)	15
Net book value at 31 December of the year under review	**127,554**	**127,644**

Public price listings are not available for companies valued at equity. The net book value of associated companies includes goodwill in the amount of EUR 18.3 million (EUR 18.4 million).

For further details of our major participating interests please see Section 4 "Consolidation".

Real estate

Real estate is divided into real estate for own use and third-party use (investment property). The investment property in the portfolio which is used to generate income is shown under the investments. Real estate is valued at cost of acquisition less scheduled depreciation with useful lives of at most 50 years. Own-use real estate is recognised under other assets.

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

Development of investment property in EUR thousand	**2011**	2010
Gross book value at 31 December of the previous year	338,634	190,212
Currency translation at 1 January	5,346	11,583
Gross book value after currency translation	**343,980**	**201,795**
Additions	98,110	136,662
Disposals	1,437	–
Reclassification	(2,633)	–
Reclassification to assets held for sale	(5,036)	–
Currency translation at 31 December	3,890	177
Gross book value at 31 December of the year under review	**436,874**	**338,634**
Cumulative depreciation at 31 December of the previous year	35,212	27,600
Currency translation at 1 January	266	335
Cumulative depreciation after currency translation	**35,478**	**27,935**
Depreciation	8,955	7,120
Impairments	123	192
Appreciation	–	(52)
Reclassification	(2,623)	–
Reclassification to assets held for sale	(2,645)	–
Currency translation at 31 December	549	17
Cumulative depreciation at 31 December of the year under review	**39,837**	**35,212**
Net book value at 31 December of the previous year	**303,422**	**162,612**
Net book value at 1 January of the year under review	308,502	173,860
Net book value at 31 December of the year under review	**397,037**	**303,422**

In addition, we held indirect real estate investments in the year under review in an amount of EUR 128.1 million (EUR 90.7 million).

The fair value of investment property amounted to EUR 397.2 million (EUR 305.4 million) as at the balance sheet date.

The market value of the real estate was determined using the discounted cash flow method.

The additions to this item are attributable in large part to the sharply increased investment activities of the real estate companies belonging to the Hannover Re Group.

In the year under review a property was classified as an asset held for sale pursuant to IFRS 5. The gross book value of the property amounted to EUR 5.0 million and the cumulative depreciation totalled EUR 2.6 million at the time of reclassification. The carrying amount of the reclassified property at amortised cost was EUR 2.4 million.

Other invested assets

The other invested assets consisted largely of participating interests in partnerships measured at fair value in an amount of EUR 833.8 million (EUR 779.5 million). The amortised cost of these participations amounted to EUR 612.8 million (EUR 536.4 million); in addition, unrealised gains of EUR 222.9 million (EUR 244.5 million) and unrealised losses of EUR 1.9 million (EUR 1.5 million) were recognised from these participations.

Short-term investments

This item comprises investments with a maturity of up to one year at the time of investment.

Fair value hierarchy

For the purposes of the disclosure requirements pursuant to IFRS 7 "Financial Instruments: Disclosures", the financial instruments recognised at fair value in the balance sheet are to be assigned to a three-level fair value hierarchy. This hierarchy, which reflects characteristics of the price data and inputs used for measurement purposes, is structured as follows:

– Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.
– Level 2: Inputs used for measurement that are based on observable market data and are not included within level 1. This level includes, in particular, prices for comparable assets and liabilities, prices on markets that are not considered active as well as inputs derived from such prices or market data.
– Level 3: Inputs used for measurement that are not based on observable market data (unobservable inputs).

The following table shows the breakdown of the financial instruments recognised at fair value into the three-level fair value hierarchy.

Fair value hierarchy of financial instruments recognised at fair value — in EUR thousand

	2011			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	5,575,988	11,875,863	38,190	17,490,041
Equity securities	40,379	–	8	40,387
Other financial assets – at fair value through profit or loss	–	21,026	–	21,026
Other invested assets	–	110,700	875,401	986,101
Short-term investments	1,003,618	14,268	–	1,017,886
Total financial assets measured at fair value	**6,619,985**	**12,021,857**	**913,599**	**19,555,441**
Other financial liabilities	–	98,498	–	98,498
Total financial liabilities measured at fair value	**–**	**98,498**	**–**	**98,498**

Fair value hierarchy of financial instruments recognised at fair value — in EUR thousand

	2010			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	7,068,695	8,944,072	82,464	16,095,231
Equity securities	536,059	685	11	536,755
Other financial assets – at fair value through profit or loss	–	54,756	–	54,756
Other invested assets	–	90,547	779,592	870,139
Short-term investments	1,557,049	13,453	–	1,570,502
Total financial assets measured at fair value	**9,161,803**	**9,103,513**	**862,067**	**19,127,383**
Other financial liabilities	1,755	75,451	–	77,206
Total financial liabilities measured at fair value	**1,755**	**75,451**	**–**	**77,206**

In the year under review financial instruments with a fair value of EUR 306.8 million (EUR 289.4 million) were no longer allocable to level 1 – as in the previous year – but rather to level 2. The reclassification was necessary owing to the reduced liquidity of the instruments. Financial instruments with a fair value of EUR 103.5 million (EUR 21.6 million), which in the previous year were recognised as level 2 instruments, were allocated to level 1 in the current reporting period. The reclassifications principally affected fixed-income securities carried as available for sale.

The following table provides a reconciliation of the fair values of financial instruments included in level 3 at the beginning of the financial year with the fair values as at 31 December of the financial year.

Development of level 3 financial instruments in EUR thousand	2011		
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets
Net book value at 1 January of the year under review	82,464	11	779,592
Currency translation at 1 January	1,419	–	12,051
Net book value after currency translation	**83,883**	**11**	**791,643**
Income and expenses			
recognised in the statement of income	(1,412)	–	5,730
recognised directly in shareholders' equity	(3,494)	(4)	(13,900)
Additions	6,523	1	185,108
Disposals	38,048	–	59,313
Transfers to level 3	–	–	–
Transfers from level 3	(5,752)	–	(41,441)
Currency translation at 31 December of the year under review	(3,510)	–	7,574
Net book value at 31 December of the year under review	**38,190**	**8**	**875,401**

Development of level 3 financial instruments in EUR thousand	2010		
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets
Net book value at 1 January of the year under review	131,453	350	576,807
Currency translation at 1 January	9,453	1	29,348
Net book value after currency translation	**140,906**	**351**	**606,155**
Income and expenses			
recognised in the statement of income	6,261	(514)	(4,676)
recognised directly in shareholders' equity	(354)	399	79,456
Additions	18,337	441	152,515
Disposals	78,790	666	56,458
Transfers to level 3	–	–	–
Transfers from level 3	–	–	–
Currency translation at 31 December of the year under review	(3,896)	–	2,600
Net book value at 31 December of the year under review	**82,464**	**11**	**779,592**

The breakdown of income and expenses recognised in the statement of income in the financial year in connection with financial instruments assigned to level 3 is as follows.

Income and expenses from level 3 financial instruments			in EUR thousand
	2011		
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets
Total in the financial year			
Ordinary investment income	431	–	–
Unrealised gains and losses	(2,141)	–	1,323
Total depreciation, impairments and appreciation of investments	298	–	4,407
Thereof attributable to financial instruments included in the portfolio at 31 December of the year under review			
Ordinary investment income	431	–	–
Unrealised gains and losses	(1,413)	–	1,323
Total depreciation, impairments and appreciation of investments	225	–	4,407

Income and expenses from level 3 financial instruments			in EUR thousand
	2010		
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets
Total in the financial year			
Ordinary investment income	61	–	–
Unrealised gains and losses	4,950	–	–
Total depreciation, impairments and appreciation of investments	1,250	(514)	(4,676)
Thereof attributable to financial instruments included in the portfolio at 31 December of the year under review			
Ordinary investment income	61	–	–
Unrealised gains and losses	4,950	–	–
Total depreciation, impairments and appreciation of investments	1,250	(514)	(6,614)

If models are used to measure financial instruments included in level 3 under which the adoption of reasonable alternative inputs leads to a material change in fair value, IFRS 7 "Financial Instruments: Disclosures" requires disclosure of the effects of these alternative assumptions. Of the financial instruments included in level 3 with fair values of altogether EUR 913.6 million (EUR 862.1 million) as at the balance sheet date, Hannover Re measures financial instruments with a volume of EUR 863.5 million (EUR 839.4 million) using the net asset value method, in respect of which alternative inputs within the meaning of the standard cannot reasonably be established. For the remaining financial instruments included in level 3 with a volume of EUR 50.1 million (EUR 22.7 million), the effects of alternative inputs and assumptions are immaterial.

5.2 Funds withheld (assets)

The funds withheld totalling EUR 13,232.1 million (EUR 11,920.7 million) represent the cash and securities deposits furnished by our company to our cedants that do not trigger any cash flows and cannot be realised by cedants without our consent. The maturities of these deposits are matched to the corresponding provisions. In the event of default on such a deposit our reinsurance commitment is reduced to the same extent. The rise in funds withheld was attributable principally to increased new business in the area of life reinsurance.

5.3 Contract deposits (assets)

In the year under review the contract deposits on the assets side fell by EUR 605.7 million from EUR 715.4 million to EUR 109.7 million. The decrease was attributable principally to specific new contracts in the area of life reinsurance.

5.4 Technical assets

The retrocessionaires' portions of the technical provisions are based on the contractual agreements of the underlying reinsurance treaties. For further details please refer to our comments on the technical provisions in Section 5.7 "Technical provisions" as well as the remarks in the risk report on page 76 et seq.

FASB ASC 944-30-25-1 requires that acquisition costs be capitalised as assets and amortised in proportion to the earned premium.

In the case of reinsurance treaties for unit-linked life insurance policies classified as "universal life-type contracts" pursuant to FASB ASC 944-20-15-26 to -30, the capitalised acquisition costs are amortised on the basis of the estimated gross profit margins from the reinsurance treaties, making allowance for the period of the insurance contracts. A discount rate based on the interest for medium-term government bonds was applied to such contracts. In the case of annuity policies with a single premium payment, these values refer to the expected policy period or period of annuity payment.

In life and health reinsurance the deferred acquisition costs associated with life and annuity policies with regular premium payments are determined in light of the period of the contracts, the expected surrenders, the lapse expectancies and the anticipated interest income.

In non-life reinsurance acquisition costs directly connected with the acquisition or renewal of contracts are deferred for the unearned portion of the premium.

Development of deferred acquisition costs in EUR thousand	2011	2010
Net book value at 31 December of the previous year	1,834,496	1,838,450
Currency translation at 1 January	15,423	114,743
Net book value after currency translation	**1,849,919**	**1,953,193**
Additions	430,093	438,858
Reclassification	1,269	–
Amortisations	362,353	567,165
Portfolio entries/exits	–	626
Reclassification pursuant to IFRS 5	–	(3)
Currency translation at 31 December	7,642	8,987
Net book value at 31 December of the year under review	**1,926,570**	**1,834,496**

For further explanatory remarks please see Section 3.2 "Summary of major accounting policies".

The age structure of the accounts receivable which were unadjusted but considered overdue as at the balance sheet date is presented below.

Age structure of overdue accounts receivable				in EUR thousand
	2011		2010	
	Three months to one year	More than one year	Three months to one year	More than one year
Accounts receivable	109,764	166,543	61,366	87,605

Within the scope of our management of receivables we expect to receive payment of accounts receivable within three months of the date of creation of the debit entry – a period for which we also make allowance in our risk analysis. Please see our comments on the credit risk within the risk report on page 74 et seq.

The default risks associated with accounts receivable under reinsurance business are determined and recognised on the basis of case-by-case analysis.

The value adjustments on accounts receivable that we recognise in adjustment accounts changed as follows in the year under review:

Value adjustments on accounts receivable in EUR thousand	2011	2010
Cumulative value adjustments at 31 December of the previous year	35,768	72,258
Currency translation at 1 January of the year under review	531	2,325
Cumulative value adjustments after currency translation	**36,299**	**74,583**
Value adjustments	8,995	11,025
Reversal	9,626	38,375
Disposal	3	–
Reclassification pursuant to IFRS 5	–	(11,465)
Cumulative value adjustments at 31 December of the year under review	**35,665**	**35,768**
Gross book value of accounts receivable at 31 December of the year under review	3,174,992	2,877,071
Cumulative value adjustments at 31 December of the year under review	35,665	35,768
Net book value of accounts receivable at 31 December of the year under review	**3,139,327**	**2,841,303**

In addition, we took specific value adjustments on reinsurance recoverables on unpaid claims in the year under review. We would refer the reader to the corresponding remarks on the loss and loss adjustment expense reserve in Section 5.7 "Technical provisions".

With regard to the credit risks resulting from technical assets we would also refer the reader to our comments in the risk report on page 74 et seq.

5.5 Goodwill

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

Development of goodwill in EUR thousand	2011	2010
Net book value at 31 December of the previous year	45,773	44,393
Currency translation at 1 January	(1,563)	1,663
Net book value after currency translation	**44,210**	**46,056**
Corporate changes	–	(283)
Additions	14,487	–
Currency translation at 31 December	592	–
Net book value at 31 December of the year under review	**59,289**	**45,773**

This item principally included the goodwill from the acquisition of E+S Rückversicherung AG as well as from the acquisition of a 75% interest in Integra Insurance Solutions Ltd. For further information on the method used to test impairment the reader is referred to our explanatory remarks in Section 3.2 "Summary of major accounting policies".

5.6 Other assets

Other assets in EUR thousand	2011	2010
Present value of future profits on acquired life reinsurance portfolios	94,985	98,368
Other intangible assets	35,672	39,799
Insurance for pension commitments	62,524	57,064
Own-use real estate	44,319	45,699
Tax refund claims	16,422	35,104
Fixtures, fittings and equipment	26,521	31,808
Other receivables	6,186	8,396
Other	50,021	20,205
Total	**336,650**	**336,443**

Of this, other assets of EUR 6.3 million (EUR 5.2 million) are attributable to affiliated companies.

Present value of future profits (PVFP) on acquired life reinsurance portfolios

Development of the present value of future profits (PVFP) on acquired life reinsurance portfolios		in EUR thousand
	2011	2010
Net book value at 31 December of the previous year	98,368	102,408
Currency translation at 1 January	30	264
Net book value after currency translation	**98,398**	**102,672**
Amortisation	3,374	4,304
Currency translation at 31 December	(39)	–
Net book value at 31 December of the year under review	**94,985**	**98,368**

This item principally consists of the present value of future cash flows from the business acquired that we recognised in 2009 in the context of the acquisition of the ING life reinsurance portfolio. This intangible asset is amortised over the term of the underlying reinsurance contracts in proportion to the future premium income. The period of amortisation amounts to altogether 30 years. The PVFP is recognised under other assets. For further information please refer to our explanatory notes on intangible assets in Section 3.2 "Summary of major accounting policies".

Liability insurance for pension obligations

Effective 1 July 2003 Hannover Re took out liability insurance for pension commitments. The commitments involve deferred annuities with regular premium payment under a group insurance policy. In accordance with IAS 19 "Employee Benefits" they were carried as a separate asset at fair value as at the balance sheet date in an amount of EUR 62.5 million (EUR 57.1 million).

Fixtures, fittings and equipment

Fixtures, fittings and equipment in EUR thousand	2011	2010
Gross book value at 31 December of the previous year	107,445	111,425
Currency translation at 1 January	296	4,002
Gross book value after currency translation	**107,741**	**115,427**
Additions	7,630	10,013
Disposals	3,639	18,238
Reclassification	1,754	201
Changes in consolidated group	–	(34)
Currency translation at 31 December	1	76
Gross book value at 31 December of the year under review	**113,487**	**107,445**
Cumulative depreciation at 31 December of the previous year	75,637	72,581
Currency translation at 1 January	52	2,132
Cumulative depreciation after currency translation	**75,689**	**74,713**
Disposals	3,573	13,767
Depreciation	12,853	14,489
Reclassification	1,668	175
Changes in consolidated group	–	(19)
Currency translation at 31 December	329	46
Cumulative depreciation at 31 December of the year under review	**86,966**	**75,637**
Net book value at 31 December of the previous year	31,808	38,844
Net book value at 31 December of the year under review	**26,521**	**31,808**

With regard to the measurement of fixtures, fittings and equipment, the reader is referred to our explanatory notes on the other assets in Section 3.2 "Summary of major accounting policies".

Other intangible assets

Development of other intangible assets in EUR thousand	2011	2010
Gross book value at 31 December of the previous year	167,593	171,899
Currency translation at 1 January	57	1,373
Gross book value after currency translation	**167,650**	**173,272**
Changes in consolidated group	–	(6)
Additions	8,317	4,157
Disposals	177	9,815
Currency translation at 31 December	77	(15)
Gross book value at 31 December of the year under review	**175,867**	**167,593**
Cumulative depreciation at 31 December of the previous year	127,794	115,028
Currency translation at 1 January	(3)	247
Cumulative depreciation after currency translation	**127,791**	**115,275**
Changes in consolidated group	–	(6)
Disposals	271	84
Write-ups	9	12
Depreciation	12,624	12,602
Currency translation at 31 December	60	19
Cumulative depreciation at 31 December of the year under review	**140,195**	**127,794**
Net book value at 31 December of the previous year	39,799	56,871
Net book value at 31 December of the year under review	**35,672**	**39,799**

The item includes EUR 5.7 million (EUR 6.6 million) for self-provided software and EUR 28.5 million (EUR 31.6 million) for purchased software as at the balance sheet date. Scheduled depreciation is taken over useful lives of three to ten years. The additions can be broken down into EUR 6.4 million (EUR 2.9 million) for purchased software and EUR 0.9 million (EUR 1.0 million) for capitalised development costs for self-provided software.

As in the previous year, the other receivables do not include any items that were overdue but unadjusted as at the balance sheet date. Value adjustments were taken on other receivables in an amount of EUR 0.6 million (EUR 0.5 million) in the year under review on the basis of specific impairment analyses.

Credit risks may result from other financial assets that were not overdue or adjusted as at the balance sheet date. In this regard, the reader is referred in general to our comments on the credit risk contained in the risk report on page 74 et seq.

5.7 Technical provisions

In order to show the net technical provisions remaining in the retention the following table compares the gross provisions with the corresponding retrocessionaires' shares, which are shown as assets in the balance sheet.

Technical provisions						in EUR thousand
	2011			2010		
	gross	retro	net	gross	retro	net
Loss and loss adjustment expense reserve	20,767,317	1,550,587	19,216,730	18,065,395	1,025,332	17,040,063
Benefit reserve	10,309,066	380,714	9,928,352	8,939,190	347,069	8,592,121
Unearned premium reserve	2,215,864	91,823	2,124,041	1,910,422	83,224	1,827,198
Other technical provisions	207,262	7,810	199,452	184,528	1,831	182,697
Total	**33,499,509**	**2,030,934**	**31,468,575**	**29,099,535**	**1,457,456**	**27,642,079**

The loss and loss adjustment expense reserves are in principle calculated on the basis of the information supplied by ceding companies. Additional IBNR reserves are established for losses that have been incurred but not as yet reported.

The development of the loss and loss adjustment expense reserve is shown in the following table. Commencing with the gross reserve, the change in the reserve after deduction of the reinsurers' portions is shown in the year under review and the previous year.

Loss and loss adjustment expense reserve						in EUR thousand
	2011			2010		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	18,065,395	1,025,332	17,040,063	17,425,293	1,747,991	15,677,302
Currency translation at 1 January	227,344	17,300	210,044	1,084,548	121,769	962,779
Net book value after currency translation	**18,292,739**	**1,042,632**	**17,250,107**	**18,509,841**	**1,869,760**	**16,640,081**
Reclassification pursuant to IFRS 5	–	–	–	(1,306,483)	(827,314)	(479,169)
Incurred claims and claims expenses (net)[1]						
Year under review	6,862,640	1,086,852	5,775,788	6,971,047	512,650	6,458,397
Previous years	2,298,146	31,760	2,266,386	765,975	218,902	547,073
	9,160,786	**1,118,612**	**8,042,174**	**7,737,022**	**731,552**	**7,005,470**
Less:						
Claims and claims expenses paid (net)						
Year under review	(1,756,897)	(276,660)	(1,480,237)	(2,491,229)	(230,553)	(2,260,676)
Previous years	(5,119,362)	(374,176)	(4,745,186)	(4,481,203)	(520,687)	(3,960,516)
	(6,876,259)	**(650,836)**	**(6,225,423)**	**(6,972,432)**	**(751,240)**	**(6,221,192)**
Changes in consolidated group	65,772	–	65,772	–	–	–
Specific value adjustment for retrocessions	–	2,247	(2,247)	–	2,100	(2,100)
Reversal of impairments	–	2,252	(2,252)	–	23,107	(23,107)
Portfolio entries/exits	18,806	(239)	19,045	133,254	(5,673)	138,927
Currency translation at 31 December	105,473	40,413	65,060	(35,807)	(12,760)	(23,047)
Net book value at 31 December of the year under review	**20,767,317**	**1,550,587**	**19,216,730**	**18,065,395**	**1,025,332**	**17,040,063**

1 Including expenses recognised directly in shareholders' equity

Notes

In the year under review specific value adjustments on retrocessions, i.e. on the reinsurance recoverables on unpaid claims, were established in an amount of EUR 2.2 million (EUR 2.1 million) and reversed in virtually the same amount of EUR 2.2 million (EUR 23.1 million). On balance, therefore, unchanged cumulative specific value adjustments of EUR 3.5 million (EUR 3.5 million) were recognised in these reinsurance recoverables as at the balance sheet date.

The total amount of the net reserve before specific value adjustments, to which the following remarks apply, was EUR 19,213.3 million (EUR 17,036.6 million) as at the balance sheet date.

Run-off of the net loss reserve in the non-life reinsurance segment

To some extent the loss and loss adjustment expense reserves are inevitably based upon estimations that entail an element of uncertainty. The difference between the previous year's and current estimates is reflected in the net run-off result. In addition, owing to the fact that the period of some reinsurance treaties is not the calendar year or because they are concluded on an underwriting-year basis, it is frequently impossible to make an exact allocation of claims expenditures to the current financial year or the previous year.

The run-off triangles of the reporting units delivered in foreign currencies are translated to euro at the current rate on the balance sheet date in order to show run-off results after adjustment for currency effects. In cases where the originally estimated ultimate loss corresponds to the actual ultimate loss in the original currency, it is ensured that after translation to the Group reporting currency (EUR) a run-off result indicated purely by currency effects is not shown.

The run-off triangles show the run-off of the net loss reserve (loss and loss adjustment expense reserve) established as at each balance sheet date, this reserve comprising the provisions constituted in each case for the current and preceding occurrence years.

The following table shows the net loss reserve for the non-life reinsurance business group in the years 2001 to 2011 as well as the run-off of the reserve (so-called run-off triangle). The figures reported for the 2001 balance sheet year also include the amounts for previous years that are no longer shown separately in the run-off triangle. The run-off results shown reflect the changes in the ultimate loss arising in the 2011 financial year for the individual run-off years.

Loss reserves connected with portfolio entries and withdrawals as well as changes in the consolidated group may be included here. For this reason, the run-off results in the current financial year are shown after adjustment for the net loss reserves of the operational companies of the Clarendon Insurance Group, Inc., which were sold in July 2011.

Net loss reserve and its run-off in the non-life reinsurance segment										Figures in EUR million
	31.12. 2001	31.12. 2002	31.12. 2003	31.12. 2004	31.12. 2005	31.12. 2006	31.12. 2007	31.12. 2008	31.12. 2009	31.12. 2010	31.12. 2011
Loss and loss adjustment expense reserve (from balance sheet)											
	11,693.2	**12,736.5**	**12,996.9**	**12,657.2**	**12,976.5**	**16,231.7**	**12,818.2**	**13,675.0**	**14,012.6**	**15,281.2**	**16,678.8**
Cumulative payments for the year in question and previous years											
One year later	2,025.8	2,350.8	3,379.2	4,164.1	1,466.0	2,567.0	2,511.5	2,986.3	2,814.5	2,489.8	
Two years later	3,465.5	5,185.4	6,892.2	5,289.8	3,480.7	4,316.1	4,319.7	4,640.0	4,062.1		
Three years later	5,708.3	7,833.5	7,597.5	6,270.3	4,632.3	5,648.6	5,447.0	5,409.3			
Four years later	8,234.0	8,456.3	8,338.2	7,052.5	5,755.7	6,457.8	6,005.6				
Five years later	8,715.6	9,018.6	8,933.9	7,848.8	6,387.9	6,860.4					
Six years later	9,107.2	9,457.6	9,579.2	8,311.0	6,709.7						
Seven years later	9,449.8	10,029.0	9,929.0	8,585.2							
Eight years later	9,869.1	10,297.8	10,150.9								
Nine years later	10,070.5	10,455.0									
Ten years later	10,192.5										
Loss and loss adjustment expense reserve (net) for the year in question and previous years plus payments made to date on the original reserve											
End of year	**11,693.2**	**12,736.5**	**12,996.9**	**12,657.2**	**12,976.5**	**16,231.7**	**12,818.2**	**13,675.0**	**14,012.6**	**15,281.2**	**16,678.8**
One year later	10,294.7	10,638.8	12,809.5	13,137.8	13,966.1	12,365.2	12,481.2	13,486.4	13,908.5	14,471.5	
Two years later	9,173.0	10,627.3	13,122.9	14,197.3	10,899.6	11,953.1	12,104.6	12,697.4	13,176.4		
Three years later	9,247.0	10,960.9	14,044.0	11,829.2	10,472.5	11,710.8	11,923.8	11,896.4			
Four years later	9,912.4	11,615.6	12,190.4	11,451.3	10,363.9	11,525.7	11,136.8				
Five years later	10,485.9	10,201.1	11,990.5	11,425.9	10,193.8	10,815.9					
Six years later	9,513.1	10,290.0	12,051.5	11,274.4	9,552.0						
Seven years later	9,640.3	10,380.4	11,907.8	10,750.4							
Eight years later	9,741.4	10,267.4	11,442.8								
Nine years later	9,607.3	9,871.3									
Ten years later	9,252.2										
Change relative to previous year											
– in ultimate loss reserve	355.1	41.0	68.9	59.1	117.8	67.9	77.3	13.9	(68.9)	77.6	
– in consolidated group	289.5	54.0	39.6	42.3	45.8	12.5	5.8	1.1	0.9	0.3	
Net run-off result	65.6	(13.0)	29.3	16.8	72.0	55.4	71.5	12.8	(69.8)	77.3	
As percentage of original loss reserve	0.6	(0.1)	0.2	0.1	0.6	0.3	0.6	0.1	(0.5)	0.5	

The run-off profit of altogether EUR 317.9 million in the current financial year derives in particular from positive run-offs of reserves in the areas of credit/surety, marine/aviation and short-tail property business.

Maturities of the technical reserves

IFRS 4 "Insurance Contracts" requires information which helps to clarify the amount and timing of cash flows expected from reinsurance contracts. In the following tables we have shown the future maturities of the technical provisions broken down by the expected remaining times to maturity. As part of our maturity analysis we have directly deducted the deposits put up as security for these reserves, since the cash inflows and outflows from these deposits are to be allocated directly to the ceding companies. For further explanation of the recognition and measurement of the reserves please see Section 3.2 "Summary of major accounting policies".

Maturities of the technical reserves — in EUR thousand

	2011					
	Loss and loss adjustment expense reserves			Benefit reserve		
	gross	retro	net	gross	retro	net
Due in one year	5,912,679	503,588	5,409,091	391,718	58,747	332,971
Due after one through five years	8,089,293	537,465	7,551,828	505,571	52,150	453,421
Due after five through ten years	3,121,946	212,126	2,909,820	546,495	12,739	533,756
Due after ten through twenty years	2,054,096	146,595	1,907,501	855,499	7,709	847,790
Due after twenty years	971,863	72,145	899,718	677,604	4,703	672,901
	20,149,877	1,471,919	18,677,958	2,976,887	136,048	2,840,839
Deposits	617,440	82,175	535,265	7,332,179	244,666	7,087,513
Total	**20,767,317**	**1,554,094**	**19,213,223**	**10,309,066**	**380,714**	**9,928,352**

Maturities of the technical reserves — in EUR thousand

	2010					
	Loss and loss adjustment expense reserves			Benefit reserve		
	gross	retro	net	gross	retro	net
Due in one year	5,253,835	261,749	4,992,086	143,307	8,639	134,668
Due after one through five years	6,808,647	378,545	6,430,102	366,402	46,992	319,410
Due after five through ten years	2,758,919	153,552	2,605,367	301,596	8,890	292,706
Due after ten through twenty years	1,864,722	92,180	1,772,542	757,943	5,216	752,727
Due after twenty years	909,207	41,438	867,769	545,488	2,908	542,580
	17,595,330	927,464	16,667,866	2,114,736	72,645	2,042,091
Deposits	470,065	101,380	368,685	6,824,454	274,424	6,550,030
Total	**18,065,395**	**1,028,844**	**17,036,551**	**8,939,190**	**347,069**	**8,592,121**

The average maturity of the loss and loss adjustment expense reserves was 5.1 years (5.2 years), or 5.1 years (5.3 years) after allowance for the corresponding retrocession shares. The benefit reserve had an average maturity of 12.8 years (14.4 years) – or 13.2 years (14.7 years) on a net basis.

The average maturity of the reserves is determined using actuarial projections of the expected future payments. A payment pattern is calculated for each homogenous category of our portfolio – making allowance for the business sector, geographical considerations, treaty type and the type of reinsurance – and applied to the outstanding liabilities for each underwriting year and run-off status.

The payment patterns are determined with the aid of actuarial estimation methods and adjusted to reflect changes in payment behaviour and outside influences. The calculations can also be distorted by major losses, and these are therefore considered separately using reference samples or similar losses. The payment patterns used can be compared year for year by contrasting the projected payments with the actual amounts realised. Liabilities in liability and motor reinsurance traditionally have long durations, sometimes in excess of 20 years, while liabilities in property business are settled within the first ten years.

The benefit reserve is established for life, annuity, personal accident and health reinsurance contracts. Based on the duration of these contracts, long-term reserves are constituted for life and annuity policies and predominantly short-term reserves are set aside for health and personal accident business.

The parameters used to calculate the benefit reserve are interest income, lapse rates and mortality/morbidity rates.

The values for the first two components (interest income and lapse rates) differ according to the country concerned, product type, investment year etc.

The mortality and morbidity rates used are chosen on the basis of national tables and the insurance industry standard. Empirical values for the reinsured portfolio, where available, are also taken into consideration. In this context insights into the gender, age and smoker structure are incorporated into the calculations, and allowance is also made for factors such as product type, sales channel and the frequency of premium payment by policyholders.

At the inception of every reinsurance contract, assumptions about the three parameters are made and locked in for the purpose of calculating the benefit reserve. At the same time, safety/fluctuation loadings are built into each of these components. In order to ensure at all times that the originally chosen assumptions continue to be adequate throughout the contract, checks are made on a regular – normally annual – basis in order to determine whether these assumptions need to be adjusted ("unlocked').

The benefit reserve is established in accordance with the principles set out in FASB ASC 944-40-30 and -35). The provisions are based on the Group companies' information regarding mortality, interest and lapse rates.

Development of the benefit reserve — in EUR thousand

	2011			2010		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	8,939,190	347,069	8,592,121	7,952,640	104,868	7,847,772
Currency translation at 1 January	150,726	901	149,825	361,507	(27,793)	389,300
Net book value after currency translation	**9,089,916**	**347,970**	**8,741,946**	**8,314,147**	**77,075**	**8,237,072**
Changes	619,849	(1,611)	621,460	694,150	41,439	652,711
Portfolio entries/exits	527,657	29,144	498,513	(71,410)	228,346	(299,756)
Currency translation at 31 December	71,644	5,211	66,433	2,303	209	2,094
Net book value at 31 December of the year under review	**10,309,066**	**380,714**	**9,928,352**	**8,939,190**	**347,069**	**8,592,121**

The unearned premium reserve derives from the deferral of reinsurance premium. The unearned premium is determined by the period during which the risk is carried and established in accordance with the information supplied by ceding companies. In cases where no information was received, the unearned premium was estimated using suitable methods. Premium paid for periods subsequent to the date of the balance sheet was deferred from recognition within the statement of income.

Development of the unearned premium reserve						in EUR thousand
	2011			2010		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	1,910,422	83,224	1,827,198	1,512,840	47,651	1,465,189
Currency translation at 1 January	19,890	454	19,436	116,463	3,994	112,469
Net book value after currency translation	**1,930,312**	**83,678**	**1,846,634**	**1,629,303**	**51,645**	**1,577,658**
Reclassifications pursuant to IFRS 5	–	–	–	(108)	(85)	(23)
Changes	269,222	(5,644)	274,866	287,536	33,300	254,236
Portfolio entries/exits	2	35	(33)	(3,351)	(1,221)	(2,130)
Currency translation at 31 December	16,328	13,754	2,574	(2,958)	(415)	(2,543)
Net book value at 31 December of the year under review	**2,215,864**	**91,823**	**2,124,041**	**1,910,422**	**83,224**	**1,827,198**

The adequacy of the technical liabilities arising out of our reinsurance treaties is reviewed as at each balance sheet date. As part of the adequacy test for technical liabilities the anticipated future contractual payment obligations are compared with the anticipated future income. Hannover Re adopts the "loss recognition" method set out under US GAAP. Should the result of the test indicate that the anticipated future income will not be sufficient to fund future payments, the entire shortfall is recognised in income by first writing off capitalised acquisition costs corresponding to the shortfall. Any remaining difference is constituted as an additional provision.

5.8 Funds withheld (liabilities)

The funds withheld under reinsurance treaties totalling EUR 644.6 million (EUR 1,187.7 million) represent the cash and securities deposits furnished to our company by our retrocessionaires that do not trigger any cash flows and cannot be realised without the consent of our retrocessionaires. The maturities of these deposits are matched to the corresponding shares of the reinsurers in the technical provisions. If such a share no longer exists the corresponding funds withheld are reduced to the same extent.

5.9 Contract deposits (liabilities)

The contract deposits on the liabilities side increased by EUR 303.9 million in the year under review from EUR 4,704.3 million to EUR 5,008.2 million. The contract deposits item on the liabilities side encompasses balances deriving from non-traditional life insurance contracts that are to be carried as liabilities. The rise was due principally to growth in new business in the area of life reinsurance.

5.10 Provisions for pensions and other post-employment benefit obligations

Pension commitments are given in accordance with the relevant version of the pension plan as amended. The 1968 pension plan provides for retirement, disability, widows' and orphans' benefits. The pension entitlement is dependent on length of service; entitlements under the statutory pension insurance scheme are taken into account. The pension plan was closed to new participants with effect from 31 January 1981.

On 1 April 1993 (1 June 1993 in the case of managerial staff) the 1993 pension plan came into effect. This pension plan provides for retirement, disability and surviving dependants' benefits. The scheme is based upon annual determination of the pension contributions, which are calculated according to the pensionable employment income and the company's performance. The pension plan was closed to new participants with effect from 31 March 1999.

From 1997 onwards it has been possible to obtain pension commitments through deferred compensation. The employee-funded commitments included in the provisions for accrued pension rights are protected by an insurance contract with HDI-Gerling Lebensversicherung AG, Cologne.

As at 1 July 2000 the 2000 pension plan came into force for the entire Group. Under this plan, new employees included in the group of beneficiaries are granted an indirect commitment from HDI Unterstützungskasse. The pension plan provides for retirement, disability and surviving dependants' benefits.

Effective 1 December 2002 Group employees have an opportunity to accumulate additional old-age provision at unchanged conditions by way of deferred compensation through membership of HDI-Gerling Pensionskasse AG.

In addition to these pension plans, managerial staff and members of the Executive Board, in particular, enjoy individual commitments as well as commitments given under the benefits plan of the Bochumer Verband.

Provisions for pensions are established in accordance with IAS 19 "Employee Benefits" using the projected unit credit method. The pension plans are defined benefit plans. The basis of the valuation is the estimated future increase in the rate of compensation of the pension beneficiaries. The benefit entitlements are discounted by applying the capital market rate for highest-rated securities. The commitments to employees in Germany predominantly comprise benefit obligations financed by the Group companies. The pension plans are unfunded. Amounts carried as liabilities are recognised under other liabilities. The provisions for pensions in Germany and abroad were calculated on the basis of uniform standards defined by Talanx AG and subject to local economic conditions.

Provisions for pensions are established in accordance with actuarial principles and are based upon the commitments made by the Hannover Re Group for retirement, disability and widows' benefits. The amount of the commitments is determined according to length of service and salary level.

The calculation of the provisions for pensions is based upon the following assumptions:

Measurement assumptions in %	2011		2010	
	Germany	Australia	Germany	Australia
Discount rate	4.84	4.00	4.57	5.00
Projected long-term yield on plan assets	–	7.00	–	7.00
Rate of compensation increase	2.75	5.00	2.75	5.00
Pension indexation	2.00	3.00	2.00	3.00

The change in the projected benefit obligation of the pension commitments as well as their breakdown into plans that are unfunded or are wholly or partially funded was as follows:

Change in the projected benefit obligation in EUR thousand	2011	2010
Projected benefit obligation at the beginning of the year under review	109,962	93,462
Current service cost for the year under review	3,341	2,818
Interest cost	4,921	4,969
Deferred compensation	–	20
Actuarial gain/loss	(10,643)	11,034
Currency translation	366	2,447
Benefits paid during the year	(2,309)	(3,466)
Past service cost	1,062	57
Effect of plan curtailments or settlements	(82)	(1,379)
Projected benefit obligation at 31 December of the year under review	**106,618**	**109,962**

Funding of the defined benefit obligation in EUR thousand	2011	2010
Projected benefit obligation from unfunded plans	91,730	97,420
Projected benefit obligation from wholly or partially funded plans (before deduction of fair value of plan assets)	14,888	12,542
Projected benefit obligation at 31 December of the year under review	**106,618**	**109,962**
Fair value of plan assets	11,525	10,464
Funded status (present value of earned benefit entitlements less fund assets)	**95,093**	**99,498**

The fair value of the plan assets developed as follows:

Change in plan assets in EUR thousand	2011	2010
Fair value at 31 December of the previous year	10,464	9,317
Expected return on plan assets	777	710
Actuarial gain/loss	(1,253)	(448)
Currency translation	283	1,928
Employer contributions	1,257	1,507
Benefits paid during the year	(3)	(1,126)
Effect of plan curtailments or settlements	–	(1,424)
Fair value of plan assets at 31 December of the year under review	**11,525**	**10,464**

The expected long-term return on plan assets was derived from the anticipated long-term yields of the individual asset classes and weighted pro rata. The plan assets consist exclusively of qualifying insurance policies as defined by IAS 19.

The following table presents a reconciliation of the funded status – calculated from the difference between the defined benefit obligations and the plan assets – with the provision for pensions recognised as at the balance sheet date.

Reconciliation of the net provision for pensions in EUR thousand	2011	2010
Defined benefit obligations at 31 December of the year under review	106,618	109,962
Fair value of plan assets at 31 December of the year under review	11,525	10,464
Funded status	**95,093**	**99,498**
Unrealised actuarial gain/loss	(6,650)	(17,784)
Past service cost	(254)	(57)
Effect of the upper limit in IAS 19.58(b)	110	–
Net provisions for pensions at 31 December of the year under review	**88,299**	**81,657**

The recognised provision for pensions developed as follows in the year under review:

Change in the provision for pensions in EUR thousand	2011	2010
Net provisions for pensions at 31 December of the previous year	81,657	77,497
Currency translation	83	(681)
Expense for the year under review	9,217	7,688
Amounts paid during the year	(590)	(344)
Benefits paid during the year	(2,306)	(2,340)
Other	238	(163)
Net provisions for pensions at 31 December of the year under review	**88,299**	**81,657**

The components of the net periodic pension cost for benefit plans were as follows:

Net periodic pension cost in EUR thousand	2011	2010
Current service cost for the year under review	3,341	2,818
Interest cost	4,893	4,908
Expected return on plan assets	738	640
Recognised actuarial gain/loss	(1,695)	(526)
Effect of plan curtailments or settlements	–	(76)
Effect of the upper limit in IAS 19.58(b)	(26)	–
Total	**9,217**	**7,688**

In determining the actuarial gains and losses to be recognised in the statement of income the corridor method provided for as an option in IAS 19 "Employee Benefits" is applied.

The net periodic pension cost was recognised in the consolidated statement of income in amounts of EUR 6.9 million (EUR 6.0 million) under administrative expenses, EUR 1.6 million (EUR 1.0 million) under other expenses and EUR 0.8 million (EUR 0.7 million) under other investment expenses.

No actuarial gains (previous year: none) were recognised as at the balance sheet date in other comprehensive income.

The following amounts were recognised for the year under review and prior years under the accounting of defined benefit plans:

Amounts recognised in EUR thousand	2011	2010	2009	2008	2007
Present value of defined benefit obligation	106,618	109,962	93,462	79,908	79,135
Fair value of plan assets	11,525	10,464	9,317	7,051	9,372
Surplus/(deficit) in the plan	(95,093)	(99,498)	(84,145)	(72,857)	(69,763)
Experience adjustments on plan liabilities	(6,650)	(17,784)	(6,647)	(649)	(3,410)
Experience adjustments on plan assets	–	–	–	–	(374)

In the current financial year Hannover Re does not expect any contribution payments (previous year: none) under the pension plans set out above.

Defined contribution plans

In addition to the defined benefit plans, some Group companies have defined contribution plans that are based on length of service and the employee's income or level of contributions. The expense recognised for these obligations in the year under review in accordance with IAS 19 "Employee Benefits" was EUR 5.7 million (EUR 4.2 million), of which EUR 0.8 million (EUR 0.0 million) was due to obligations to members of staff in key positions.

5.11 Other liabilities

Other liabilities in EUR thousand	2011	2010
Liabilities from derivatives	69,407	77,205
Interest	69,246	73,575
Deferred income	12,929	16,545
Direct minority interests in partnerships	35,418	38,470
Sundry non-technical provisions	109,960	157,951
Sundry liabilities	146,711	80,186
Total	**443,671**	**443,932**

Of this, other liabilities of EUR 4.4 million (EUR 6.1 million) are attributable to affiliated companies. The liabilities from derivatives of EUR 69.4 million (EUR 77.2 million) consist of instruments to hedge currency and inflation risks as well as embedded derivatives recognised separately from the underlying insurance contract at fair value pursuant to IAS 39 "Financial Instruments: Recognition and Measurement". Please see our remarks on derivative financial instruments in Section 7.1 "Derivative financial instruments".

The sundry liabilities include, most notably, distributions within the year of EUR 53.4 million (EUR 28.4 million) from interests in private equity funds that had still to be recognised in income as at the balance sheet date.

Development of sundry non-technical provisions			
	Balance at 31.12.2010	Currency translation at 1 January	Balance at 1 January of the year under review
Provisions for			
Audits and costs of publishing the annual financial statements	5,840	(42)	5,798
Consultancy fees	3,156	(245)	2,911
Suppliers' invoices	8,277	(530)	7,747
Partial retirement arrangements and early retirement obligations	5,483	28	5,511
Holiday entitlements and overtime	5,810	(34)	5,776
Anniversary bonuses	2,080	–	2,080
Management bonuses	16,373	(315)	16,058
Measurement of disposal groups	55,055	1,312	56,367
Other	55,877	(461)	55,416
Total	**157,951**	**(287)**	**157,664**

					in EUR thousand
Changes in consolidated group	Additions	Utilisation	Release	Currency translation at 31 December	Balance at 31.12.2011
2	4,560	4,282	197	7	5,888
–	1,027	1,851	122	49	2,014
–	4,448	6,080	589	121	5,647
–	546	171	–	(1)	5,885
–	3,522	3,280	8	11	6,021
–	98	8	–	–	2,170
–	22,295	13,515	939	299	24,198
–	–	52,368	–	(3,999)	–
–	13,412	10,558	415	282	58,137
2	**49,908**	**92,113**	**2,270**	**(3,231)**	**109,960**

Notes

5.12 Debt and subordinated capital

In order to safeguard the sustained financial strength of the Hannover Re Group, Hannover Re has issued subordinated debt by way of a number of guaranteed, callable bonds.

On 14 September 2010 Hannover Re placed a new subordinated bond on the European capital market through its subsidiary Hannover Finance (Luxembourg) S.A. This subordinated debt of nominally EUR 500.0 million has a maturity of 30 years with a first scheduled call option after ten years. The bond carries a fixed coupon of 5.75% in the first ten years after which the interest basis changes to a floating rate of 3-month EURIBOR +423.5 basis points.

On 1 June 2005 Hannover Re issued further subordinated debt in the amount of EUR 500.0 million through its subsidiary Hannover Finance (Luxembourg) S.A. The bond is perpetual and carries a fixed coupon of 5.00% in the first ten years. It may be redeemed by Hannover Re on 1 June 2015 at the earliest and at each coupon date thereafter. If the bond is not called at the end of the tenth year, the coupon will step up to a floating-rate yield of quarterly EURIBOR +268 basis points. The interest will be serviced according to the same principles as those practised in the past. As part of the transaction, holders of the subordinated debt of EUR 350.0 million placed by Hannover Re in 2001 – which had a term of 30 years and could be called in prior to maturity by the issuer on 14 March 2011 – were offered an opportunity to exchange their existing issue for holdings in the new bond. Participation in the exchange was nominally EUR 211.9 million, corresponding to EUR 240.5 million of the new bond issue. The cash component of the new bond in the amount of nominally EUR 259.5 million was placed predominantly with institutional investors in Europe. The remaining volume of the bond issued in 2001 after the exchange was EUR 138.1 million and carried a fixed coupon of 6.25% until March 2011. The remaining bond volume was called by the issuer on the specified date and repaid in full.

On 26 February 2004 subordinated debt in the amount of EUR 750.0 million was placed through Hannover Finance (Luxembourg) S.A., a wholly owned subsidiary of Hannover Re, on the European capital markets. The bond has a final maturity of 20 years and for the first ten years carries a fixed coupon of 5.75%. It may be redeemed by Hannover Re on 26 February 2014 at the earliest and at each coupon date thereafter. If the bond is not called at the end of the tenth year, the coupon will step up to a floating-rate yield of quarterly EURIBOR +263 basis points.

Altogether three (previous year: four) subordinated bonds were recognised as at the balance sheet date with amortised cost of EUR 1,731.6 million (EUR 1,869.1 million).

Debt and subordinated capital Figures in EUR thousand				2011			
Subordinated loans	Coupon	Maturity	Currency	Amortised cost	Fair value measurement	Accrued interest	Fair value
Hannover Finance (Luxembourg) S.A., 2010	5.75	2040	EUR	497,877	(38,937)	8,484	467,424
Hannover Finance (Luxembourg) S.A., 2005	5.00	n. a.	EUR	485,736	(98,276)	14,589	402,049
Hannover Finance (Luxembourg) S.A., 2004	5.75	2024	EUR	747,974	(12,974)	36,390	771,390
				1,731,587	**(150,187)**	**59,463**	**1,640,863**
Debt				202,790	–	828	203,618
Other long-term liabilities				33	–	–	33
Total				**1,934,410**	**(150,187)**	**60,291**	**1,844,514**

Debt and subordinated capital Figures in EUR thousand				2010			
Subordinated loans	Coupon	Maturity	Currency	Amortised cost	Fair value measurement	Accrued interest	Fair value
Hannover Finance (Luxembourg) S.A., 2010	5.75	2040	EUR	500,000	(34,750)	8,507	473,757
Hannover Finance (Luxembourg) S.A., 2005	5.00	n. a.	EUR	484,132	(44,527)	14,589	454,194
Hannover Finance (Luxembourg) S.A., 2004	5.75	2024	EUR	746,912	9,276	36,390	792,578
Hannover Finance (Luxembourg) S.A., 2001	6.25	2031	EUR	138,063	(1,549)	6,908	143,422
				1,869,107	**(71,550)**	**66,394**	**1,863,951**
Debt				187,624	–	841	188,465
Other long-term liabilities				66	–	–	66
Total				**2,056,797**	**(71,550)**	**67,235**	**2,052,482**

The aggregated fair value of the issued subordinated loans is based on quoted, active market prices. If such price information was not available, fair value was determined on the basis of the recognised effective interest rate method or estimated using other financial assets with similar rating, duration and return characteristics. Under the effective interest rate method the current market interest rate levels in the relevant fixed-interest-rate periods are always taken as a basis.

Maturities of financial liabilities							in EUR thousand
	2011						
	Less than three months	Three months to one year	One to five years	Five to ten years	Ten to twenty years	More than twenty years	No maturity
Other financial liabilities[1]	130,110	90,815	1,168	4	–	–	6,790
Debt	60	92,093	110,637	–	–	–	–
Subordinated loans	–	–	–	–	747,974	497,877	485,736
Other long-term liabilities	–	–	33	–	–	–	–
Total	**130,170**	**182,908**	**111,838**	**4**	**747,974**	**497,877**	**492,526**

1 Excluding derivatives and minority shares in partnerships

Maturities of financial liabilities							in EUR thousand
	2010						
	Less than three months	Three months to one year	One to five years	Five to ten years	Ten to twenty years	More than twenty years	No maturity
Other financial liabilities[1]	59,947	106,647	924	–	–	–	2,787
Debt	–	–	187,624	–	–	–	–
Subordinated loans	–	138,063	–	–	746,912	500,000	484,132
Other long-term liabilities	–	–	66	–	–	–	–
Total	**59,947**	**244,710**	**188,614**	**–**	**746,912**	**500,000**	**486,919**

1 Excluding derivatives and minority shares in partnerships

Net gains and losses from debt and subordinated capital						in EUR thousand
	2011	2010	2011	2010	2011	2010
	Ordinary income/expenses		Amortisation		Net result	
Debt	(10,548)	(9,218)	(1,520)	(1,414)	(12,068)	(10,632)
Subordinated loans	(98,539)	(85,266)	(630)	(4,057)	(99,169)	(89,323)
Total	**(109,087)**	**(94,484)**	**(2,150)**	**(5,471)**	**(111,237)**	**(99,955)**

The ordinary expenses principally include interest expenses of nominally EUR 98.5 million (EUR 85.3 million) resulting from the subordinated debt placed through Hannover Finance (Luxembourg) S.A.

Other financial facilities

In order to replace the syndicated facilities for letters of credit (LoC) taken out in 2005 and 2006 Hannover Re obtained a credit line of EUR 772.5 million in 2011 in the form of an unsecured syndicated guarantee facility. The LoC facility matures in principle at the beginning of 2017 and has various renewal options. In addition, several bilateral loan agreements were also taken out.

The syndicated guarantee facility from 2005 had a remaining volume of EUR 27.0 million as at the balance sheet date after partial cancellations and ends in its entirety at the beginning of January 2012. The syndicated LoC line from 2006 was repaid in full in the context of the refinancing.

Unsecured letter of credit facilities with various terms (maturing at the latest in 2021) and a total volume equivalent to EUR 2,403.1 million (EUR 1,207.2 million) exist on a bilateral basis with financial institutions; in addition, a long-term unsecured line of credit intended specifically for US life business was concluded in December 2009 with a total volume equivalent to EUR 386.2 million (EUR 565.9 million).

For further information on the letters of credit provided please see our explanatory remarks in Section 7.7 "Contingent liabilities and commitments".

A number of LOC facilities include standard market clauses that allow the banks rights of cancellation in the event of material changes in our shareholding structure or trigger a requirement on the part of Hannover Re to furnish collateral upon materialisation of major events, for example if our rating is significantly downgraded. Please see our explanatory remarks in the "Financial position" section of the management report, page 57, on the information pursuant to § 315 Para. 4 German Commercial Code (HGB).

5.13 Shareholders' equity, non-controlling interests and treasury shares

Shareholders' equity is shown as a separate component of the financial statement in accordance with IAS 1 "Presentation of Financial Statements" and subject to IAS 32 "Financial Instruments: Disclosure and Presentation" in conjunction with IAS 39 "Financial Instruments: Recognition and Measurement". The change in shareholders' equity comprises not only the net income deriving from the statement of income but also the changes in the value of asset and liability items not recognised in the statement of income.

The common shares (share capital of the parent company) amount to EUR 120,597,134.00. They are divided into 120,597,134 voting and dividend-bearing registered no-par shares. The shares are paid in in full. Each share carries an equal voting right and an equal dividend entitlement.

Non-controlling interests in the shareholders' equity of the subsidiaries and amounted to EUR 636.0 million (EUR 608.9 million) as at the balance sheet date. They were principally attributable to non-controlling interests in the shareholders' equity of E+S Rück in an amount of EUR 611.6 million (EUR 587.5 million).

Authorised capital of up to EUR 60,299 thousand is available with a time limit of 3 May 2015. The subscription right of shareholders may be excluded with the consent of the Supervisory Board. New, no-par-value registered shares may be issued on one or more occasions for contributions in cash or kind. Of the total amount, up to EUR 1,000 thousand may be used to issue employee shares.

In addition, conditional capital of up to EUR 60,299 thousand is available. It can be used to grant shares to holders of convertible bonds and bonds with warrants as well as to holders of participating bonds with conversion rights and warrants and has a time limit of 2 May 2016.

For the disclosures arising out of IAS 1 "Presentation of Financial Statements" with regard to the management of capital, the reader is referred to page 52 of the "Financial position" section of the management report.

Treasury shares

IAS 1 "Presentation of Financial Statements" requires separate disclosure in shareholders' equity of treasury shares and transactions with owners acting in their capacity as such. By a resolution of the Annual General Meeting of Hannover Rückversicherung AG adopted on 4 May 2010, the company was authorised until 3 May 2015 to acquire treasury shares of up to 10% of the share capital existing on the date of the resolution. As part of this year's employee share option plan Hannover Re acquired altogether 24,305 treasury shares in the course of the second quarter of 2011 and delivered them to eligible employees at preferential conditions. These shares are blocked until 31 May 2015. This transaction reduced the retained earnings by EUR 0.4 million. The company was no longer in possession of treasury shares as at the balance sheet date.

6. Notes on the individual items of the statement of income

6.1 Gross written premium

The following table shows the breakdown of the gross written premium according to regional origin.

Gross written premium[1] in EUR thousand	**31.12.2011**	31.12.2010
Regional origin		
Germany	1,172,044	1,163,854
United Kingdom	2,415,505	2,434,328
France	524,153	496,836
Other	1,574,466	1,329,042
Europe	**5,686,168**	**5,424,060**
USA	2,725,705	2,957,878
Other	444,492	415,623
North America	**3,170,197**	**3,373,501**
Asia	1,327,159	965,463
Australia	620,901	488,212
Australasia	**1,948,060**	**1,453,675**
Africa	472,423	465,062
Other	819,265	712,419
Total	**12,096,113**	**11,428,717**

1 After elimination of internal transactions within the Group across segments

6.2 Investment income

Investment income in EUR thousand	2011	2010
Income from real estate	38,283	31,410
Dividends	6,965	4,427
Interest income	916,220	829,855
Other investment income	4,703	14,829
Ordinary investment income	**966,171**	**880,521**
Profit or loss on shares in associated companies	3,088	3,857
Appreciation	36,769	27,213
Realised gains on investments	262,853	244,694
Realised losses on investments	83,293	82,691
Unrealised gains and losses on investments	(38,795)	(39,893)
Impairments on real estate	10,532	7,314
Impairments on equity securities	876	569
Impairments on fixed-income securities	5,445	7,906
Impairments on participating interests and other financial assets	14,115	7,976
Other investment expenses	70,322	67,409
Net income from assets under own management	**1,045,503**	**942,527**
Interest income on funds withheld and contract deposits	432,186	436,183
Interest expense on funds withheld and contract deposits	93,648	119,815
Total investment income	**1,384,041**	**1,258,895**

Of the impairments totalling EUR 22.0 million (EUR 16.6 million), an amount of EUR 14.0 million (EUR 7.7 million) was attributable to alternative investments. The impairments on fixed-income securities of EUR 5.4 million (EUR 7.9 million) were taken predominantly on structured assets. An impairment loss of EUR 0.9 million (EUR 0.6 million) was recognised on equities whose fair value had fallen significantly – i.e. by at least 20% – or for a prolonged period – i.e. for at least nine months – below acquisition cost. This contrasted with write-ups of EUR 36.8 million (EUR 27.2 million) on investments that had been written down in previous periods. Of this total volume, EUR 17.3 million (EUR 3.0 million) was attributable to alternative assets, EUR 16.9 million (EUR 24.1 million) to fixed-income securities and EUR 2.5 million (EUR 0.1 million) to real estate funds. The portfolio did not contain any overdue, unadjusted assets as at the balance sheet date since overdue securities are written down immediately.

Interest income on investments in EUR thousand	2011	2010
Fixed-income securities – held to maturity	127,697	124,539
Fixed-income securities – loans and receivables	97,708	90,063
Fixed-income securities – available for sale	652,365	583,968
Financial assets – at fair value through profit or loss	6,571	6,812
Other	31,879	24,473
Total	**916,220**	**829,855**

The net gains and losses on investments held to maturity, loans and receivables and the available-for-sale portfolio shown in the following table are composed of interest income, realised gains and losses as well as impairments and appreciation. In the case of the fixed-income securities at fair value through profit or loss designated in this category and the other financial assets, which include the technical derivatives, changes in unrealised gains and losses are also recognised.

Making allowance for the other investment expenses of EUR 70.3 million (EUR 67.4 million), net income from assets under own management of altogether EUR 1,045.5 million (EUR 942.5 million) was recognised in the year under review.

Net gains and losses on investments					Figures in EUR thousand
	2011				
	Ordinary investment income[1]	Realised gains and losses	Impairments/ appreciation	Unrealised gains and losses	Net income from assets under own management[2]
Held to maturity					
Fixed-income securities	136,413	501	–	–	136,914
Loans and receivables					
Fixed-income securities	96,929	6,207	21	–	103,115
Available for sale					
Fixed-income securities	607,138	140,994	(11,521)	–	759,653
Equity securities	4,020	(2,360)	876	–	784
Other invested assets	43,532	34,532	(4,255)	1,323	83,642
Short-term investments	30,152	1,291	–	–	31,443
At fair value through profit or loss					
Fixed-income securities	11,130	764	–	(12,358)	(464)
Other financial assets	655	409	–	(45,606)	(44,542)
Other	39,290	(2,778)	9,078	17,846	45,280
Total	**969,259**	**179,560**	**(5,801)**	**(38,795)**	**1,115,825**

Net gains and losses on investments					Figures in EUR thousand
	2010				
	Ordinary investment income[1]	Realised gains and losses	Impairments/ appreciation	Unrealised gains and losses	Net income from assets under own management[2]
Held to maturity					
Fixed-income securities	135,340	306	131	–	135,515
Loans and receivables					
Fixed-income securities	91,255	8,299	434	–	99,120
Available for sale					
Fixed-income securities	579,090	161,238	(16,744)	–	757,072
Equity securities	1,726	407	569	–	1,564
Other invested assets	13,536	3,507	4,951	–	12,092
Short-term investments	19,693	1,399	(50)	–	21,142
At fair value through profit or loss					
Fixed-income securities	13,597	5,979	–	6,004	25,580
Other financial assets	2,842	–	–	10,125	12,967
Other	27,299	(19,132)	7,261	(56,022)	(55,116)
Total	**884,378**	**162,003**	**(3,448)**	**(39,893)**	**1,009,936**

1 Including income from associated companies, for reconciliation with the consolidated statement of income
2 Excluding other investment expenses

6.3 Reinsurance result

Reinsurance result in EUR thousand	2011	2010
Gross written premium	12,096,113	11,428,717
Ceded written premium	1,069,745	1,127,465
Change in unearned premium	(269,189)	(287,536)
Change in ceded unearned premium	(5,668)	33,300
Net premium earned	**10,751,511**	**10,047,016**
Other technical income	8,841	16,845
Total net technical income	**10,760,352**	**10,063,861**
Claims and claims expenses paid	6,266,166	6,221,192
Change in loss and loss adjustment expense reserve	1,763,729	786,863
Claims and claims expenses	**8,029,895**	**7,008,055**
Change in benefit reserve	621,460	652,229
Premium refund	–	(482)
Net change in benefit reserve	**621,460**	**652,711**
Commissions	2,394,591	2,119,269
Change in deferred acquisition costs	75,682	(117,566)
Change in provision for contingent commissions	17,219	21,113
Other acquisition costs	10,675	5,302
Other technical expenses	8,954	44,183
Administrative expenses	289,063	280,720
Net technical result	**(535,823)**	**(185,058)**

With regard to the claims and claims expenses as well as the change in the benefit reserve the reader is also referred to Section 5.7 "Technical provisions". The change in the benefit reserve relates exclusively to the life and health reinsurance segment.

The administrative expenses amounted to altogether 2.7% (2.8%) of net premium earned.

Other technical income in EUR thousand	2011	2010
Other technical income (gross)	8,841	13,168
Reinsurance recoverables	–	(3,677)
Other technical income (net)	**8,841**	**16,845**

Commissions and brokerage, change in deferred acquisition costs		in EUR thousand
	2011	2010
Commissions paid (gross)	2,491,637	2,266,467
Reinsurance recoverables	97,046	147,198
Change in deferred acquisition costs (gross)	45,516	(158,192)
Reinsurance recoverables	(30,166)	(40,626)
Change in provision for contingent commissions (gross)	22,723	22,373
Reinsurance recoverables	5,504	1,260
Commissions and brokerage, change in deferred acquisition costs (net)	**2,336,128**	**2,257,948**

Other technical expenses in EUR thousand	2011	2010
Other technical expenses (gross)	8,980	44,574
Reinsurance recoverables	26	391
Other technical expenses (net)	**8,954**	**44,183**

6.4 Other income/expenses

Other income/expenses in EUR thousand	2011	2010[1]
Other income		
Exchange gains	77,099	157,691
Reversals of impairments on receivables	11,878	55,655
Income from contracts recognised in accordance with the deposit accounting method	49,374	49,672
Income from services	2,996	10,546
Other interest income	73,139	5,896
Sundry income	19,883	106,931
	234,369	**386,391**
Other expenses		
Other interest expenses	43,460	35,246
Exchange losses	59,057	20,688
Separate value adjustments	12,933	13,540
Expenses for the company as a whole	50,854	39,847
Depreciation	14,326	15,489
Expenses for services	4,339	9,321
Expenses from the disposal of Clarendon	10,015	54,918
Sundry expenses	46,186	93,322
	241,170	**282,371**
Total	**(6,801)**	**104,020**

1 Adjusted on the basis of IAS 1

The increase in the other interest income derived principally from the interest portion of the tax refund arising out of the Federal Fiscal Court (BFH) decision of the previous year. Please see our explanatory remarks in Section 6.5 “Taxes on income”.

Of the separate value adjustments, an amount of EUR 9.2 million (EUR 10.9 million) was attributable to accounts receivable, EUR 2.2 million (EUR 2.1 million) to reinsurance recoverables on unpaid claims and EUR 0.6 million (EUR 0.5 million) to other receivables.

6.5 Taxes on income

Domestic taxes on income, comparable taxes on income at foreign subsidiaries as well as deferred taxes in accordance with IAS 12 "Income Taxes" and deferred tax assets and liabilities are recognised under this item.

The reader is referred to Section 3.2 "Summary of major accounting policies" regarding the basic approach to the recognition and measurement of deferred taxes.

The tax rate used to calculate the deferred taxes of the domestic companies was unchanged from the previous year at 31.93% (rounded to 32%). It is arrived at from the corporate income tax rate of 15.0%, the German reunification charge of 5.5% and a uniform trade earnings tax rate of 16.1%. The deferred taxes at the companies abroad were calculated using the applicable country-specific tax rates.

Tax-relevant bookings on the Group level are made using the Group tax rate of 32% unless they refer specifically to individual companies.

Deferred tax liabilities on profit distributions of significant affiliated companies are established in the year when they are received.

Breakdown of taxes on income

The breakdown of actual and deferred income taxes was as follows:

Income tax in EUR thousand	2011	2010
Actual tax for the year under review	191,911	307,519
Actual tax for other periods	(124,812)	(52,498)
Deferred taxes due to temporary differences	42,515	(2,792)
Deferred taxes from loss carry-forwards	(43,830)	6,299
Change in deferred taxes due to changes in tax rates	(324)	(899)
Total	**65,460**	**257,629**

Domestic/foreign breakdown of recognised tax expenditure/income in EUR thousand	2011	2010
Current taxes		
Germany	8,045	198,204
Outside Germany	59,053	56,817
Deferred taxes		
Germany	34,072	(22,189)
Outside Germany	(35,710)	24,797
Total	**65,460**	**257,629**

The following table presents a breakdown of the deferred tax assets and liabilities into the balance sheet items from which they are derived.

Deferred tax assets and deferred tax liabilities of all Group companies		in EUR thousand
	2011	2010
Deferred tax assets		
Tax loss carry-forwards	81,178	45,433
Loss and loss adjustment expense reserves	271,615	201,132
Benefit reserve	54,846	36,148
Other technical/non-technical provisions	216,240	170,844
Funds withheld	586,554	308,411
Accounts receivable/reinsurance payable	7,156	6,243
Valuation differences relating to investments	19,210	14,517
Contract deposits	5,230	84
Other valuation differences	79,000	278,904
Value adjustments[1]	(43,203)	(44,377)
Total	**1,277,826**	**1,017,339**
Deferred tax liabilities		
Loss and loss adjustment expense reserves	22,542	13,228
Benefit reserve	515,207	190,521
Other technical/non-technical provisions	125,659	95,284
Equalisation reserve	933,711	802,480
Funds withheld	39,951	51,402
Deferred acquisition costs	372,436	363,468
Accounts receivable/reinsurance payable	62,800	53,593
Valuation differences relating to investments	174,914	183,523
Present value of future profits on acquired life reinsurance portfolios (PVFP)	11,873	12,155
Other valuation differences	59,110	262,076
Total	**2,318,203**	**2,027,730**
Deferred tax liabilities	1,040,377	1,010,391

1 Thereof on tax loss carry-forwards: –EUR 42,760 thousand (–EUR 43,787 thousand)

The deferred tax assets and deferred tax liabilities are shown unoffset in the above table. The deferred taxes are recognised as follows in the balance sheet after appropriate netting:

Netting of deferred tax assets and deferred tax liabilities in EUR thousand	2011	2010
Deferred tax assets	682,888	622,136
Deferred tax liabilities	1,723,265	1,632,527
Net deferred tax liabilities	**1,040,377**	**1,010,391**

The actual and deferred taxes recognised directly in shareholders' equity in the financial year amounted to –EUR 36.4 million (–EUR 37.5 million). They resulted from items that were charged or credited directly to equity.

The following table presents a reconciliation of the expected expense for income taxes with the actual expense for income taxes reported in the statement of income. The pre-tax result is multiplied by the Group tax rate in order to calculate the Group's expected expense for income taxes.

Reconciliation of the expected expense for income taxes with the actual expense		in EUR thousand
	2011	2010
Profit before income taxes	742,248	1,088,534
Expected tax rate	32%	32%
Expected expense for income taxes	237,519	348,331
Change in deferred tax rates	(324)	(899)
Taxation differences affecting foreign subsidiaries	(37,199)	(54,112)
Non-deductible expenses	56,022	9,777
Tax-exempt income	(66,664)	(14,174)
Tax income not attributable to the reporting period	(127,547)	(54,026)
Other	3,653	22,732
Actual expense for income taxes	**65,460**	**257,629**

On the basis of a decision of the Federal Fiscal Court (BFH) from the previous year regarding the taxation of investment income generated by the Group's reinsurance subsidiaries domiciled in Ireland as foreign-sourced income pursuant to the Foreign Transactions Tax Act, taxes already paid for earlier years were in large measure refunded in the first quarter of the year under review. Assessments regarding the taxation of foreign-sourced income for the companies Hannover Reinsurance (Ireland) Ltd. and Hannover Life Reassurance (Ireland) Ltd. were rendered immaterial by cancellation notices dated 8 February 2011 and 31 March 2011 respectively. Subsequent assessment notices regarding corporation tax were issued for Hannover Re and E+S Rück in the year under review. The trade tax effects were offset in the third quarter of 2011 by the controlling company HDI Haftpflichtverband der Deutschen Industrie V.a.G. In total, the refund of taxes and interest resulted in an improvement of EUR 128.0 million in Group net income in the year under review.

Availability of non-capitalised loss carry-forwards

Unused tax loss carry-forwards of EUR 286.9 million (EUR 161.9 million) existed as at the balance sheet date. Making allowance for local tax rates, EUR 151.5 million (EUR 156.5 million) thereof was not capitalised since realisation is not sufficiently certain.

In addition, tax credits of EUR 4.4 million (EUR 5.9 million) which were not capitalised are still available. There were no other temporary differences which had not been capitalised (previous year: none).

No deferred taxes were established on taxable temporary differences in connection with interests in Group companies amounting to EUR 73.2 million (EUR 50.7 million) because the Hannover Re Group can control their reversal and will not reverse them in the foreseeable future.

Availability of loss carry-forwards and tax credits that have not been capitalised:

Expiry of non-capitalised loss carry-forwards					in EUR thousand
	One to five years	Six to ten years	More than ten years	Unlimited	Total
Loss carry-forwards	3,527	–	–	147,937	151,464
Tax credits	4,425	–	–	–	4,425
Total	**7,952**	**–**	**–**	**147,937**	**155,889**

7. Other notes

7.1 Derivative financial instruments

Derivatives are financial instruments, the fair value of which is derived from an underlying instrument such as equities, bonds, indices or currencies. We use derivative financial instruments in order to hedge parts of our portfolio against interest rate and market price risks, optimise returns or realise intentions to buy/sell. In this context we take special care to limit the risks, select first-class counterparties and adhere strictly to the standards defined by investment guidelines.

The fair values of the derivative financial instruments were determined on the basis of the market information available at the balance sheet date. Please see Section 3.2 "Summary of major accounting policies" with regard to the measurement models used. If the underlying transaction and the derivative are not carried as one unit, the derivative is recognised under other financial assets at fair value through profit or loss or under the other liabilities.

Hannover Re holds derivative financial instruments to hedge interest rate risks from loans connected with the financing of real estate; these gave rise to recognition of other liabilities in an amount of EUR 3.2 million (EUR 2.3 million).

Hannover Re's portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange transactions predominantly taken out to hedge cash flows from reinsurance contracts. These transactions gave rise to recognition of other liabilities in an amount of EUR 20.7 million (other liabilities of EUR 34.9 million).

Hannover Re also holds derivative financial instruments to hedge inflation risks associated with the loss reserves in the technical account. These transactions resulted in the recognition of other liabilities amounting to EUR 32.5 million (EUR 31.4 million) and other financial assets at fair value through profit or loss in an amount of EUR 12.2 million (EUR 0.2 million).

The fair values and notional values of the hedging instruments described above can be broken down as follows according to the maturities of the underlying forward transactions.

Maturity structure of derivative financial instruments — in EUR thousand

	2011				
	Less than three months	Three months to one year	One to five years	Five to ten years	31.12.
Interest rate hedges					
Fair values	–	–	(3,158)	–	(3,158)
Notional values	–	–	84,179	–	84,179
Currency hedges					
Fair values	(870)	(2,735)	(12,015)	(5,037)	(20,657)
Notional values	11,348	7,830	39,339	21,574	80,091
Inflation hedges					
Fair values	–	–	(14,638)	(5,705)	(20,343)
Notional values	–	–	2,868,253	308,564	3,176,817
Total hedging instruments					
Fair values	(870)	(2,735)	(29,811)	(10,742)	(44,158)
Notional values	11,348	7,830	2,991,771	330,138	3,341,087

Maturity structure of derivative financial instruments					in EUR thousand
	2010				
	Less than three months	Three months to one year	One to five years	Five to ten years	31.12.
Interest rate hedges					
Fair values	–	–	(2,325)	–	(2,325)
Notional values	–	–	61,011	–	61,011
Currency hedges					
Fair values	(1,349)	(3,912)	(18,129)	(11,516)	(34,906)
Notional values	12,844	9,339	47,853	37,264	107,300
Inflation hedges					
Fair values	–	–	(31,227)	–	(31,227)
Notional values	–	–	2,535,120	–	2,535,120
Total hedging instruments					
Fair values	(1,349)	(3,912)	(51,681)	(11,516)	(68,458)
Notional values	12,844	9,339	2,643,984	37,264	2,703,431

The net changes in the fair value of these instruments improved the result of the financial year by EUR 19.8 million (charge of EUR 50.9 million).

Derivative financial instruments in connection with reinsurance

A small number of treaties in life and health reinsurance meet criteria which require application of the prescriptions in IFRS 4 "Insurance Contracts" governing embedded derivatives. These accounting regulations require that certain derivatives embedded in reinsurance contracts be separated from the underlying insurance contract ("host contract"), reported separately at fair value in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" and recognised under investments. Fluctuations in the fair value of the derivative components are to be recognised in income in subsequent periods.

Within the scope of the accounting of "modified coinsurance" and "coinsurance funds withheld" (ModCo) reinsurance treaties, under which securities deposits are held by the ceding companies and payments rendered on the basis of the income from certain securities of the ceding company, the interest-rate risk elements are clearly and closely related to the underlying reinsurance arrangements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio.

Hannover Re calculates the fair value of the embedded derivatives in ModCo treaties using the market information available on the valuation date on the basis of a "credit spread" method. Under this method the derivative is valued at zero on the date when the contract commences and its value then fluctuates over time according to changes in the credit spreads of the securities. The derivative had a negative value of EUR 12.9 million as at the balance sheet date and was recognised under other liabilities (EUR 45.2 million under other financial assets at fair value through profit or loss).

Owing to the widening of credit spreads in the course of the year, the change in the fair value of the derivative gave rise to a negative profit contribution of EUR 55.4 million before tax (improvement of EUR 10.7 million in income).

The derivative components of another group of contracts in the area of life and health reinsurance were measured on the basis of stochastic considerations. The measurement produced a positive derivative value of EUR 8.2 million (EUR 9.3 million) on the balance sheet date. The derivative was recognised under other financial assets at fair value through profit or loss. The valuation resulted in a charge against income of EUR 1.1 million (EUR 0.6 million) as at 31 December 2011.

Pursuant to IAS 39 "Financial Instruments: Recognition and Measurement" the "Eurus II" transaction gives rise to a derivative, the fair value of which as at 31 December 2011 was –EUR 0.1 million (–EUR 6.8 million) and which we recognised under other liabilities as at the balance sheet date. Measurement resulted in an improvement of EUR 6.7 million in income in the year under review (charge against income of EUR 5.3 million). We would refer the reader to the explanatory remarks in Section 4. "Consolidation" regarding the securitisation of reinsurance risks.

All in all, application of the standards governing the carrying of derivatives in connection with the technical account led to recognition of assets totalling EUR 8.8 million (EUR 54.5 million) as well as recognition of liabilities from the derivatives resulting from technical items in an amount of EUR 13.0 million (EUR 8.5 million) as at the balance sheet date. Increases in income amounting to EUR 8.8 million (EUR 11.0 million) as well as charges to income of EUR 56.4 million (EUR 22.2 million) were recognised in the year under review from all separately measured derivatives in connection with the technical account.

7.2 Related party disclosures

IAS 24 "Related Party Disclosures" defines related parties as group entities of a common parent, associated entities, legal entities under the influence of key management personnel and the key management personnel of the entity itself. Transactions between Hannover Re and its subsidiaries, which are to be regarded as related parties, were eliminated through consolidation and are therefore not discussed in the notes to the consolidated financial statement. In the year under review the following significant business relations existed with related parties.

HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI) holds an unchanged majority interest of 50.22% in Hannover Re through Talanx AG.

With effect from the 1997 financial year onwards all new business and renewals written on the German market have been the responsibility of E+S Rück, while Hannover Re has handled foreign markets. Internal retrocession arrangements ensure that the percentage breakdown of the business applicable to the previously existing underwriting partnership is largely preserved between these companies.

Within the contractually agreed framework Talanx Asset Management GmbH (formerly AmpegaGerling Asset Management GmbH) performs investment and asset management services for Hannover Re and some of its subsidiaries. Assets in special funds are managed by AmpegaGerling Investment GmbH. Talanx Immobilien Management GmbH (formerly AmpegaGerling Immobilien Management GmbH) performs services for Hannover Re under a management contract. All transactions were effected at usual market conditions.

Companies belonging to the Talanx Group granted the Hannover Re Group insurance protection inter alia in the areas of public liability, building, group accident and business travel collision insurance. In addition, divisions of Talanx AG performed services for us in the areas of taxes and general administration. All transactions were effected at usual market conditions.

The Hannover Re Group provides reinsurance protection for the HDI Group. To this extent, numerous underwriting business relations exist with related parties in Germany and abroad which are not included in Hannover Re's consolidation. This includes business both assumed and ceded at usual market conditions.

Talanx Reinsurance Broker AG (formerly: Protection Reinsurance Intermediaries AG) grants Hannover Re and E+S Rück a preferential position as reinsurers of cedants within the Talanx Group. In addition, Hannover Re and E+S Rück are able to participate in the protection covers on the retention of Group cedants and share in the protection afforded by them. In certain circumstances Hannover Re and E+S Rück are obliged to assume unplaced shares of the reinsurance of Group cedants from Talanx Reinsurance Broker AG.

Business assumed and ceded in Germany and abroad				in EUR thousand
	31.12.2011		31.12.2010	
	Premium	Underwriting result	Premium	Underwriting result
Business assumed				
Non-life reinsurance	408,359	54,912	381,281	107,621
Life and health reinsurance	246,051	23,748	276,418	(6,502)
	654,410	78,660	657,699	101,119
Business ceded				
Non-life reinsurance	(23,341)	31,749	(19,215)	(21,903)
Life and health reinsurance	(48,389)	(10,015)	(8,789)	(4,038)
	(71,730)	21,734	(28,004)	(25,941)
Total	**582,680**	**100,394**	**629,695**	**75,178**

The reinsurance relationships with related parties in the year under review are shown with their total amounts in the table.

In the 2007 financial year Hannover Re (Bermuda) Ltd. extended a loan due on 31 May 2012 with a coupon of 4.98% to Talanx AG, the volume of which as at the balance sheet date was unchanged at EUR 51.5 million (EUR 51.5 million). The carrying amount includes accrued interest of EUR 1.5 million (EUR 1.5 million). This instrument was recognised under other invested assets.

The Group companies E+S Rück, Hannover Finance (Luxembourg) S.A., Hannover Reinsurance (Ireland) Limited and Hannover Re (Bermuda) Ltd. invested in a nominal amount of EUR 150.0 million in a bearer debenture of Talanx AG with a term until 8 July 2013 and a coupon of 5.43%. The carrying amount of the instrument, which is recognised under fixed-income securities held to maturity, was EUR 153.9 million (EUR 153.9 million) and included accrued interest of EUR 3.9 million (EUR 3.9 million) as at the balance sheet date.

In the 2011 financial year Hannover Re and E+S Rück each acquired 50% interests in HAPEP II Komplementär GmbH from Talanx Asset Management GmbH.

As part of long-term lease arrangements companies belonging to the Hannover Re Group rented out business premises in 2011 to HDI Direkt Versicherung AG, Hannover. In addition, lease agreements exist with Talanx Service AG, Hannover, Talanx Asset Management GmbH, Cologne, and HDI-Gerling Leben Betriebsservice GmbH, Brühl, for use of a portion of the space in our data-processing computer centre.

Furthermore, IT and management services were performed for Talanx Reinsurance Broker AG, Hannover, under service contracts.

Actuarial opinions with respect to the pension commitments given to staff are drawn up for Hannover Re and E+S Rück by HDI-Gerling Pensionsmanagement AG under an actuarial service contract.

Remuneration and shareholdings of the management boards of the parent company

The remuneration of the Executive Board of Hannover Re amounted to altogether EUR 9.4 million (EUR 5.8 million). The total remuneration (excluding pension payments) of former members of the Executive Board and their surviving dependants stood at EUR 0.1 million (EUR 0.9 million). The pension payments to previous members of the Executive Board and their surviving dependants, for whom 13 (13) pension commitments existed, totalled EUR 1.2 million (EUR 1.3 million) in the year under review; altogether, a provision of EUR 15.8 million (EUR 16.6 million) has been set aside for these commitments.

The total remuneration of the Supervisory Board of Hannover Re amounted to EUR 0.9 million (EUR 0.8 million). There are no pension commitments to former members of the Supervisory Board or their surviving dependants.

The members of the governing bodies did not receive any advances or loans in the year under review.

Furthermore, above and beyond the aforementioned remuneration as Supervisory Board members at Group companies, the members of the Supervisory Board were not in receipt of any remuneration or benefits for personally rendered services as defined by Item 5.4.6 Para. 3 of the German Corporate Governance Code.

All other information on the remuneration of the governing bodies, directors' dealings and shareholdings as well as the structure of the remuneration system for the Executive Board is contained in the remuneration report from page 87 onwards. This remuneration report is based on the recommendations of the German Corporate Governance Code and contains information which also forms part of the notes to the 2011 consolidated financial statement as required by IAS 24 "Related Party Disclosures". In addition, we took into account the more specific provisions of DRS 17 "Reporting on the Remuneration of Members of Governing Bodies". Under German commercial law, too, this information includes data specified as mandatory for the notes (§ 314 HGB) and the management report (§ 315 HGB). These details are discussed as a whole in the remuneration report. Consequently, we have not provided any further explanation in the notes.

7.3 Share-based payment

Stock Appreciation Rights Plan

With effect from 1 January 2000 the Executive Board of Hannover Re, with the consent of the Supervisory Board, introduced a virtual stock option plan that provides for the granting of stock appreciation rights to certain managerial staff. The content of the stock option plan is based solely on the Conditions for the Granting of Stock Appreciation Rights. All the members of the Group's management are eligible for the award of stock appreciation rights. Exercise of the stock appreciation rights does not give rise to any entitlement to the delivery of Hannover Re stock, but merely to payment of a cash amount linked to the performance of the Hannover Re share. Recognition of transactions involving share-based remuneration with cash settlement is governed by the requirements of IFRS 2 "Share-based Payment".

For the year under review the Conditions for the Granting of Stock Appreciation Rights were cancelled by a resolution of the Supervisory Board dated 8 November 2010, insofar as the members of the company's Executive Board could be granted stock appreciation rights on the basis of these Conditions (partial cancellation). Awarded stock appreciation rights continue to be exercisable until the end of their period of validity. For all other eligible recipients the Conditions continue to apply in the year under review.

Stock appreciation rights were first granted for the 2000 financial year and are awarded separately for each subsequent financial year (allocation year), provided the performance criteria defined in the Conditions for the Granting of Stock Appreciation Rights are satisfied.

The internal performance condition is achievement of the target performance defined by the Supervisory Board, which is expressed in terms of the diluted earnings per share calculated in accordance with IAS 33 "Earnings Per Share" (EPS). If the target EPS is surpassed or undershot, the provisional basic number of stock appreciation rights initially granted is increased or reduced accordingly to produce the EPS basic number. The external performance criterion is the relative development of the share price in the allocation year. The benchmark used in this regard is the (weighted) RBS Global Reinsurance Index. This index encompasses the performance of listed reinsurers worldwide. Depending upon the outperformance or underperformance of this index, the EPS basic number is increased – albeit by at most 400% of the EPS basic number – or reduced – although by no more than 50% of the EPS basic number.

The maximum period of the stock appreciation rights is ten years, commencing at the end of the year in which they are awarded. Stock appreciation rights which are not exercised by the end of the 10-year period lapse. Stock appreciation rights may only be exercised after a waiting period and then only within four exercise periods each year. For 40% of the stock appreciation rights (first tranche of each allocation year) the waiting period is two years; for each additional 20% of the stock appreciation rights (tranches two to four of each allocation year) the waiting period is extended by one year. Each exercise period lasts for ten trading days, in each case commencing on the sixth trading day after the date of publication of the quarterly report of Hannover Re.

On 4 November 2009 the Supervisory Board of Hannover Re decided to extend the waiting period applicable to members of the Executive Board from two to four years for stock appreciation rights granted from the 2010 allocation onwards; on 23 November 2009 the Executive Board decided to extend the waiting period accordingly for the other members of the

Group's management. Upon expiry of this waiting period a maximum 60% of the stock appreciation rights awarded for an allocation year may be exercised. The waiting period for each additional 20% of the stock appreciation rights awarded for this allocation year to a member of the managerial staff is one year.

Upon exercise of a stock appreciation right the amount paid out to the entitled party is the difference between the basic price and the current market price of the Hannover Re share at the time of exercise. In this context, the basic price corresponds to the arithmetic mean of the closing prices of the Hannover Re share on all trading days of the first full calendar month of the allocation year in question. The current market price of the Hannover Re share at the time when stock appreciation rights are exercised is determined by the arithmetic mean of the closing prices of the Hannover Re share on the last twenty trading days prior to the first day of the relevant exercise period.

The amount paid out is limited to a maximum calculated as a quotient of the total volume of compensation to be granted in the allocation year and the total number of stock appreciation rights awarded in the year in question.

In the event of cancellation of the employment relationship or termination of the employment relationship as a consequence of a termination agreement or a set time limit, a holder of stock appreciation rights is entitled to exercise all such rights in the first exercise period thereafter. Stock appreciation rights not exercised in this period and those in respect of which the waiting period has not yet expired shall lapse. Retirement, disability or death of the member of management shall not be deemed to be termination of the employment relationship for the purpose of exercising stock appreciation rights.

The allocations for the years 2002 to 2004 as well as 2006, 2007, 2009 and 2010 gave rise to commitments in the 2011 financial year shown in the following table. No allocations were made for 2001, 2005 or 2008.

Stock appreciation rights of Hannover Re — Allocation year

	2010	2009	2007	2006	2004	2003	2002
Award date	08.03.2011	15.03.2010	28.03.2008	13.03.2007	24.03.2005	25.03.2004	11.04.2003
Period	10 years	10 years	10 years	10 years	10 years	10 years	10 years
Waiting period	4 years	2 years	2 years	2 years	2 years	2 years	2 years
Basic price (in EUR)	33.05	22.70	34.97	30.89	27.49	24.00	23.74
Participants in year of issue	129	137	110	106	109	110	113
Number of rights granted	1,681,205	1,569,855	926,565	817,788	211,171	904,234	710,429
Fair value at 31.12.2011 (in EUR)	5.09	7.65	6.93	7.57	12.49	8.99	8.79
Maximum value (in EUR)	8.92	8.76	10.79	10.32	24.62	8.99	8.79
Weighted exercise price	–	–	5.85	9.93	12.40	8.99	n. a.
Number of rights existing at 31.12.2011	1,665,960	1,495,890	844,231	252,443	119,439	2,714	–
Provisions at 31.12.2011 (in EUR million)	1.72	8.35	5.59	1.91	1.49	0.02	–
Amounts paid out in the 2011 financial year (in EUR million)	–	–	0.24	4.34	0.09	0.01	0.02
Expense in the 2011 financial year (in EUR million)	1.72	4.45	(0.27)	(0.23)	(0.47)	–	–

The existing stock appreciation rights are valued on the basis of the Black-Scholes option pricing model.

The calculations were based on the price of the Hannover Re share of EUR 35.985 as at the reference date of 14 December 2011, expected volatility of 41.33% (historical volatility on a five-year basis), a dividend yield of 5.56% and risk-free interest rates of 0.27% for the 2003 allocation year, 0.51% for the 2004 allocation year, 1.05% for the 2006 allocation year, 1.31% for the 2007 allocation year, 1.79% for the 2009 allocation year and 1.99% for the 2010 allocation year.

In the 2011 financial year the waiting period expired for 100% of the stock appreciation rights awarded in 2002 to 2004, 80% of those awarded in 2006 and 60% of those awarded in 2007.

The stock appreciation rights of Hannover Re have developed as follows:

Development of the stock appreciation rights of Hannover Re							Allocation year
Number of options	2010	2009	2007	2006	2004	2003	2002
Granted in 2003	–	–	–	–	–	–	710,429
Exercised in 2003	–	–	–	–	–	–	–
Lapsed in 2003	–	–	–	–	–	–	23,765
Number of options at 31.12.2003	**–**	**–**	**–**	**–**	**–**	**–**	**686,664**
Granted in 2004	–	–	–	–	–	904,234	–
Exercised in 2004	–	–	–	–	–	–	–
Lapsed in 2004	–	–	–	–	–	59,961	59,836
Number of options at 31.12.2004	**–**	**–**	**–**	**–**	**–**	**844,273**	**626,828**
Granted in 2005	–	–	–	–	211,171	–	–
Exercised in 2005	–	–	–	–	–	–	193,572
Lapsed in 2005	–	–	–	–	6,397	59,834	23,421
Number of options at 31.12.2005	**–**	**–**	**–**	**–**	**204,774**	**784,439**	**409,835**
Granted in 2006	–	–	–	–	–	–	–
Exercised in 2006	–	–	–	–	–	278,257	160,824
Lapsed in 2006	–	–	–	–	14,511	53,578	22,896
Number of options at 31.12.2006	**–**	**–**	**–**	**–**	**190,263**	**452,604**	**226,115**
Granted in 2007	–	–	–	817,788	–	–	–
Exercised in 2007	–	–	–	–	12,956	155,840	110,426
Lapsed in 2007	–	–	–	8,754	13,019	38,326	10,391
Number of options at 31.12.2007	**–**	**–**	**–**	**809,034**	**164,288**	**258,438**	**105,298**
Granted in 2008	–	–	926,565	–	–	–	–
Exercised in 2008	–	–	–	–	1,699	121,117	93,747
Lapsed in 2008	–	–	–	3,103	1,443	2,162	944
Number of options at 31.12.2008	**–**	**–**	**926,565**	**805,931**	**161,146**	**135,159**	**10,607**
Granted in 2009	–	–	–	–	–	–	–
Exercised in 2009	–	–	–	–	1,500	79,262	560
Lapsed in 2009	–	–	17,928	16,158	3,192	–	–
Number of options at 31.12.2009	**–**	**–**	**908,637**	**789,773**	**156,454**	**55,897**	**10,047**
Granted in 2010	–	1,569,855	–	–	–	–	–
Exercised in 2010	–	–	10,399	95,380	29,832	52,581	7,682
Lapsed in 2010	–	34,255	8,380	2,642	–	–	–
Number of options at 31.12.2010	**–**	**1,535,600**	**889,858**	**691,751**	**126,622**	**3,316**	**2,365**
Granted in 2011	1,681,205	–	–	–	–	–	–
Exercised in 2011	–	–	41,583	437,491	7,183	602	2,365
Lapsed in 2011	15,245	39,710	4,044	1,817	–	–	–
Number of options at 31.12.2011	**1,665,960**	**1,495,890**	**844,231**	**252,443**	**119,439**	**2,714**	**–**

2,365 stock appreciation rights from the 2002 allocation year, 602 stock appreciation rights from the 2003 allocation year, 7,183 stock appreciation rights from the 2004 allocation year, 437,491 stock appreciation rights from the 2006 allocation year and 41,583 stock appreciation rights from the 2007 allocation year were exercised. The total amount paid out stood at EUR 4.7 million.

On this basis the aggregate provisions – included in the sundry non-technical provisions – amounted to EUR 19.1 million for the 2011 financial year (EUR 18.6 million). The expense totalled altogether EUR 5.2 million (EUR 9.4 million).

Share Award Plan

With effect from the 2011 financial year the Supervisory Board of Hannover Re resolved to implement a "Share Award Plan" for the members of the Executive Board of Hannover Re; this provides for the granting of stock participation rights in the form of virtual shares (referred to as "share awards") and encompasses 20% of the defined variable remuneration. The Share Award Plan replaces the Stock Appreciation Rights Plan that was cancelled with effect from the year under review. Please see our remarks under "Stock Appreciation Rights Plan" in this section. With effect from the 2012 financial year the Executive Board of Hannover Re has resolved that this plan shall also be adopted for certain managerial levels at Hannover Re.

The share awards do not establish any claim against Hannover Re to the delivery of stock, but merely to payment of a cash amount in accordance with the conditions set out below.

The members of the Executive Board of Hannover Re who are eligible recipients under the Share Award Plan are those who have been allowed an entitlement to the granting of share awards pursuant their contract of employment and whose employment relationship exists at the time when the share awards are granted and does not end through cancellation or a termination agreement on an effective date prior to expiry of the vesting period.

Share awards are granted separately to the members of the Executive Board for the first time for the 2011 financial year and then for each financial year (allocation year) thereafter.

The total number of share awards granted is based on the value per share of Hannover Re. The value per share is established according to the unweighted arithmetic mean of the Xetra closing prices of the Hannover Re share in a period of five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement for the financial year just-ended. The total number of share awards granted is established by dividing the amount available for the granting of share awards to the relevant member of the Executive Board (20% of the defined variable remuneration) by the value per share, rounded up to the next full share.

The share awards are granted automatically without any requirement for a declaration by Hannover Re or the member of the Executive Board. Following expiry of a vesting period of four years the value of one Hannover Re share calculated at the disbursement date is paid out for each share award. This value is calculated according to the provisions of the preceding paragraph.

The member of the Executive Board shall be paid an amount that corresponds to the sum total of the values of the share awards calculated at the disbursement date for which the vesting period of four years has expired. The amount is to be paid in the month after expiry of the determinative period for calculating the value per share according to the preceding paragraphs. Any taxes and social security contributions payable shall be deducted.

In addition, upon payment of the value of the share awards, a sum shall be paid out in the amount of the dividend insofar as dividends were distributed to shareholders. The amount of the dividend is the sum total of all dividends per share paid out during the period of the share awards multiplied by the number of share awards due for disbursement to the eligible recipient at the disbursement date. In the event of early disbursement of the share awards, the value of the dividends shall only be paid out for the period until occurrence of the event that triggers early disbursement. No pro rata allowance shall be made for dividends that have not yet been distributed.

If the Board mandate or the employment relationship with the member of the Executive Board ends, the member of the Executive Board shall retain his claims to payment of the value of already granted share awards after expiry of the vesting period, unless the termination of the Board mandate or contract of employment is based on (i) resignation of office/voluntary termination on the part of the Board member with the exception of resignation/termination by the Board member for a compelling reason, (ii) non-acceptance by the Board member of a contract extension offered on at least the same contract terms (exception: the Board member has reached the age of 60 and served as a member of the Executive Board for two terms of office), (iii) extraordinary termination without notice of the Board member's contract of employment by Hannover Re for a compelling reason, or (iv) dismissal of the Board member for a compelling reason within the meaning of § 84 Para. 3 German Stock Corporation Act (exception: withdrawal of confidence).

In the event of death the claims arising out of the already granted and/or still to be granted share awards pass to the heirs. All share awards including the dividend shall be paid out to the eligible party irrespective of any remaining vesting period at a disbursement date to be determined once the status as heir has been documented to Hannover Re. The value of all share awards shall be determined by the value per share of Hannover Re calculated as at this disbursement date.

Any entitlement to the granting of share awards after leaving the company is excluded. This shall not apply with respect to claims to variable remuneration acquired (pro rata) in the last year of service of the member of the Executive Board in the event of exit from the company on account of non-reappointment, occurrence of the pensionable event or death.

If a change occurs in the share capital of Hannover Re or restructuring measures are carried out during the period of the Share Award Plan which directly impact the share capital of Hannover Re or (as in the case of a stock split or reverse stock split) the total number of shares issued by Hannover Re (in each case referred to as a "structural measure"), and if this results in a (positive or negative) change in the value of the share awards of cumulatively 10% or more, Hannover Re shall appropriately adjust the method of calculating the value of the individual share awards or the number of share awards in order to offset the change in value of the share awards caused by the structural measure.

The adjustment shall be made by the Supervisory Board of Hannover Re in such a way that the total value of the share awards granted to a Board member immediately after implementation of the structural measure corresponds as closely as possible to the total value of the share awards immediately before implementation of the structural measure.

The Share Award Plan is recognised as share-based payment with cash settlement.

The provisional fair value amounts to EUR 38.325 per share with a probable allocation of altogether 24,390 shares plus the total present value of the dividend entitlements acquired until the end of the period. No allowance is made for expected dividend payments. No entitlements from dividends in the year under review had arisen as at the balance sheet date. The fair value is measured according to the market price of the share on the valuation date (30 December 2011). In this context, the share price is multiplied by the probable number of shares to be allocated. The regular determination of the value per share according to the unweighted arithmetic mean of the Xetra closing prices of the Hannover Re share in a period of five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement for the financial year just-ended gives rise to an adjustment of the fair value recognised in the present consolidated financial statement and of the number of share awards to be granted; this adjustment is recognised in the year subsequent to the balance sheet date.

The personnel expense from share awards is spread on an accrual basis across the period of the contracts of employment of the Board members. Personnel expenses of EUR 0.2 million were allocated to the provision for share awards for the first time in the year under review in the context of the proportionate write-up of fair values. The amount is shown under the sundry provisions.

7.4 Staff and expenditures on personnel

Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group during the reporting period was 2,210 (2,130).

As at the balance sheet date altogether 2,217 (2,192) staff were employed by the Hannover Re Group, with 1,110 (1,089) employed in Germany and 1,107 (1,103) working for the consolidated Group companies abroad.

Personnel information	2011					2010	
	31.03.	30.06.	30.09.	31.12.	Average	31.12.	Average
Number of employees (excluding Board members)	2,211	2,230	2,200	2,217	2,210	2,192	2,130

Nationality of employees	2011								
	German	US	South African	UK	Swedish	Austra-lian	Irish	Other	Total
Number of employees	1,040	283	169	184	88	65	35	353	2,217

Expenditures on personnel

The expenditures on insurance business, claims expenses (claims settlement) and expenditures on the administration of investments include the following personnel expenditures:

Personnel expenditures in EUR thousand	2011	2010
a) Wages and salaries	171,362	155,124
	171,362	**155,124**
b) Social security contributions and expenditure on provisions and assistance		
ba) Social security contributions	20,750	18,787
bb) Expenditures for pension provision	17,585	16,404
bc) Expenditures for assistance	3,254	2,530
	41,589	**37,721**
Total	**212,951**	**192,845**

7.5 Earnings per share and dividend proposal

Calculation of the earnings per share	2011	2010
Group net income in EUR thousand	605,973	748,890
Weighted average of issued shares	120,596,999	120,596,877
Basic earnings per share in EUR	5.02	6.21
Diluted earnings per share in EUR	5.02	6.21

Neither in the year under review nor in the previous reporting period were there any dilutive effects. The weighted average of the issued shares was, as in the previous year, slightly lower than the value of the shares in circulation on the balance sheet date. In the context of the employee share option plan Hannover Re acquires treasury shares and sells them at a later date to eligible employees. For further details please see our comments in Section 5.13 "Shareholders' equity, non-controlling interests and treasury shares".

There were no other extraordinary components of income which should have been recognised or disclosed separately in the calculation of the earnings per share.

The earnings per share could potentially be diluted in future through the issue of shares or subscription rights from the authorised or conditional capital.

Dividend per share

A dividend of EUR 277.4 million (previous year: EUR 253.3 million) was paid in the year under review for the 2010 financial year.

The Annual General Meeting on 3 May 2012 will propose that a dividend of EUR 2.10 per share should be paid for the 2011 financial year. This corresponds to a total distribution of EUR 253.3 million. The dividend proposal does not form part of this consolidated financial statement.

7.6 Lawsuits

In the context of the acquisition of Lion Insurance Company, Trenton/USA, by Hannover Finance, Inc., Wilmington/USA – a subsidiary of Hannover Re –, a legal dispute existed with the former owners of Lion Insurance Company regarding the release of a trust account in an amount of around USD 14 million that served as security for liabilities of the former owners in connection with a particular business segment. The proceedings were terminated by way of a partial settlement and court decision of August 2011 under which the trust account was divided between the parties involved.

With the exception of the aforementioned proceedings, no significant court cases were pending during the year under review or as at the balance sheet date – with the exception of proceedings within the scope of ordinary insurance and reinsurance business activities.

7.7 Contingent liabilities and commitments

Hannover Re has placed three subordinated debts on the European capital market through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured by subordinated guarantee both the debt issued in 2004, the volume of which amounts to EUR 750.0 million, and the debts from the 2005 and 2010 financial years in amounts of EUR 500.0 million each.

The subordinated debt issued in 2001 by Hannover Finance (Luxembourg) S.A. in an amount of EUR 350.0 million had a first scheduled call option as at 14 March 2011 and a remaining volume of EUR 138.1 million after the offer made in 2005 to exchange the existing issue for holdings in a new bond. This remaining debt volume was called and repaid in full by the issuer on the aforementioned date. For further details please see Section 5.12 "Debt and subordinated capital".

The guarantees given by Hannover Re for the subordinated debts attach if the issuer fails to render payments due under the bonds. The guarantees cover the relevant bond volumes as well as interest due until the repayment dates. Given the fact that interest on the bonds is partly dependent on the capital market rates applicable at the interest payment dates (floating rates), the maximum undiscounted amounts that can be called cannot be estimated with sufficient accuracy. Hannover Re does not have any rights of recourse outside the Group with respect to the guarantee payments.

As security for technical liabilities to our US clients, we have established two trust accounts (master trust and supplemental trust) in the United States. They amounted to EUR 2,756.1 million (EUR 2,576.3 million) and EUR 12.1 million (EUR 9.5 million) respectively as at the balance sheet date. The securities held in the trust accounts are shown as available-for-sale investments. In addition, we furnished further collateral to ceding companies in an amount of EUR 367.4 million (EUR 298.6 million) in the form of so-called "single trust funds".

As part of our business activities we hold collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the Group's major companies was EUR 2,017.4 million (EUR 1,851.4 million) as at the balance sheet date.

As security for our technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount as at the balance sheet date was EUR 3,097.8 million (EUR 2,766.6 million). The standard market contractual clauses contained in some of the underlying letter of credit facilities regarding compliance with stipulated conditions are explained in greater detail in the "Financial position" section of the management report, page 57, on the information pursuant to § 315 Para. 4 German Commercial Code (HGB) as well as in Section 5.12 "Debt and subordinated capital" on other financial facilities.

In addition, we keep own investments with a book value of EUR 37.4 million (EUR 107.6 million) in blocked custody accounts as collateral provided under existing derivative transactions. We received collateral with a fair value of EUR 5.2 million (EUR 0.0 million) for existing derivative transactions.

For liabilities in connection with participating interests in real estate companies and real estate transactions Hannover Re Real Estate Holdings has furnished the usual collateral under such transactions to various banks, the amount of which totalled EUR 309.3 million (EUR 257.5 million) as at the balance sheet date.

Outstanding capital commitments with respect to alternative investments exist on the part of the Group in an amount of EUR 451.9 million (EUR 272.6 million). These primarily involve as yet unfulfilled payment obligations from participations entered into in private equity funds and venture capital firms.

7.8 Long-term commitments

Following the termination of the German Aviation Pool with effect from 31 December 2003, our participation consists of the run-off of the remaining contractual relationships.

Several Group companies are members of the association for the reinsurance of pharmaceutical risks and the association for the insurance of German nuclear reactors. In the event of one of the other pool members failing to meet its liabilities, an obligation exists to take over such other member's share within the framework of the quota participation.

7.9 Rents and leasing

Leased property

Future leasing commitments in EUR thousand	Payments
2012	6,598
2013	5,809
2014	4,717
2015	4,150
2016	3,401
Subsequent years	7,572

Operating leasing contracts produced expenditures of EUR 6.6 million (EUR 8.2 million) in the year under review.

Rented property

Altogether, non-cancellable contracts will produce the rental income shown below in subsequent years:

Rental income in EUR thousand	Payments to be received
2012	38,866
2013	38,283
2014	36,455
2015	33,797
2016	31,486
Subsequent years	74,176

Rental income totalled EUR 28.6 million (EUR 29.3 million) in the year under review. The rental income resulted principally from the renting out of properties by the Group's real estate companies.

7.10 Fee paid to the auditor

The fee paid to the appointed auditor of the consolidated financial statement as defined by § 318 German Commercial Code (HGB) totalled EUR 2.0 million (EUR 2.5 million). This included a fee of EUR 1.3 million (EUR 1.9 million) for the auditing of the financial statement and a minimal amount (EUR 0.1 million) for tax consultancy services. Expenditure of EUR 0.6 million (EUR 0.5 million) was incurred for assurance and other services performed for the parent or subsidiary companies in the year under review.

7.11 Events after the balance sheet date

The fire on the KS Endeavor drilling rig off the coast of Nigeria on 16 January 2012 will result in an estimated loss for Hannover Re in the very low double-digit million euros.

On 16 and 23 January 2012 we reported on the implications for Hannover Re of the incident involving the Costa Concordia cruise liner, which will result in a major loss for our company. The net loss from the marine hull insurance is in the order of EUR 30 million, while the liability claims are difficult to estimate at this point in time. Given that Hannover Re is one of the world's leading marine reinsurers, the total loss for the company could run into the mid-double-digit millions of euros.

In a press release dated 26 January 2012 we announced that Hannover Re had again enabled the capital market to participate in (natural) catastrophe risks by increasing the proportional retrocession programme referred to as the "K Cession" (previously "K6") by an amount equivalent to roughly EUR 15 million to EUR 270 million. The transaction, which complements the traditional retrocession programme used to protect against peak exposures such as natural disasters, was placed with institutional investors worldwide and is fully collateralised. The cession rate is roughly 37% and applies to a portfolio comprised of non-proportional reinsurance treaties from the six main zones for natural catastrophe risks as well as the aviation and marine (including offshore business) lines.

Hannover, 8 March 2012

Executive Board

Wallin Arrago Chèvre Gräber

Dr. Miller Dr. Pickel Vogel