

Management report



Macroeconomic climate	25
Business development	27
Overall assessment of the business position	29
Our business groups	29
Non-life reinsurance	29
Life and health reinsurance	42
Investments	48
Financial position	51
Human resources	56
Sustainability at Hannover Re	58
Opportunity and risk report	60
Risk report	60
Value-based management	76
Enterprise management	80
Declaration on Corporate Governance	80
Remuneration report	83
Forecast	101

Macroeconomic climate

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

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

USA

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

Europe

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

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

Germany

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

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

Asia

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

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

Capital markets

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

Industry-specific environment

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

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

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

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

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

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

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

Business development

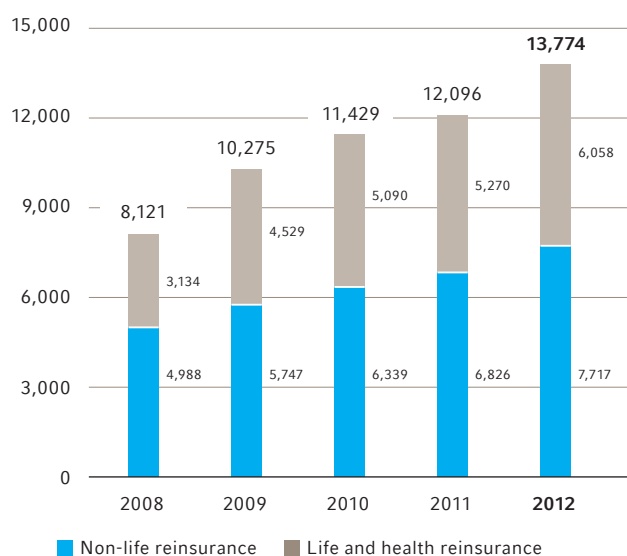
We are thoroughly satisfied with the development of our business in the 2012 financial year. For a financially strong reinsurer such as Hannover Re, the market offered attractive opportunities for profitable growth – both in non-life and life and health reinsurance. Despite a challenging capital market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

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

We are satisfied with the development of our non-life reinsurance business. Demand for reinsurance covers remained brisk in the year under review, driven in part by the increased importance of risk-based models and the requirements placed on the capital resources of primary insurers. Given the heavy loss expenditures from natural catastrophes in the previous year, premium increases – particularly for property catastrophe business – were as expected appreciable. Yet the outcome of the treaty renewals in our domestic market was also gratifying. In US property business it was broadly possible to push through rate increases, while the rate erosion in casualty business was halted. Developments

in our specialty lines, under which we include inter alia marine and aviation reinsurance as well as credit and surety business, were satisfactory. The picture in our global reinsurance segment was a mixed one: while the portfolio remained largely stable in developed markets, further substantial growth was recorded in Asia. Total gross premium volume in non-life reinsurance grew by 13.1% (9.3% at constant exchange rates) to EUR 7.7 billion, thereby exceeding our forecast target of 5% to 7%.

Gross premium by business group
in EUR million



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

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

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

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

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

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

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

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

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

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

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

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

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

Overall assessment of the business position

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

Our business groups

In the following sections we discuss the development of the financial year in our two strategic business groups, namely non-life reinsurance and life and health reinsurance. Supplementary to the information provided here, Section 5 of the notes to this Annual Report entitled “Segment reporting” shows the key balance sheet items and profit components broken down into the two business groups.

Non-life reinsurance

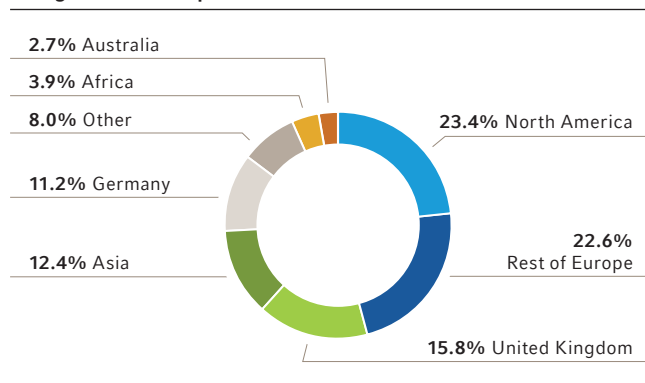
Accounting for 56.0% of our premium volume, non-life reinsurance is Hannover Re’s largest business group and one in which we are striving for further profitable growth. The strategy guiding our actions is active cycle management: we expand our business in individual lines if the rate situation is favourable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

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

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

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

Non-life reinsurance: Geographical breakdown of gross written premium



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

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

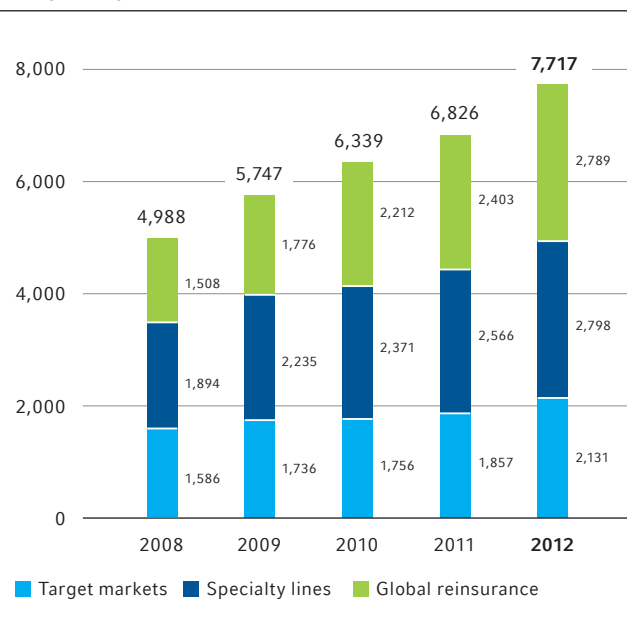
In global reinsurance business we booked sizeable growth, above all in the markets of Asia and the Middle East. As planned, we enlarged our portfolio of facultative reinsurance and stepped up our writing of agricultural risks.

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

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

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

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

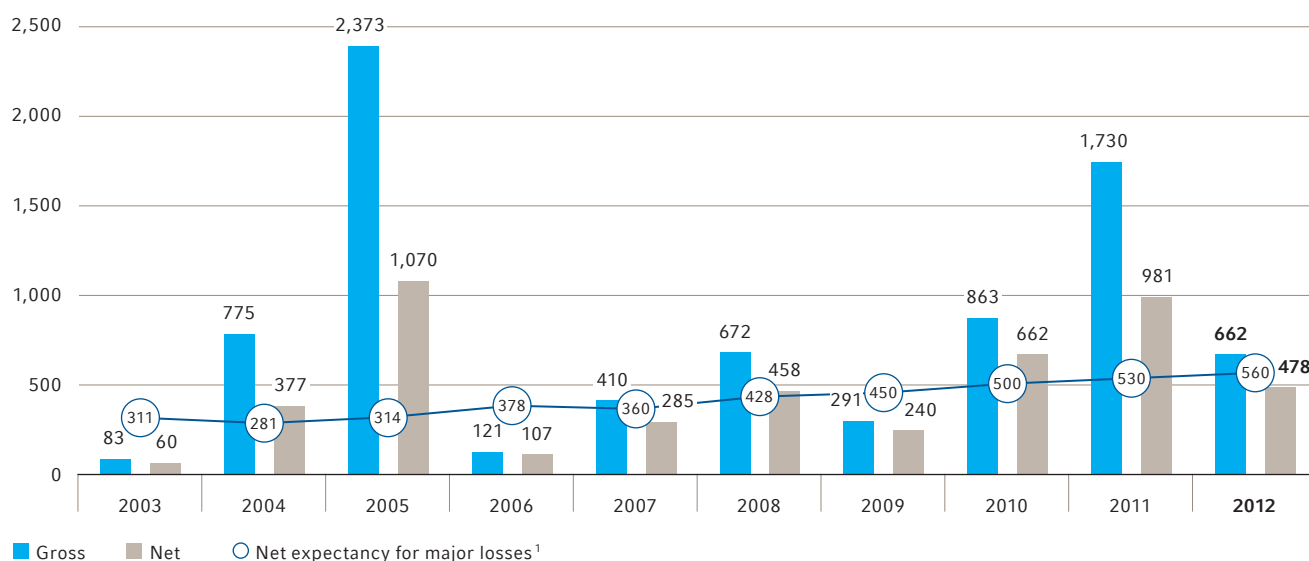


Key figures for non-life reinsurance

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

¹ Including expenses on funds withheld and contract deposits

Non-life reinsurance: Major loss trend¹
in EUR million



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

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

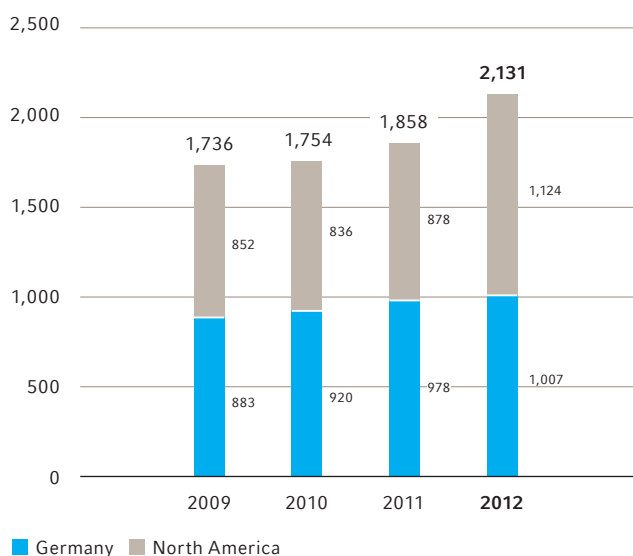
The underwriting result improved sharply from -EUR 268.7 million to EUR 272.2 million. Investment income posted thoroughly gratifying growth of 11.7% to reach EUR 944.5 million (EUR 845.4 million). The operating profit (EBIT) for non-life reinsurance surged from EUR 599.3 million in the previous year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

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

Target markets

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

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

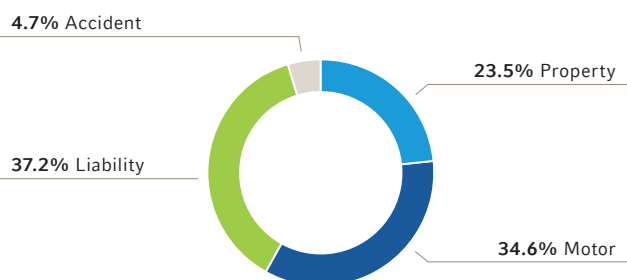


Germany

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

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

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



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

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

Contrary to the stagnant premium volume in the market as a whole, the personal accident insurance business in our portfolio posted vigorous growth, as a consequence of which we were once again highly satisfied with the development of this line. In this area we offer our cedants not only reinsurance covers, but also services such as training programmes and a Web-based version of our accident manual – thereby enabling clients to extensively finalise the processing of applications at the workplace or even at point of sale. Not only that, we offer comprehensive services for the management of bodily injury claims as well as enhanced accident products on the pricing side.

The claims situation in the engineering lines was satisfactory in the 2012 financial year. Despite its highly international orientation overall, engineering business is exhibiting growing potential domestically too – especially in the field of renewable energies: we work together here with our partners on solutions that enable the insurability of energy-efficient technologies. Through our cooperation with a primary insurer we have brought to market covers against weather-related losses of revenue and profit; target customers for these products include the construction sector, regional energy suppliers and the automobile industry. Given the changing energy policy in Germany, the (re)insurance of wind farms will also play an ever greater role; this is true not least of highly complex offshore wind farms. Our premium volume in this new area of business is still relatively modest given the difficulty of assessing the risks.

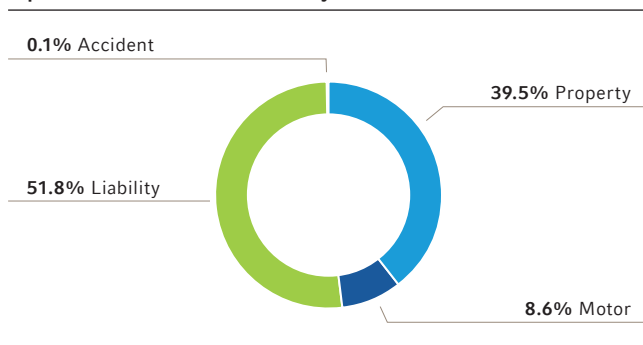
Overall, we cemented our position as one of the leading reinsurers in the profitable German market in the year under review. Gross premium volume increased by 2.9% (6.5%), leaving us thoroughly satisfied with developments on our domestic market.

North America

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

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

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



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

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

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

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

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

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

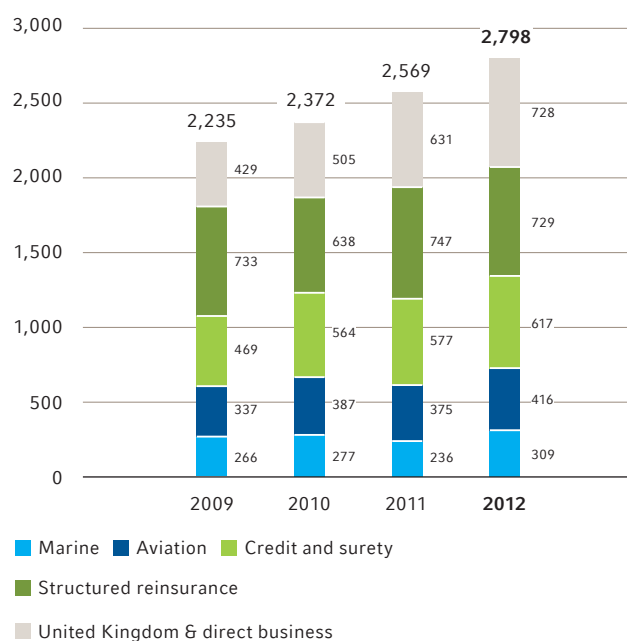
The major loss situation in the 2012 financial year was crucially dominated by Hurricane Sandy, which ensured that losses from the hurricane season were not as light as in the previous year. Hannover Re incurred loss expenditure of EUR 258 million from this event. For further information please see the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

Specialty lines

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

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

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



Marine

Hannover Re ranks among the market leaders in marine reinsurance.

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

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

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

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

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

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

Aviation

In international aviation reinsurance we similarly rank among the market leaders. Despite the difficult economic climate in Europe and North America, the situation facing airlines continued to stabilise in the year under review. Passenger numbers picked up slightly, which also benefited the (re)insurance industry. With deliveries of new large airliners on the rise, more and more policies are seeing increases in the indemnity limits purchased by airlines.

Primary insurers further raised their retentions on the back of improved capital resources. Although the year under review was notable for a series of basic losses, these did not have any major implications for reinsurers since for the most part they remained within the retentions carried by insurers. For this reason, and on account of further expansion in reinsurance capacities, the pressure on prices intensified in the course of the year under review. With this in mind, our goal was to largely preserve the existing market shares and prices as well as to further diversify our portfolio. We successfully achieved these aims.

We are a market leader for non-proportional treaties in the airline market, whereas in the proportional sector we write our business opportunistically and concentrate primarily on niche segments. We maintained our involvement in non-proportional reinsurance on a stable level. By entering into strategic partnerships we were able to expand our portfolio in aviation reinsurance.

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

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

Credit and surety

In worldwide credit and surety reinsurance Hannover Re ranks among the market leaders. As in previous years, we concentrated exclusively on the traditional core business of the credit and surety lines.

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

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

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

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

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

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

Structured reinsurance/Advanced Solutions

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

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

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

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

Insurance-Linked Securities

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

In addition to protecting our own property catastrophe risks, we use the capital market to structure and package risks for our cedants. We also take the role of investor ourselves by investing in catastrophe bonds, the prices for which moved slightly higher at the beginning of the year under review in expectation of a lively US hurricane season. However, they softened sharply again in the course of the year for demand reasons and on account of the moderate – leaving aside “Superstorm Sandy” – hurricane season. While Sandy prompted price increases for US catastrophe bonds, it had little effect on the rest of the market.

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

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

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

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

United Kingdom, London market and direct business

Traditional reinsurance

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

Direct business

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

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

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

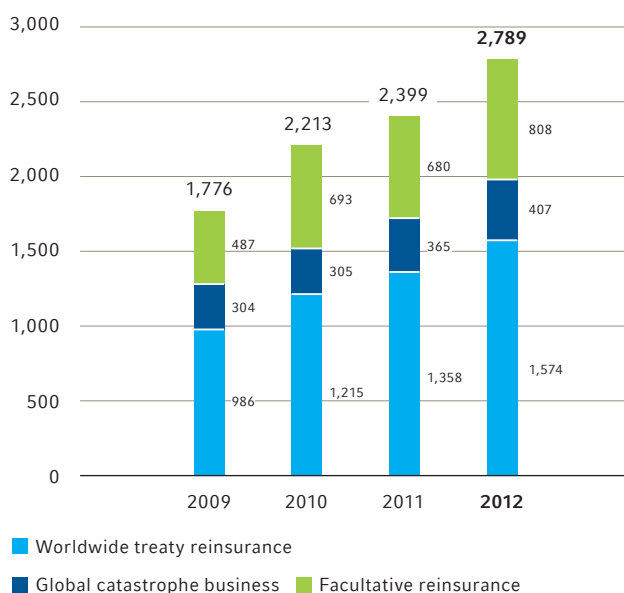
Our second company writing specialty lines, Compass Insurance Limited, is one of the leading players in this field in South Africa. The year under review was one of unusually heavy losses for the company. In addition to several hailstorms, a blaze destroyed more than 100 thatched homes in a residential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

Global reinsurance

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

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

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



Worldwide treaty reinsurance

Western and Southern Europe

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

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

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

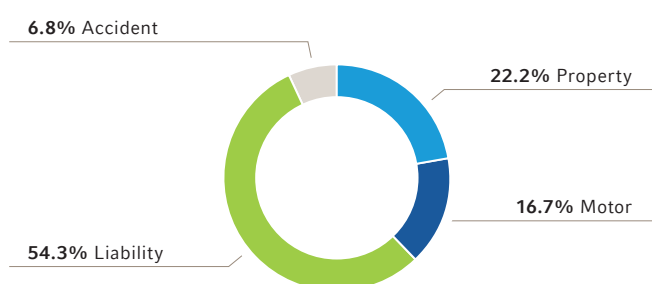
We slightly increased our premium volume in France.

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

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

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

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



Northern Europe

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

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

Central and Eastern Europe

Compared with the primary insurance markets of Western Europe, growth rates in the countries of Central and Eastern Europe continue to be above average. As a result, competition remains fierce and original rates are declining in most countries and lines of business. On the reinsurance side, by contrast, rates and conditions were by and large stable.

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

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

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

Latin America

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

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

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

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

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

Japan

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

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

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

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

Southeast Asia

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

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

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

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

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

China

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

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

The dominant line in China continues to be motor insurance. Impending deregulation in this area – which means that foreign companies too will now be able to offer their own tariffs – is likely to result in softer market conditions in the profitable motor line. In the other lines the environment was again intensely competitive, and expanding our market share was therefore not a central concern for our company.

As anticipated, our business prospects enjoyed a further boost from the close support given to clients by our branch in Shanghai.

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

Australia/New Zealand

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

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

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

Retakaful business

We write retakaful business – that is to say, insurance transacted in accordance with Islamic law – in both Southeast Asia and on the Arabian Peninsula. We maintain a dedicated subsidiary for this business in Bahrain (Hannover ReTakaful) as well as a branch that bears responsibility for writing traditional reinsurance in the Arab world.

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

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

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

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

Agricultural risks

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

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

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

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

Global catastrophe business

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

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

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

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

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

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

Facultative reinsurance

In contrast to obligatory reinsurance, a reinsurer underwrites primarily individual risks in facultative business. The general environment for both types of reinsurance in the various markets is, however, for the most part comparable.

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

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

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

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

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

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

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

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

Life and health reinsurance

The business model

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

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

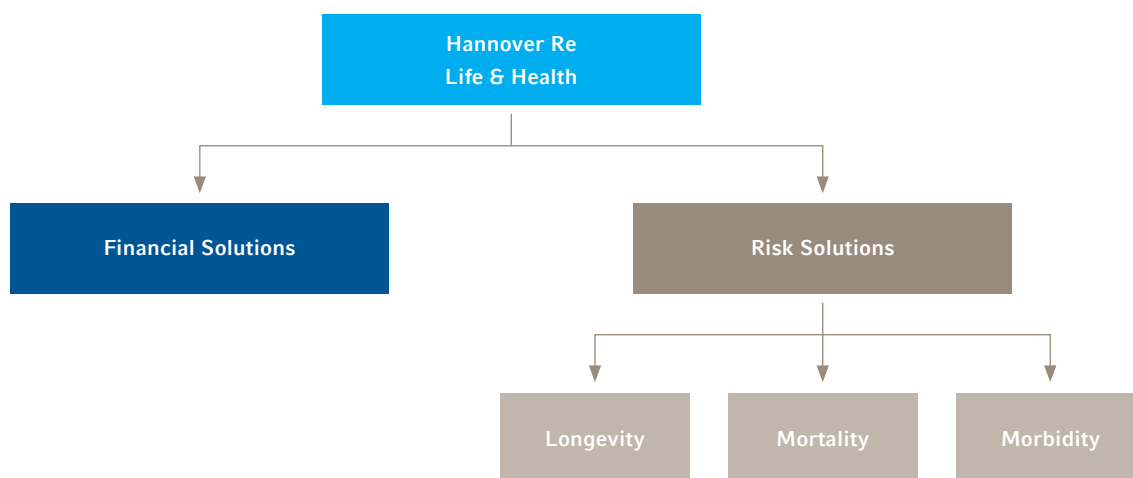
Our business model is geared to current market conditions and customer needs, and is therefore subject to change over time. As a first step, therefore, we have refined our reporting structure and are henceforth dividing the business into Financial Solutions and Risk Solutions; further differentiation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

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

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

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

Life and health reinsurance: New reporting structure



Business development

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

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

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

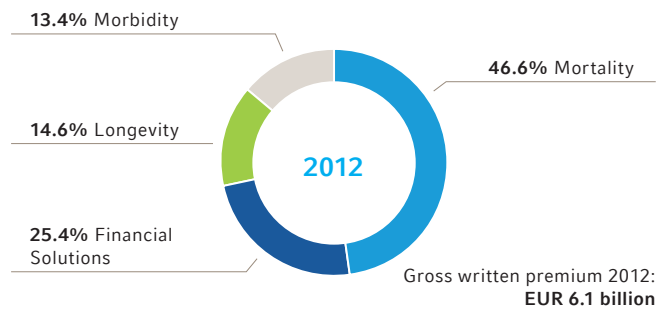
We continued to successfully expand our involvement in emerging markets. In this regard, we stepped up our activities above all in Central and Eastern Europe, Asia and Latin America and achieved pleasing portfolio growth.

Development of premium income

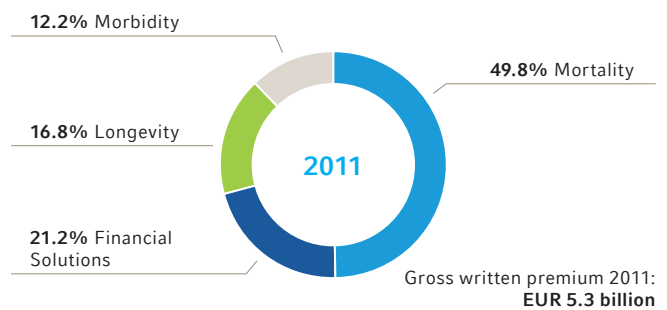
Gross premium income in the financial year just ended amounted to EUR 6.1 billion (EUR 5.3 billion). This represents a pleasing increase of 14.9%. Adjusted for exchange rate fluctuations, growth would have come in at 9.8% – hence comfortably beating our target of premium growth in the range of 5% to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

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

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



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



Development of results

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

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

Our result is further influenced by the following factors:

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

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

Our portfolio of assets under own management is subject to appropriate currency and duration matching as well as asset liability management; we also attach considerable importance to the high quality and diversification of our investments. In the US reinsurance market we carry the investment risk associated with securities deposited with ceding companies to cover benefit reserves. The “mark-to-market” measurement of these reserves can give rise to sharp annual fluctuations that are directly reflected in our income statement. A valuation gain in the mid-double-digit million euro range was recognised in the year under review. If the securities perform as planned all valuation gains and losses are, however, entirely reversed upon

maturity, which means that – provided there are no insolvency-related defaults – this item has no implications for profit or loss when looked at over the entire duration.

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

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

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

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

Key figures for life and health reinsurance

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

¹ Operating result (EBIT)/net premium earned

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

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

Breakdown of regional markets

Germany

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

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

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

France and the Middle East

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

United Kingdom

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

Longevity

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

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

North America

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

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

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

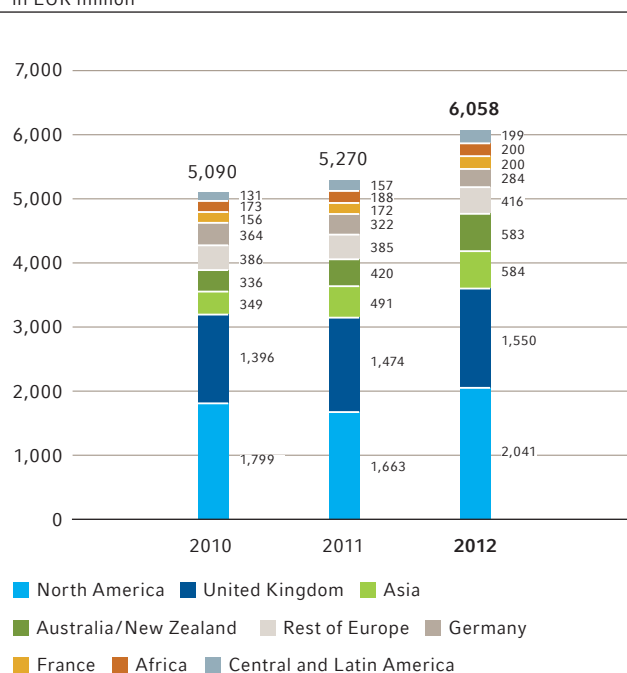
While the result in the previous year had been negatively affected by high valuation losses, the investments deposited with our US ceding companies to cover benefit reserves fared consistently well in the year under review. A valuation gain in the mid-double-digit million euro range was recognised for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

Central and Latin America

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

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

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



Australia

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

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

Asia

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

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

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

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

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

Africa

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

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

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

Investments

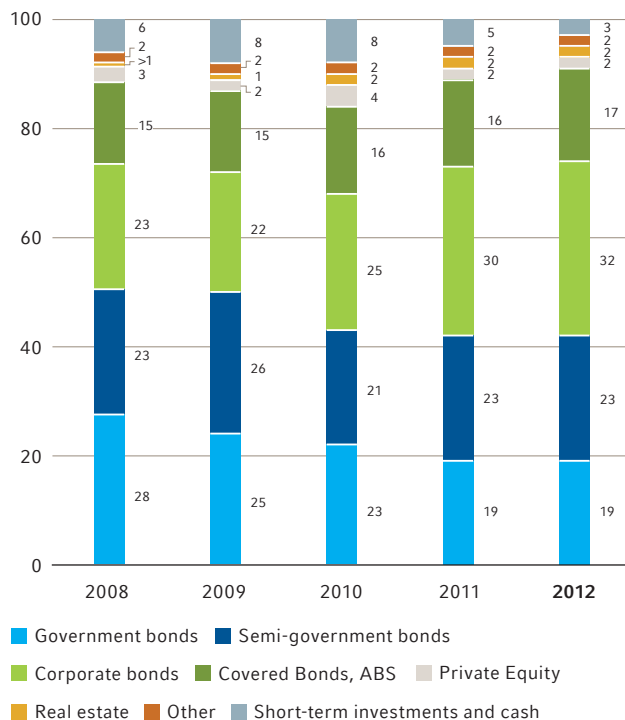
Market development

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

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

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

Breakdown of investments under own management
in %



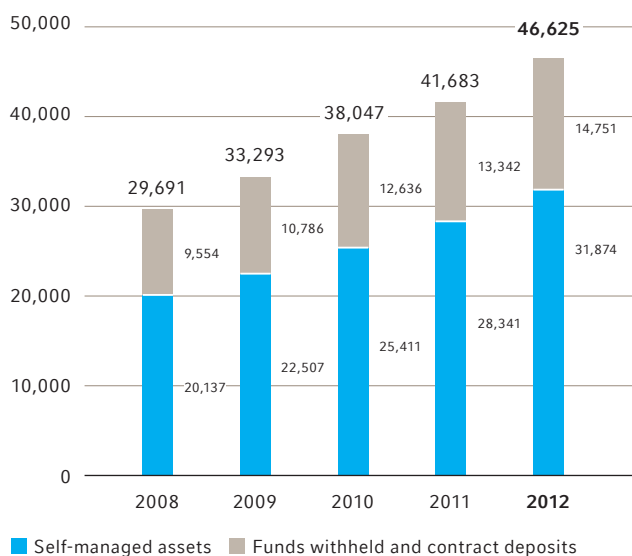
Investment policy

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

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

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

Investments in EUR million



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

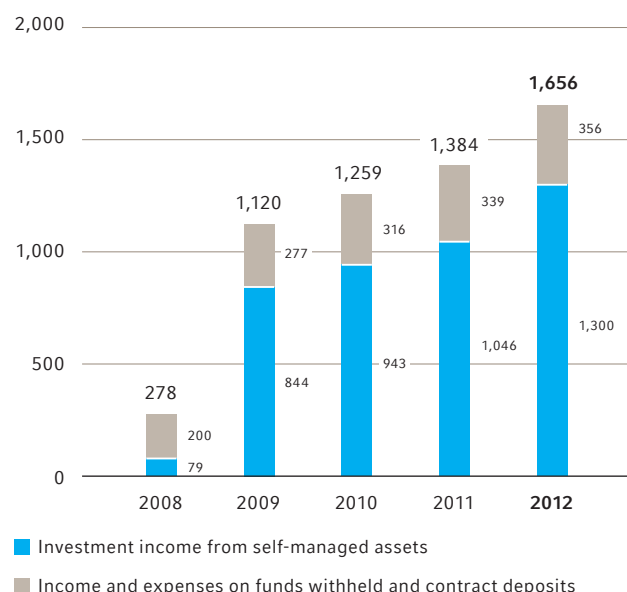
Investment performance

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

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

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

Investment income in EUR million



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

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

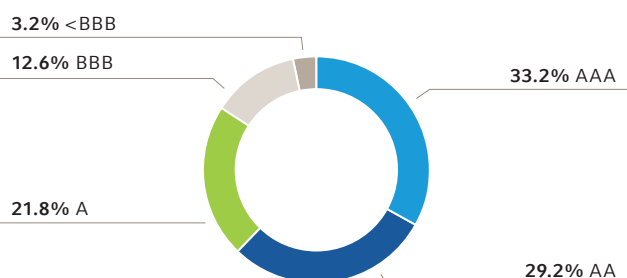
The net realised gain on disposals amounted to EUR 227.5 million (EUR 179.6 million); it derived primarily from regrouping moves out of government bonds and into corporate bonds and asset-backed securities. Additional amounts realised in the area of corporate bonds were due to application of the parameters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

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

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

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

Rating of fixed-income securities



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

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

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

Net investment income

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

¹ Excluding expenses on funds withheld and contract deposits

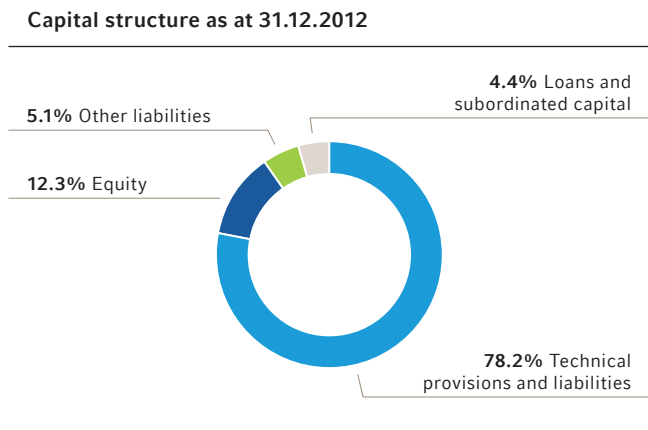
² Including depreciation/impairments on real estate

³ Portfolio at fair value through profit or loss and trading

Financial position

Analysis of our capital structure

The overall capital structure of Hannover Re and the composition of our liabilities are heavily determined by our activity as a reinsurer. By far the largest share is attributable to technical provisions and liabilities. Further elements are equity and equity substitutes, which help to substantially strengthen our financial base and optimise our cost of capital. The following chart shows our capital structure as at 31 December 2012, split into equity, loans and subordinated capital, technical provisions and other liabilities, in each case as a percentage of the balance sheet total.



The technical provisions and liabilities shown above, which include funds withheld/contract deposits and reinsurance payable, make up 78.2% (80.0%) of the balance sheet total and are more than covered by our investments, (assets-side) funds withheld/contract deposits, accounts receivable and reinsurance recoverables.

The equity including non-controlling interests at 12.3% (11.2%) of the balance sheet total as well as the loans and – especially – subordinated capital at 4.4% (3.9%) of the balance sheet total represent our most important sources of funds.

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

Asset/liability management

Within the scope of our asset/liability management (ALM) the allocation of investments by currencies and maturities is determined by the technical liabilities. The modified duration of our bond portfolio – at 4.5 years (4.2 years) – is geared largely to the average maturity of the technical liabilities. We thereby adjust the maturity pattern of the fixed-income securities to the expected payment patterns of our liabilities and reduce the economic exposure to the interest rate risk. In addition, through active and regular management of the currency spread in our fixed-income portfolio we bring about extensive matching of currencies on the assets and liabilities sides of the balance sheet, as a consequence of which fluctuations in exchange rates have no significant influence on our result. At year-end 2012 we held 40.4% (39.9%) of our investments in euro, 37.1% (37.4%) in US dollars and 8.2% (7.6%) in pound sterling.

Management of policyholders’ surplus

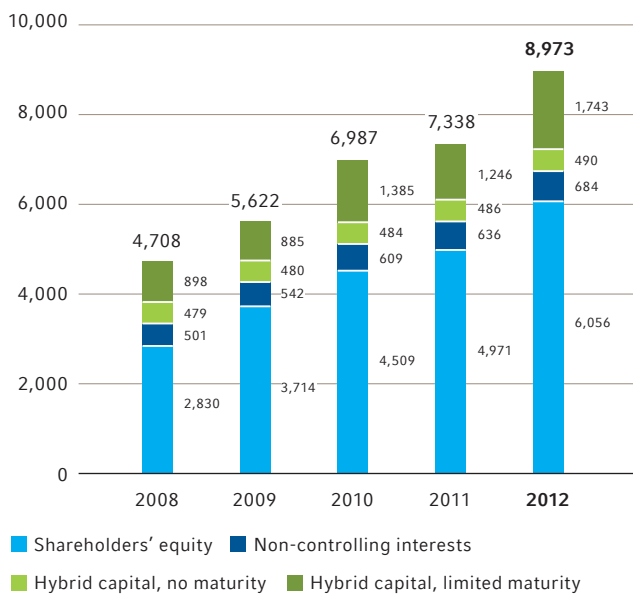
The preservation of its capital is a key strategic objective for Hannover Re. In the 2012 financial year and in recent years hybrid capital was issued as an equity substitute in order to keep the cost of capital on a low level. The policyholders’ surplus is a key management ratio in the context of Hannover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

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

The policyholders’ surplus totalled EUR 8,973.3 million (EUR 7,338.2 million) as at the balance sheet date, an increase of 22.3% in the year under review.

Hannover Re uses “Intrinsic Value Creation” (IVC) as its central value-based management tool. With the aid of this tool we apply the principles of economic allocation of equity and efficient use of debt as an equity substitute in order to achieve the lowest possible weighted cost of capital. This concept as well as the objectives and principles in accordance with which we conduct our enterprise management and capital management are described in greater detail in our remarks on value-based management on page 76 et seq. of this report.

Development of policyholders' surplus in EUR million



Hannover Re is guided in its capital management by the requirements and expectations of the rating agencies that assess the Group with an eye to its targeted rating. Furthermore, while making appropriate allowance for business policy considerations and factors that influence market presence, the allocation of capital to the Group's operational companies is based upon the economic risk content of the business group in question. Some Group companies are subject to additional national capital and solvency requirements. All Group companies met the applicable local minimum capital requirements in the year under review. Adherence to these capital requirements is continuously monitored by the responsible organisational units on the basis of the latest actual figures as well as the corresponding planned and forecast figures. If, despite the capital allocation mechanisms described above, a scenario occurs in which there is a danger of minimum capital requirements being undershot, suitable options are immediately discussed and measures set in motion to counteract such an eventuality. From the Group perspective we manage Hannover Re's solvency using our internal capital model, which is described in greater detail on page 62 et seq. of the opportunity and risk report.

Group shareholders' equity

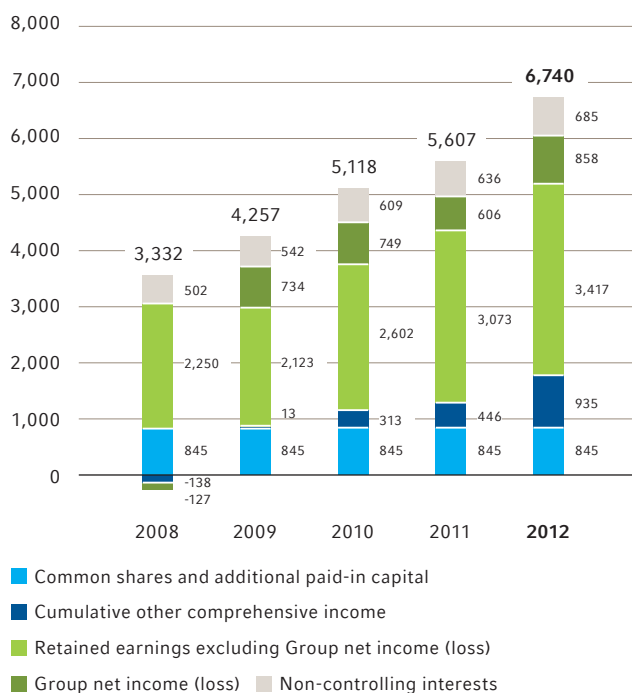
In view of the favourable result, the development of the shareholders' equity of the Hannover Re Group was pleasing. Compared to the position as at 31 December 2011, it increased by EUR 1,133.6 million in the year under review to EUR 6,740.3 million. After adjustment for non-controlling interests, it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

Net unrealised gains on investments recognised in the other reserves reached EUR 987.9 million, a figure EUR 534.8 million higher than at the beginning of the year under review. This rise derived, on the one hand, from the decline in yields on bonds of various European countries such as Germany, France and the United Kingdom as well as on bonds issued by semi-governmental entities. Most significantly, however, the sometimes appreciable narrowing of credit spreads on corporate bonds and asset-backed securities played a considerable part in the rise in hidden reserves, especially in view of the increased holdings of these asset classes in recent years.

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

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

Development of Group shareholders' equity in EUR million



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

The Group net income for 2012 attributable to the shareholders of the Hannover Re Group increased to EUR 858.3 million (EUR 606.0 million). The non-controlling interest in the profit generated in the year under review totalled EUR 75.4 million (EUR 70.8 million).

Financing and Group debt

In addition to the financing effect of the changes in shareholders' equity described above, debt financing on the capital market is a key component of Hannover Re's financing. It was essentially composed of subordinated bonds issued to ensure lasting protection of our capital base – in part also in observance of rating requirements. The total volume of debt and subordinated capital stood at EUR 2,400.8 million (EUR 1,934.4 million) as at the balance sheet date.

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

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

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

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

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

Subordinated bonds

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

Analysis of the consolidated cash flow statement

Liquidity

We generate liquidity primarily from our operational reinsurance business, investments and financing measures. Regular liquidity planning and a liquid investment structure ensure that Hannover Re is able to make the necessary payments at all times. Hannover Re's cash flow is shown in the consolidated cash flow statement on page 116 et seq.

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

Consolidated cash flow statement

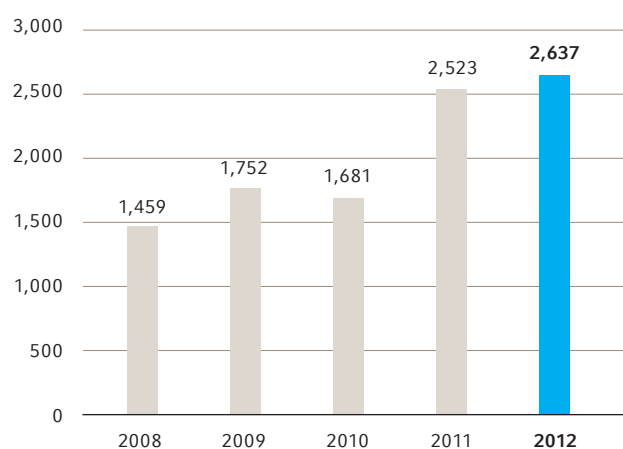
in EUR million	2012	2011
Cash flow from operating activities	2,637.2	2,522.9
Cash flow from investing activities	(2,712.9)	(2,041.3)
Cash flow from financing activities	148.4	(449.9)
Exchange rate differences on cash	(7.4)	0.0
Change in cash and cash equivalents	65.2	31.7
Cash and cash equivalents at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

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

Cash flow from operating activities

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

Cash flow from operating activities in EUR million



Cash flow from investing activities

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

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

Cash flow from financing activities

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

For further information on our liquidity management please see page 75 of the risk report.

Financial strength ratings

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

Financial strength ratings of the Hannover Re Group

	Standard & Poor's	A.M. Best
Rating	AA- (Very Strong)	A+ (Superior)
Outlook	Stable	Stable

Financial strength ratings of subsidiaries

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

Issue ratings of issued debt

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

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

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

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

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

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

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

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

The powers of the Executive Board with respect to the issue and repurchase of shares are defined in Hannover Re's Articles of Association as well as in §§ 71 et seq. Stock Corporation Act. In this connection the Annual General Meeting authorised the Executive Board on 4 May 2010 pursuant to § 71 Para. 1 No. 8 Stock Corporation Act to acquire treasury shares on certain conditions for a period of five years, ending on 3 May 2015.

The following paragraphs explain major agreements concluded by the company that are subject to reservation in the event of a change of control, inter alia following a takeover bid, and describe the resulting effects. The letter of credit lines extended to Hannover Re contain standard market change-of-control clauses that entitle the banks to require early repayment if Talanx AG loses its majority interest or drops below the threshold of a 25 percent participation or if a third party acquires the majority interest in Hannover Rückversicherung AG. For details of the letter of credit lines please see our explanatory remarks on other financial facilities in the notes, Section 6.12 "Debt and subordinated capital", page 176.

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

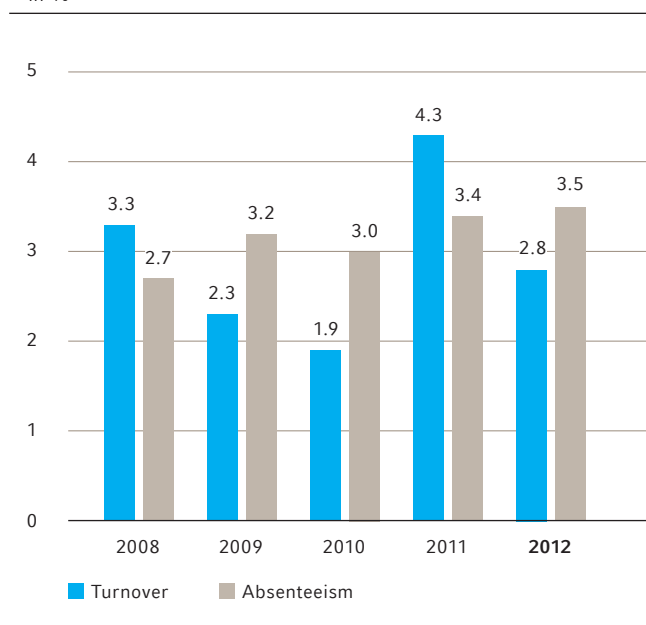
The company has not concluded any compensation agreements with the members of the Executive Board or with employees in the event of a takeover bid being made.

Human resources

Our staff

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

Staff turnover/absenteeism Hannover Home Office
in %



Key personnel ratios

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

Diversity management expanded

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

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

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

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

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

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

Management Principles reviewed

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

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

Breakdown of employees by country

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

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

Negotiating skills refined

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

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

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

Word of thanks to our staff

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

Sustainability at Hannover Re

The sustainability strategy of the Hannover Re Group

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

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

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

Governance and dialogue

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

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

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

Product responsibility

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

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

Successful employees

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

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

Procurement and environmental protection

Hannover Re is committed to keeping negative environmental impacts of its business operations as low as possible. With this in mind, the focus of our efforts is on reducing carbon dioxide (CO₂) emissions as we move towards climate neutrality by the year 2015. A major step towards achieving this goal was the implementation of our Environmental Management System at Hannover Home Office in 2012. Shortly after launch it was successfully certified according to DIN EN ISO 14001.

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

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

Hannover Re’s carbon dioxide emissions at the Hannover Home Office location amounted to 4,984 tonnes in 2012. Compared to the previous year, CO₂ pollution was cut by 3,139 tonnes or 38.6%. This saving was attributable principally to our changeover at the beginning of 2012 to electricity generated exclusively from renewable sources. Furthermore, despite the increased size of its workforce Hannover Re was again able to reduce the number of kilometres travelled on business. This was made possible, among other things, by greater use of video conferences.

In 2012, as in previous years, we also offset our absolute CO₂ footprint of 4,743 tonnes caused by airline and train travel by making voluntary offsetting payments to the international organisation “atmosfair” and to Deutsche Bahn AG.

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

Social commitment

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

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

Resources consumed at Hannover Home Office

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

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

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

³ Karl-Wiechert-Allee 50, Roderbruchstrasse 21 and 26 as well as infant daycare centre, Hannover

⁴ Karl-Wiechert-Allee 50, Roderbruchstrasse 21 and 26 as well as infant daycare centre, Karl-Wiechert-Allee 57 (pro rata) Hannover

⁵ Radiative Forcing Index: 2.7

Opportunity and risk report

Risk report

Principles for the handling of opportunities and risks

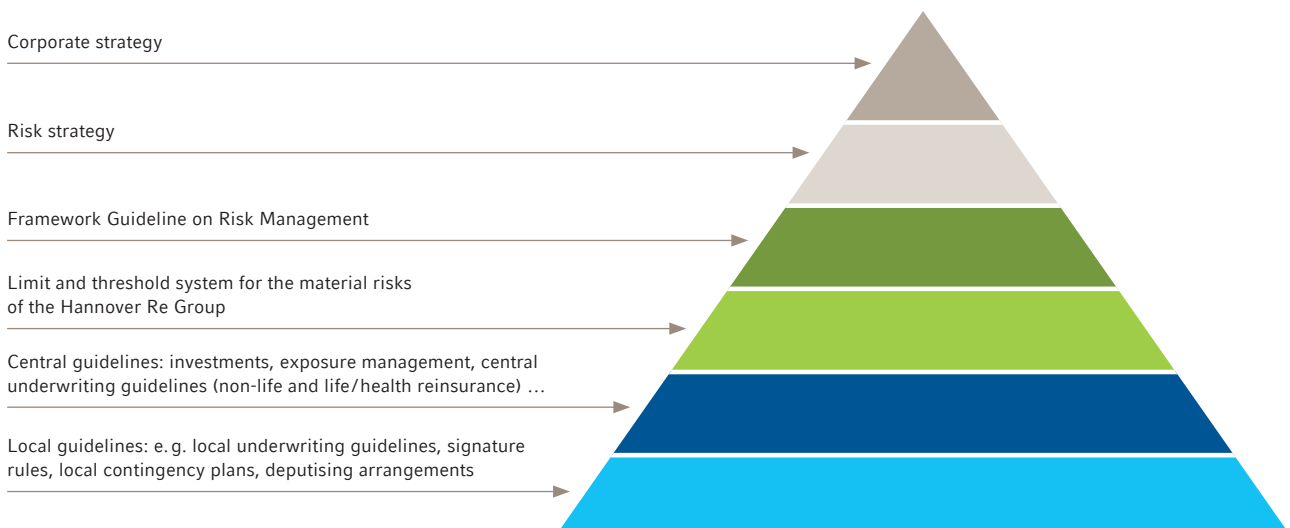
Our objective is to consolidate and further extend our position as one of the world's leading globally operating reinsurance groups of above-average profitability. With a view to accomplishing this aim we enter into a broad variety of risks which, on the one hand, open up opportunities for profit but,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

regular review. In this way, we ensure that our assumptions and hence also our risk management system are kept up-to-date. Operationalisation of our corporate strategy takes place on multiple levels and ultimately leads into guidelines, including for example the underwriting guidelines used by our treaty and regional departments.

We manage our total enterprise risk such that we can expect to generate positive Group net income with a probability of 90% and the likelihood of the complete loss of our economic equity and shareholders' equity does not exceed 0.03% p.a. These indicators are monitored using our internal capital model. The necessary equity resources are determined according to the requirements of our economic capital model, solvency regulations, the expectations of rating agencies with respect to our target rating and the expectations of our clients. Above and beyond that, we maintain an equity buffer in order to be able to act on new business opportunities at any time. We manage the level of our shareholders' equity in such a way that our targeted return of 750 basis points above the "risk-free" interest rate is attainable.

Opportunities for the Hannover Re Group are to be anticipated inter alia as a consequence of the impending adoption of risk-based solvency systems, such as Solvency II in Europe. Irrespective of the date of implementation of Solvency II on the European level, risk-based national regulations are already in force and others will likely follow. We have long practised a risk-based and value-based management approach of the type which regulators will call for under Solvency II and we began to make our preparations for the requirements of Solvency II at an early stage. This includes, among other things, participating in all Quantitative Impact Studies (QIS) and entering the pre-application phase for approval of an internal capital model. We see Solvency II as an opportunity for the convergence of international regulatory

Operationalisation of the risk strategy



and internal corporate approaches and consider ourselves well-equipped to provide the markets with tailored products. Thanks to our broad Group diversification, we enjoy the advantage of being able to offer our clients attractive solutions for improved utilisation of their own capital resources. For Hannover Re itself, the minimum capital requirements imposed under Solvency II are unlikely to present an obstacle, since our internal capitalisation targets (confidence level of 99.97%) go well beyond the regulatory requirements (confidence level of 99.5%).

Stronger demand for reinsurance covers can also be expected as a consequence of content-based adjustments to the natural catastrophe simulation models used by many companies (including Hannover Re) as well as the vigorous growth recorded in a number of markets. Furthermore, we anticipate rising demand for individual protection against biometric risks in major emerging markets such as China, India and Brazil. Business ideas and opportunities are systematically analysed by our Business Opportunity Management unit with the aim of generating new business and thereby enabling the Hannover Re Group to enjoy continued sustainable growth going forward. This is complemented by initiatives such as our “future radar”, a systematic analysis of relevant factors that will drive future success.

In this connection we aspire to a rating from the rating agencies most relevant to our industry that opens up and secures access for our company to all attractive business worldwide. Hannover Re is analysed by the rating agencies Standard & Poor’s and A.M. Best by way of an interactive rating process; this means that both rating agencies are also granted access to confidential information about Hannover Re. The current financial strength rating from Standard & Poor’s (S&P) is “AA-” (“Very Strong”, stable outlook) and the rating from A.M. Best is “A+” (“Superior”, stable outlook). Hannover Re’s risk management is assessed by Standard & Poor’s as “Strong”, the second-best S&P rating. The evaluations highlighted, among other things, the very good risk management, the continuous and systematic implementation of the corporate strategy by the management team and the company’s excellent capital resources.

This evaluation testifies to the quality of our holistic approach to risk management. We would additionally refer the reader to our remarks on the financial strength ratings of our subsidiaries in the “Financial position” section of the management report. All activities and decisions within the Group are guided not only by profit targets but also increasingly by sustainability considerations. We have defined what we consider to be the most important issues in the context of our sustainability strategy.

Functions within the risk management system

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

Central elements of the risk management system

Body/function	Key risk management tasks
Supervisory Board	<ul style="list-style-type: none"> Advising and supervising the Executive Board in its management of the company, inter alia with respect to risk management, on the basis of the Supervisory Board’s Rules of Procedure
Executive Board	<ul style="list-style-type: none"> Overall responsibility for Group-wide risk management Responsibility for the proper functioning of risk management Definition of the risk strategy
Risk Committee	<ul style="list-style-type: none"> Operational risk management, monitoring and coordinating body Implementation and safeguarding of a consistent Group-wide risk management culture
Chief Risk Officer	<ul style="list-style-type: none"> Responsibility for holistic risk monitoring across the Group as a whole and the business groups (systematic identification and assessment, control/monitoring and reporting) of all material risks from the Group perspective (technical risks in life/health and non-life reinsurance, market risks, credit risks, operational risks and other risks)
Group Risk Management	<ul style="list-style-type: none"> Risk monitoring across the Group as a whole and the business groups of all material risks from the company perspective Methodological expertise in the development of processes and methods for risk analysis, assessment and management as well as for risk limitation and reporting
Business units ¹	<ul style="list-style-type: none"> Risk steering: primary responsibility for risk identification and assessment on the departmental level based on the guidelines of Group Risk Management Setting up and monitoring of the department’s internal control system (ICS)
Internal Auditing	<ul style="list-style-type: none"> Process-independent and Group-wide supervision on behalf of the Executive Board

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

Quantitative risk management methods

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

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

The internal capital model encompasses all quantifiable risks and splits them into technical risks, market risks, credit risks and operational risks. These risks are carried over to Hannover Re's risk map and further broken down, e. g. into interest rate risks, catastrophe risks and reserving risks. Dependencies exist between these risks, which Hannover Re takes into account in order to adequately establish its target capitalisation. The model enables us to consistently measure and aggregate the individual risks and to analyse the interactions between risks. Last but not least, we are able to verify whether the level of available economic capital exceeds the capital required to operate the business.

Hannover Re calculates the required capital as the Value at Risk (VaR) of the economic change in value over a period of one year with a confidence level of 99.97%. This reflects the goal of not exceeding a one-year ruin probability of 0.03%. The internal target capitalisation is therefore significantly higher than the future requirements under Solvency II, where the confidence level is 99.5%.

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

Available capital and required risk capital¹

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

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

Reconciliation¹ (economic capital/shareholders' equity)

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

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

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

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

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

The available economic capital, which is available as liable capital for policyholders, is comprised of the economic equity measured as described above and the hybrid capital. The internal capital model is based on current methods from actuarial science and financial mathematics. In the case of technical

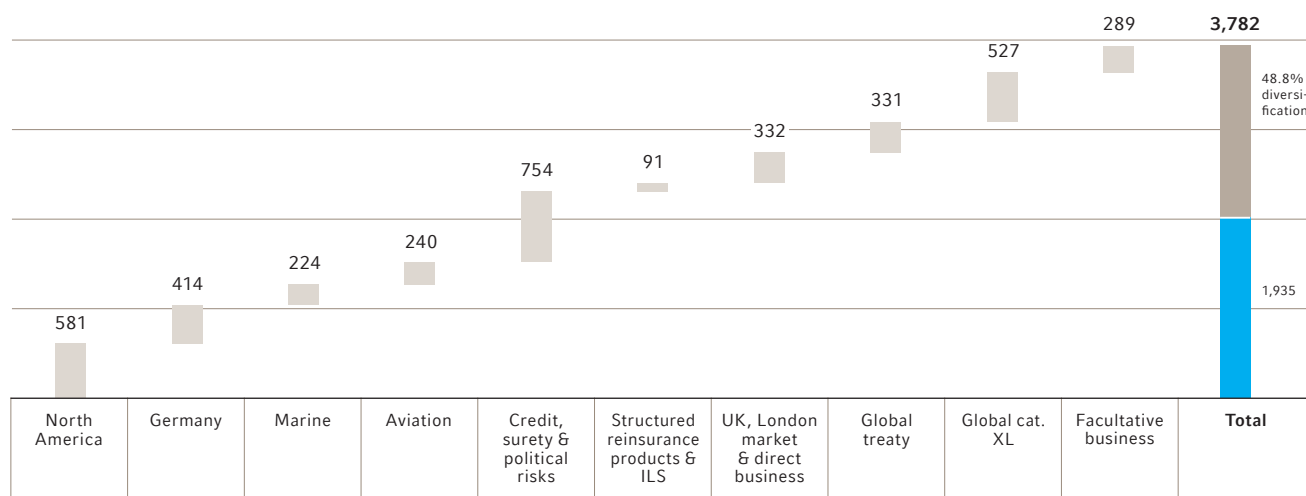
risks, we are able to draw on a rich internal data history to estimate the probability distributions, e.g. for the reserving risk. For risks from natural perils we use external models, which are adjusted in the context of a detailed internal review process such that they reflect our risk profile as closely as possible. In the area of life/health reinsurance long-term payment flows are modelled under various scenarios. With respect to all the aforementioned risks we use internal data to define scenarios and probability distributions. The internal data is enhanced by way of parameters set by our internal experts. These expert parameter settings are especially significant in relation to extreme events that have not previously been observed.

When it comes to aggregating the individual risks, we make allowance for dependencies between risk factors. Dependencies arise, for example, as a consequence of market shocks, such as the financial crisis, which simultaneously impact multiple market segments. What is more, several observation periods may be interrelated on account of market phenomena such as price cycles. In dealing with these dependencies, however, it is our assumption that not all extreme events occur at the same time. The absence of complete dependency is referred to as diversification.

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

Diversification effect within the non-life reinsurance business group

Risk capital per line of business for the 99.5% VaR in EUR million



Qualitative risk management methods

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

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

Internal control system

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

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

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

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

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

Risk landscape of Hannover Re

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

Technical risks in non-life reinsurance

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

- We maximise our risk capacities in accordance with the parameters of the Hannover Re Group’s risk management system and make limited use of retrocessions to reduce volatility and conserve capital.
- We steer the acceptance of risks systematically through our underwriting guidelines. We have confidence in the entrepreneurial abilities of our underwriters and grant them the most extensive possible powers.

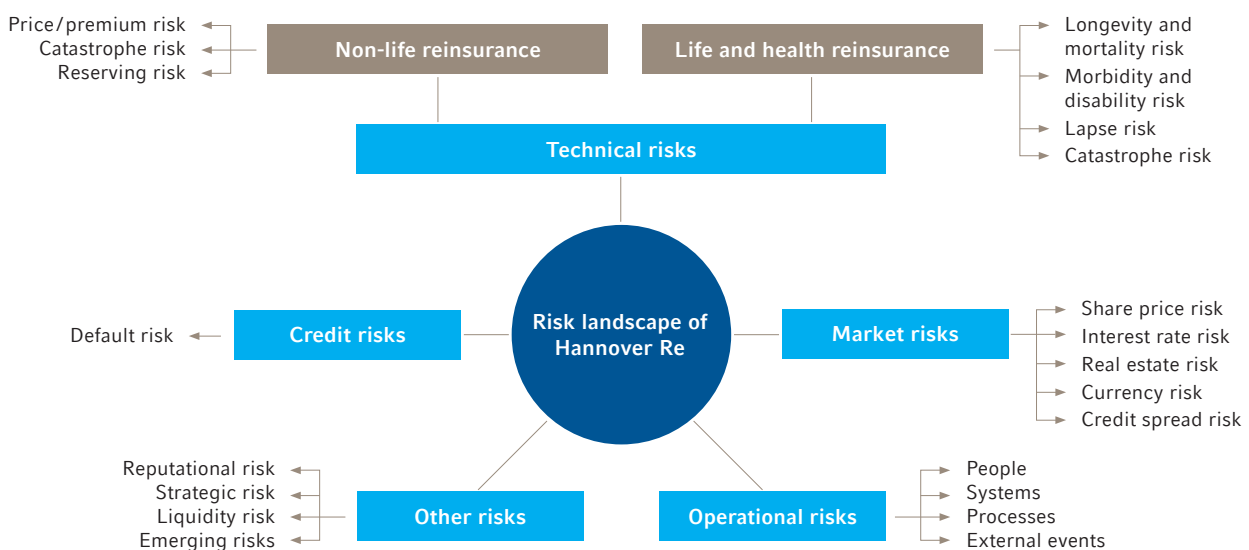
- We impose the highest requirements on the processing of product-related data. Excellent data quality, security and integrity are the key hallmarks of our service processes.
- Given that the establishment of inadequate reserves constitutes our greatest risk, we take care to maintain a conservative reserving level.

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

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

Asbestos- and pollution-related claims involve complex calculation methods. The adequacy of these reserves can be estimated using the so-called “survival ratio”. This ratio expresses how many years the reserves would cover if the average level of paid claims over the past three years were to continue.

Risk landscape of Hannover Re



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

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

The statistical run-off triangles used by our company are another monitoring tool. They show the changes in the reserve over time as a consequence of paid claims and in the recalculation of the reserves to be established as at each balance sheet date. Their adequacy is monitored using actuarial methods (cf. here Section 6.7 “Technical provisions” on page 165 et seq.). Our own actuarial calculations regarding the adequacy of the reserves are also subject to annual quality assurance reviews conducted by external firms of actuaries and auditors.

Hannover Re has taken out inflation swaps (USD and EUR zero coupon swaps) to partially hedge inflation risks. Portions of the loss reserves are hedged against inflation risks by means of these derivative financial instruments. An inflation risk exists particularly inasmuch as the liabilities (e. g. loss reserves) could develop differently than assumed at the time when the reserve was constituted because of inflation. Inflation protection was purchased for the first time in the second quarter of 2010 with terms of 4 and 5 years; it was increased in the first quarter of 2011 (term of 8 years). In addition to the inflation swaps, in the fourth quarter we purchased inflation-linked USD- and euro-denominated sovereign bonds in a nominal amount of EUR 605 million in order to protect our future investment income against inflation effects.

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

capital that is available to cover risks from natural perils. This is a key basis for our underwriting approach in this segment. As part of our holistic approach to risk management across business groups, we take into account numerous relevant scenarios and extreme scenarios, determine their effect on portfolio and performance data, evaluate them in relation to the planned figures and identify alternative courses of action.

Stress tests for natural catastrophes after retrocessions

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

¹ Previous year's scenario limited to Sydney

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

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

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

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

Catastrophe losses and major claims¹ in 2012

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

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

The price/premium risk lies primarily in the possibility of a random claims realisation that diverges from the claims expectancy on which the premium calculation was based. Regular and independent reviews of the models used for treaty quotation as well as central and local underwriting guidelines are vital management components. In addition, Hannover Re’s regional and treaty departments prepare regular reports on the progress of their respective renewals. The reporting in this regard makes reference inter alia to significant changes in conditions, risks (such as inadequate premiums) as well as to emerging market opportunities and the strategy pursued in order to accomplish targets. The development of the combined ratio in non-life reinsurance is shown in the table below.

Technical risks in life and health reinsurance

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

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

Combined and catastrophe loss ratio over the past ten years

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

¹ Including financial reinsurance and specialty insurance

² Based on US GAAP figures

³ Net share of the Hannover Re Group for natural catastrophes and other major claims in excess of EUR 10 million gross as a percentage of net premium earned (until 31 December 2011: in excess of EUR 5 million gross)

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

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

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

The Market Consistent Embedded Value (MCEV) is a ratio used for the valuation of life insurance and reinsurance business; it is calculated as the present value of the future shareholders' earnings from the worldwide life and health reinsurance portfolio plus the allocated capital. The calculation makes allowance as far as possible for all risks included in this business. The Market Consistent Embedded Value is established on the basis of the principles of the CFO Forum published in October 2009. The table shows the MCEV 2011 and its sensitivities in comparison with the corresponding sensitivities of the MCEV 2010. For more detailed information please see the Market Consistent Embedded Value Report 2011, which in a departure from the system used here shows the figures after non-controlling interests.

Sensitivity analysis of the Market Consistent Embedded Value (MCEV)^{1,2}

Base values in EUR million	2011	2010
Base value	3,180.7	2,711.9
Interest rate curve +100 basis points	-1.0%	-0.7%
Interest rate curve -100 basis points	-0.7%	0.5%
Costs -10%	1.8%	1.8%
Lapse +10%	-12.4%	-7.7%
Lapse -10%	3.8%	4.3%
Mortality +5%	-28.4%	-20.7%
Mortality -5%	28.9%	27.5%

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

² After consolidation, before non-controlling interests

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

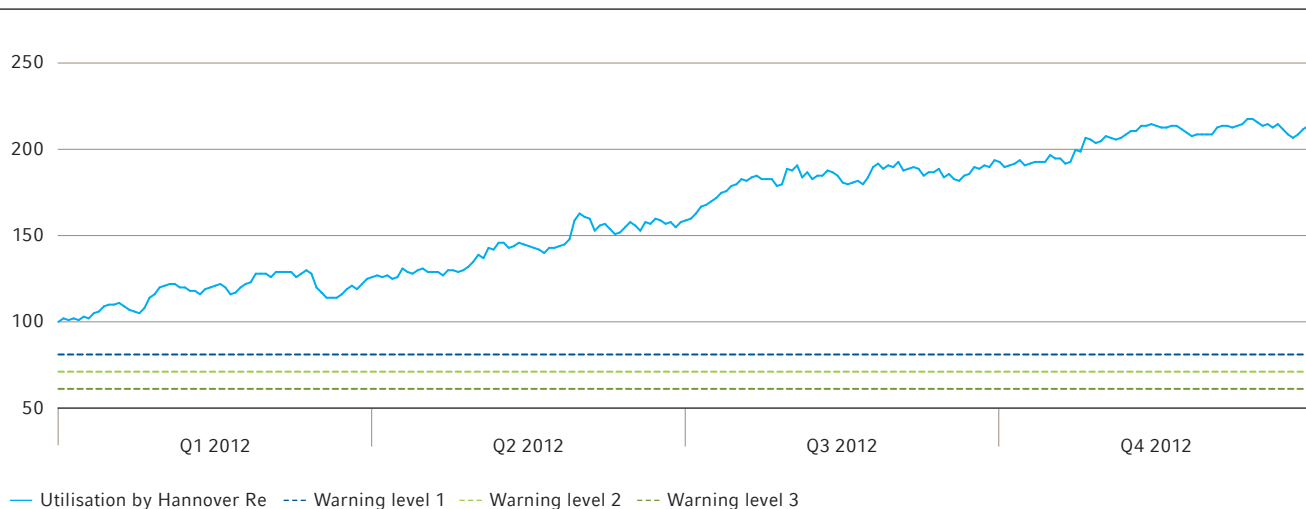
Market risks

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

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

Utilisation of the trigger system

in %



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

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

market price risks that are not directly explained by the multi-factor model) can be determined through back-calculation and are incorporated into the overall calculation.

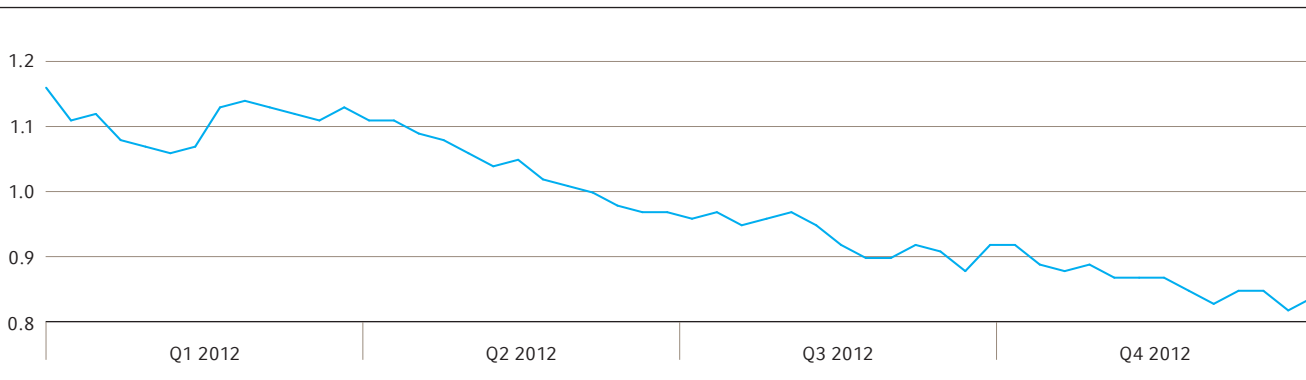
The model takes into account the following market risk factors:

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

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

Value at Risk¹ for the investment portfolio of the Hannover Re Group

in %



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

Scenarios for changes in the fair value of material asset classes

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

Stress tests are conducted in order to be able to map extreme scenarios as well as normal market scenarios for the purpose of calculating the Value at Risk. In this context, the loss potentials for fair values and shareholders' equity (before tax) are simulated on the basis of already occurred or notional extreme events. Further significant risk management tools – along with various stress tests used to estimate the loss potential under extreme market conditions – include sensitivity and duration analyses and our asset/liability management (ALM).

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

Further information on the risk concentrations of our investments can be obtained from the tables on the rating structure of fixed-income securities as well as on the currencies in which investments are held. Please see our comments in Section 6.1 of the notes, "Investments under own management", page 153 et seq.

Share price risks derive from the possibility of unfavourable changes in the value of equities, equity derivatives or equity index derivatives held in the portfolio. We have made such new investments only on a very modest scale as part of strategic participations. The scenarios for changes in equity prices consequently have only extremely slight implications for our portfolio. We spread the risks through systematic diversification. Please see our comments in Section 6.1 of the notes, "Investments under own management", page 146 et seq.

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

Currency risks are especially relevant if there is a currency imbalance between the technical liabilities and the assets. Through extensive matching of currency distributions on the assets and liabilities side, we reduce this risk on the basis of the individual balance sheets within the Group. The short-term Value at Risk therefore does not include quantification of the currency risk. We regularly compare the liabilities per currency with the covering assets and optimise the currency coverage in light of relevant collateral conditions by regrouping assets. Remaining currency surpluses are systematically quantified and monitored within the scope of economic modelling. A detailed presentation of the currency spread of our investments is provided in Section 6.1, "Investments under own management", page 154.

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

We use derivative financial instruments only to a very limited extent. The primary purpose of such financial instruments is to hedge against potentially adverse situations on capital markets. In the year under review we took out inflation swaps to hedge part of the inflation risks associated with the loss reserves in our technical account. In addition, as in the previous year, a modest portion of our cash flows from the insurance business was hedged using forward exchange transactions. Currency risks were also hedged using FX forwards in cases where currency matching could not be efficiently established. The contracts are concluded solely with first-class counterparties and exposures are controlled in accordance with the restrictive parameters set out in the investment guidelines so as to avoid credit risks associated with the use of such transactions. The remaining exposures are controlled according to the restrictive parameters set out in the investment guidelines.

Credit risks

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

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

Gross written premium retained

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

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

Ratios used to monitor and manage our credit risks

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

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

² Hybrid capital/shareholders' equity

³ EBIT/interest on hybrid capital

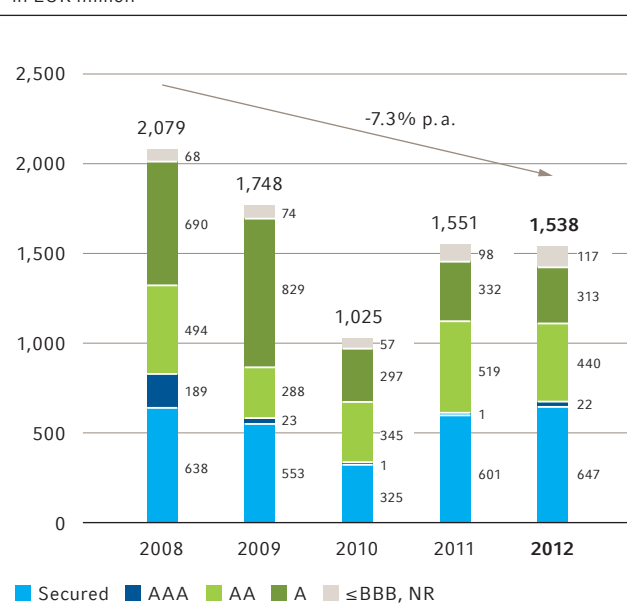
⁴ Net reserves/net premium earned

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

- 90.4% of our retrocessionaires have an investment grade rating ("AAA" to "BBB").
- 86.8% are rated "A" or better.
- Since 2008 we have reduced the level of recoverables by altogether 7.3%.
- 42.0% of our recoverables from reinsurance business are secured by deposits or letters of credit. What is more, for the majority of our retrocessionaires we also function as reinsurer, meaning that in principle recoverables can potentially be set off against our own liabilities.
- In terms of the Hannover Re Group's major companies, EUR 174.7 million (5.7%) of our accounts receivable from reinsurance business totalling EUR 3,065.7 million were older than 90 days as at the balance sheet date.
- The average default rate over the past three years was 0.1%.

Retrocession gives rise to claims that we hold against our retrocessionaires. These reinsurance recoverables – i. e. the reinsurance recoverables on unpaid claims – amounted to EUR 1,538.2 million (EUR 1,550.6 million) as at the balance sheet date. The following chart shows the development of our reinsurance recoverables – split by rating quality – due from our retrocessionaires. Recent years are clearly trending lower with an average reduction of 7.3% per year.

Reinsurance recoverables as at the balance sheet date
in EUR million



Further remarks on technical and other assets which were unadjusted but considered overdue as at the balance sheet date as well as on significant impairments in the year under review are provided in Section 6.4 "Technical assets", page 160 et seq., Section 6.6 "Other assets", page 163 et seq. and Section 7.2 "Investment result", page 180 et seq.

Credit risks from investments may arise out of the risk of a failure to pay (interest and/or capital repayment) or a change in the credit status (rating downgrade) of issuers of securities. We attach equally vital importance to exceptionally broad diversification as we do to credit assessment conducted on the basis of the quality criteria set out in the investment guidelines.

We measure credit risks in the first place using the standard market credit risk components, especially the probability of default and the potential amount of loss – making allowance for any collateral and the ranking of the individual instruments

depending on their effect in each case. We then assess the credit risk first on the level of individual securities (issues) and in subsequent steps on a combined basis on the issuer level.

Rating structure of our fixed-income securities¹

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

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

² Including government-guaranteed corporate bonds

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

The measurement and monitoring mechanisms that have been put in place safeguard a prudent, broadly diversified investment strategy. This is reflected inter alia in the fact that within our portfolio of assets under own management the exposures to government bonds or instruments backed by sovereign guarantees issued by the so-called GIIPS states (Greece, Ireland, Italy, Portugal, Spain) amount to altogether just EUR 79.8 million on a fair value basis. This corresponds to a proportion of 0.2%.

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

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

Fair values

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

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

Operational risks

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

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

Compliance risks are associated with the risk of breaches of standards and requirements, non-compliance with which may entail lawsuits or official proceedings with not inconsiderable detrimental implications for the business activities of the Hannover Re Group (e.g. tax, anti-trust, embargo or regulatory law). Upon suspicion of breaches of the law pertaining to Hannover Re, our employees and business partners are able to report such suspicions anonymously using our electronic whistleblower system, which can be accessed through our website. These tips are brought to the attention of Hannover Re's Compliance Office, which is thus able to investigate the grounds for suspicion. Responsibilities within the compliance organisation are regulated Group-wide and documented in a manual. The process is documented in regular compliance reports and complemented by training activities.

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

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

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

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

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

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

Other risks

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

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

Strategic risks derive from a possible imbalance between the corporate strategy of the Hannover Re Group and the constantly changing general business environment. Such an imbalance might be caused, for example, by incorrect strategic policy decisions, a failure to consistently implement the defined strategies and business plans or an incorrect allocation of resources. We therefore regularly review our corporate strategy in a multi-step procedure and adjust our processes and the resulting guidelines as and when required. We have defined performance criteria and indicators for the operational implementation of the strategic guidelines; these are authoritative when it comes to determining fulfilment of the various targets. With the “Strategy Cockpit” the Executive Board and responsible managers have at their disposal a strategy tool that assists them with the planning, elaboration and management of strategic objectives and measures and safeguards their overall perspective on the company and its strategic risks. Further details are provided in the section entitled “Our strategy” on page 18 et seq.

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

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

Above and beyond the foreseeable payments, unexpected and exceptionally large payments may pose a threat to liquidity. Yet in reinsurance business significant events (major losses) are normally paid out after a lead time that can be reliably planned. As part of our liquidity management we have nevertheless defined asset holdings that have proven to be highly liquid – even in times of financial stress such as the 2008 financial crisis. Our holdings of unrestricted German, UK and US government bonds as well as cash during the year under review were larger than possible disbursements for assumed extreme scenarios, which means that our liquidity is assured even in the unlikely case of financial crises coinciding with an extreme event that needs to be paid out quickly. The liquid asset reserve stood at more than EUR 2.2 billion as at the balance sheet date. In addition, we manage the liquidity of the portfolio through ongoing monitoring of the liquidity of the instruments contained therein; liquidity is verified on a monthly and ad hoc basis. These measures serve to effectively reduce the liquidity risk.

Assessment of the risk situation

The above remarks describe the diverse spectrum of risks to which we, as an internationally operating reinsurance company, are exposed as well as the steps taken to manage and monitor them. Individual and especially accumulation risks can potentially have a significant impact on our assets, financial position and net income. Yet consideration solely of the risk aspect does not fit our conception of risk, since it is always the case that we only enter into those risks that go hand-in-hand with opportunities. Our management and monitoring tools as well as our organisational and operational structures ensure that we are able to identify risks in a timely manner and maximise our opportunities. The pivotal element in this regard is our effective system of qualitative and quantitative risk management that we have put in place Group-wide. We are of the opinion that our risk management system affords us a transparent overview of the current risk situation at all times and that our overall risk profile is appropriate. Our assessment is reinforced by various developments and key data: the increase of more than 100% in our shareholders' equity (including non-controlling interests) since 2008, our strong market position as one of the world's leading reinsurers and our very good credit ratings (Standard & Poor's: "AA-" (Very Strong, stable outlook); A.M. Best: "A+" (Superior, stable outlook)).

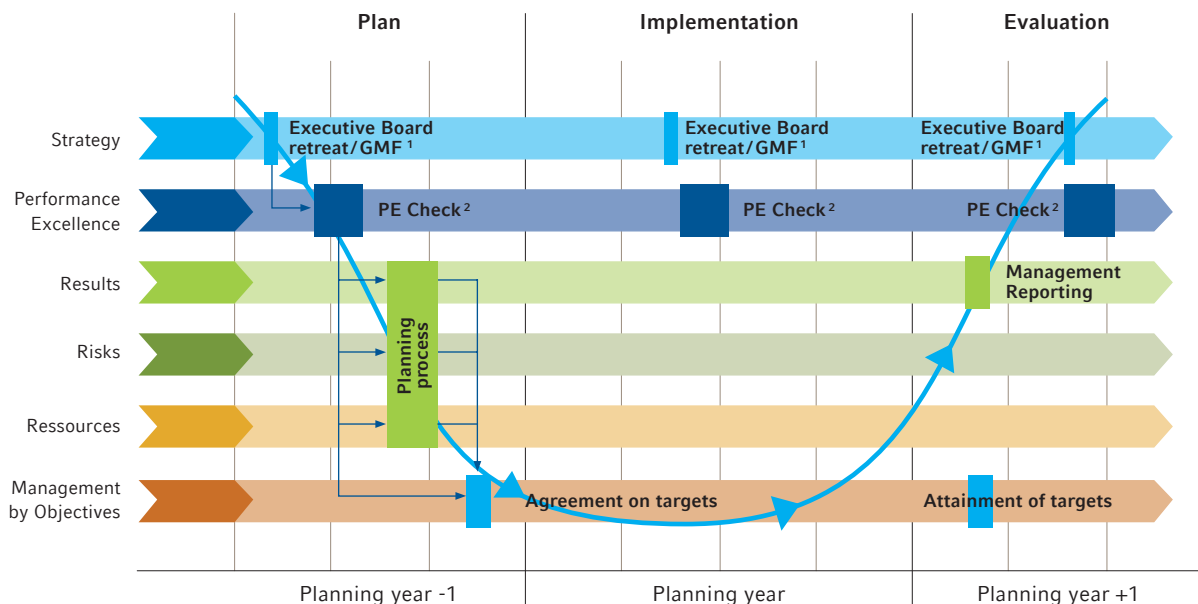
Based on our currently available insights arrived at from a holistic analysis of the risk situation, the Executive Board of Hannover Re cannot discern any risks that could jeopardise the continued existence of our company in the short or medium term or have a material and lasting effect on our assets, financial position or net income. For additional information on the opportunities and risks associated with our business please see the Forecast contained in the management report on page 101 et seq.

Value-based management

Profitable growth has been at the heart of our business activities for many years and hence remains a crucial objective of our Group strategy. We are striving to cement and further extend our position as one of the leading globally operating reinsurance groups of above-average profitability.

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

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



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

² Verification and elaboration of contributions to the Group strategy

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

Planning process

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

Management by Objectives

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

Management Reporting

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

Capital allocation

The main component of value-based management is the risk-appropriate allocation of capital to the individual business activities. This enables us to evaluate the assumption of underwriting risks and investment risks both in light of individual risk/return aspects and against the backdrop of our overall risk appetite. Our economic capital model supplies the key parameters for this purpose. In addition, along with considerations of business policy, outside influencing factors such as the requirements of regulatory authorities and rating agencies also play a major role in the allocation of capital. Allowance is therefore made for them in the form of collateral conditions on the various allocation levels. Starting out from the Group's overall risk situation, capital is first allocated to the functional

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

IVC – the decisive management ratio

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

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

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

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

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

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

Intrinsic Value Creation and excess return on capital allocated

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

¹ Adjustment based on amended allocation of economic effects (non-life reinsurance/investments) and final MCEV calculation (life and health reinsurance)

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

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

In calculating the cost of capital, our assumption – based on a Capital Asset Pricing Model (CAPM) approach – is that the investor's opportunity costs are 450 basis points above the risk-free interest rate, meaning that value is created above this threshold. Our strategic return on equity target of 750 basis points above risk-free thus already contains a not insignificant target value creation. We allocate equity sparingly and use equity substitutes to optimise our average cost of capital. At 6.8%, we can point to a lower average cost of capital than our competitors.

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

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

Target attainment

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

¹ Excluding inflation swaps and ModCo derivatives

² 750 basis points above the 5-year average return on 10-year German government bonds after tax

³ Growth in book value per share including dividends paid

⁴ Average over the reinsurance cycle

⁵ Including major loss budget of EUR 625 million

⁶ EBIT/net premium earned

⁷ Excess return on allocated economic capital

⁸ Organic growth only

⁹ EBIT margin for total life and health reinsurance

Enterprise management

Declaration on Corporate Governance

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

German Corporate Governance Code

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

Declaration of Conformity

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

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

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

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

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

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

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

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

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

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

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

Hannover, 5 November 2012

Executive Board

Supervisory Board

Statement of enterprise management practices

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

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

Corporate Governance

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

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

Compliance

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

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

The compliance report for the 2012 calendar year setting out the structure and diverse range of activities of Hannover Re in this regard was submitted to the Finance and Audit Committee in March 2013. After in-depth examination of topics such as directors' dealings, ad hoc and other reporting requirements, the insider register, adherence to internal guidelines, consulting agreements, data protection, international sanctions and the Group-wide whistleblower system, the report concludes that two circumstances of lesser importance have been identified which point to breaches of relevant compliance standards. After detailed exploration of these incidents, the necessary safeguards were put in place to ensure that in future the Hannover Re Group will be in full compliance with the external requirements for its business activities.

Risk monitoring and steering

The risk management system applicable throughout the entire Hannover Re Group is based on the risk strategy, which in turn is derived from the company strategy. A core component is the systematic and comprehensive recording of all risks that from the current standpoint could conceivably jeopardise the company's profitability and continued existence. Further details in this regard may be obtained from the opportunity and risk report contained in the Annual Report on page 60 et seq.

Working practice of the Executive Board and Supervisory Board

The Executive Board and Supervisory Board of Hannover Re work together on a trusting basis to manage and monitor the company. In accordance with the Rules of Procedure of the Executive Board, matters of fundamental importance require the consent of the Supervisory Board. In addition, the Supervisory Board is kept informed on a regular and timely basis of the business development, the execution of strategic decisions, material risks and planning as well as relevant compliance issues. The

Chairman of the Supervisory Board stays in regular contact with the Chairman of the Executive Board in order to discuss with him significant business occurrences. The composition of the Executive Board (including areas of responsibility) as well as of the Supervisory Board and its committees is set out on pages 8 and 209 respectively of the present Annual Report.

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

The Rules of Procedure of the Supervisory Board provide inter alia that each member of the Supervisory Board must have the knowledge, skills and professional experience required for orderly performance of their tasks and that the Supervisory Board must have a sufficient number of independent members. Currently, four of the six shareholder representatives are independent as defined by Item 5.4.2 of the German Corporate Governance Code. At least one independent member shall have technical expertise in the fields of accounting and the auditing of financial statements. Persons suggested to the Annual General Meeting as candidates for election to the Supervisory Board may not be older than 72 at the time of their election. Nominations shall take account of the company's international activities as well as diversity. For their part, each member of the Supervisory Board shall ensure that they have sufficient time to discharge their mandate. The Supervisory Board meets at least twice each calendar half-year. If a member of the Supervisory Board participates in less than half of the meetings of the Supervisory Board in a financial year, this shall be noted in the Supervisory Board's report. No more than two former members of the company's Executive Board may belong to the Supervisory Board.

In the year under review the Supervisory Board carried out another regularly scheduled audit of the effectiveness of its work. An extensive questionnaire addressed, among other aspects, issues such as the organisation of the Supervisory Board and the conduct of meetings, the cooperation between the Executive Board and the Supervisory Board and the supply

of information to the Supervisory Board. The findings will be explained and discussed at the first Supervisory Board meeting of 2013.

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

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

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

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

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

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

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

Information on share-based payment pursuant to Item 7.1.3 of the German Corporate Governance Code is provided in Section 8.3 of the notes "Share-based payment", page 191 et seq., and in the remuneration report with respect to the members of the Executive Board.

Remuneration report

The remuneration report summarises the principles used to determine the remuneration of the Executive Board of Hannover Re and explains the structure, composition and amount of the components of the remuneration received by the Executive Board in the 2012 financial year on the basis of the work performed by the Board members for Hannover Re and its affiliated companies.

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

The remuneration report is guided by the recommendations of the German Corporate Governance Code and contains information which forms part of the notes to the 2012 consolidated financial statement as required by IAS 24 "Related Party Disclosures". Under German commercial law, too, this information includes data specified as mandatory for the notes (§ 314 HGB) and the management report (§ 315 HGB). These details are discussed as a whole in this remuneration report and presented in summary form in the notes.

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

Remuneration of the Executive Board

Responsibility

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

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

Objective, structure and system of Executive Board remuneration

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

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

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

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

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

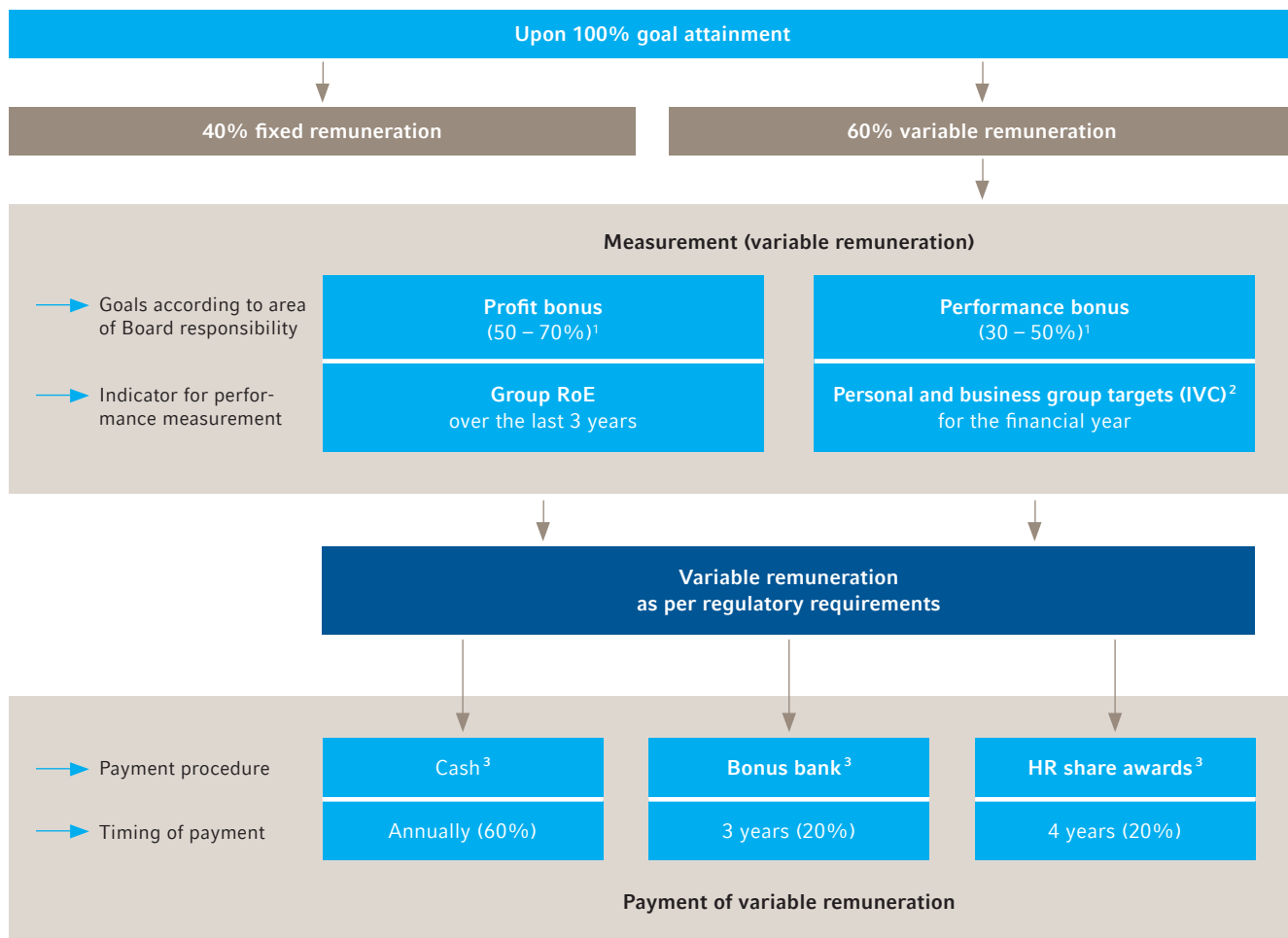
Measurement basis and payment procedures for fixed remuneration

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

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

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

Overview of the composition of variable remuneration



¹ Chief Executive Officer/Chief Financial Officer 70% profit bonus, 30% performance bonus (personal targets); all other Board members: 50% profit bonus, 50% performance bonus (25% personal targets/25% business group targets)

² An instrument of value-based management used to measure the attainment of long-term goals on the level of the Group, business groups and operational units

³ Split defined by legal minimum requirements

Measurement bases/conditions of payment for variable remuneration

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

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

Payment procedures for total variable remuneration

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

Fixed annual salary

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

Non-cash compensation/fringe benefits

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

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

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

Measurement of the variable remuneration

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

Profit bonus

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

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

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

Performance bonus

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

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

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

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

Total amount of variable remuneration

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

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

Payment of the variable remuneration

Payment arrangements

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

Retained portion of the variable remuneration

Bonus bank (retention for a period of three years)

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

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

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

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

Share awards (vesting period of four years)

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

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

Handling of payment of variable remuneration components in special cases

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

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

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

Variable remuneration under the old remuneration structure (until 2011)

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

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

Continued payment in the event of disability/death

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

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

Other information

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

With regard to Item 4.2.3 Paragraph 4 of the German Corporate Governance Code – “Caps on severance payments in management board contracts” – we would refer the reader to our remarks in the Declaration of Conformity contained in the section “Enterprise management” on page 80 of this Group Annual Report.

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

Amount of remuneration received by the Executive Board

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

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

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

Name	Financial year	Non-performance-based remuneration		Performance-based remuneration ¹	
		Basic salary	Non-cash compensation / fringe benefits ²	Short-term	
				Variable remuneration payable	
				60% ³	Remuneration from seats with Group bodies ⁴
in EUR thousand					
Ulrich Wallin	2012	520.0	15.0	615.1	
	2011	520.0	32.9	698.1	
André Arrago	2012	320.0	6.9	352.1	
	2011	320.0	10.1	352.5	
Claude Chèvre	2012	320.0	5.1	351.9	
	2011 (2 months)	53.3	172.2	64.7	
Jürgen Gräber	2012	400.0	20.7	440.1	
	2011	400.0	24.1	490.1	
Dr. Klaus Miller	2012	320.0	17.9	352.1	
	2011	320.0	10.9	377.7	
Dr. Michael Pickel	2012	320.0	9.6	352.1	
	2011	320.0	12.9	374.1	
Roland Vogel	2012	320.0	15.7	378.5	25.0
	2011	320.0	20.1	427.9	18.9
Dr. Wolf Becke⁹	2012	–	0.1	0.5	–
	2011	300.0	14.4	445.7	26.7
Total	2012	2,520.0	91.0	2,842.4	25.0
Total ¹⁰	2011	2,553.3	297.6	3,286.0	45.6

¹ As at the balance sheet date no Board resolution was available regarding the performance-based remuneration for 2012. The variable remuneration is recognised on the basis of estimates and the provisions constituted accordingly.

² The non-cash compensation has been carried in the amounts established for tax purposes.

³ In 2012 altogether EUR 3,200 more in variable remuneration was paid out to Board members for 2011 than had been reserved.

⁴ Remuneration from seats with Group bodies netted with the variable remuneration payable.

⁵ The nominal amount is stated; full or partial payment in 2016, depending on the development until such time of the balance in the bonus bank. In 2012 altogether EUR 900 more than had been originally reserved was allocated to the bonus bank for 2011.

⁶ The nominal amount is stated; virtual Hannover Re share awards are automatically granted in an amount equivalent to 20% of the variable remuneration. The equivalent amount will be paid out in 2017 at the prevailing share price of Hannover Re. In 2012 nominal amounts of EUR 900 more than had been originally reserved were used as a basis for allocation of the 2011 share awards.

⁷ The stock appreciation rights granted in 2011 for 2010 were included at their fair value (according to the Black-Scholes option pricing model) at the time when they were granted (8 March 2011). On account of the changeover from the stock appreciation rights programme to the Share Award Plan in 2011 and the different booking rules applicable to these schemes, DRS 17 requires that both share-based payment programmes be shown in 2011 even though they refer to different years. The stock appreciation rights granted to Dr. Becke in 2012 for 2011 were recognised at their fair value on the date when they were granted (13 March 2012).

⁸ In order to calculate the number of share awards for 2012 reference was made to the Xetra closing price of the Hannover Re share on 28 December 2012 (EUR 58.96). The number to be actually awarded is established from the arithmetic mean of the Xetra closing prices of the Hannover Re share in a period from five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement in March 2013. The applicable market price of the Hannover Re share had increased from EUR 38.325 (30 December 2011) to EUR 42.09 by the allocation date (13 March 2012) of the share awards for 2011; the share awards actually allocated for 2011 are shown here, not those estimated in the 2011 Annual Report.

⁹ The appointment of Dr. Becke ended on age grounds on 31 December 2011. He was therefore subject to the remuneration structure existing prior to 2011, i. e. the bonus bank and Hannover Re share awards components do not apply. The non-cash compensation for Dr. Becke in 2012 relates to telephone expenses arising out of his active service on the Executive Board that had still to be reimbursed.

¹⁰ For the 2010 annual bonus altogether EUR 55,200 more was paid out than reserved. The total amount for the variable remuneration payable in 2011 was increased accordingly.

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

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

Total expense for share-based remuneration of the Executive Board

Name	Year	Stock appreciation rights exercised	Change in reserve in 2012 for stock appreciation rights	Change in reserve for share awards from previous year ¹	Expense for share awards allocated in current financial year ²	Total
in EUR thousand						
Ulrich Wallin	2012	411.3	(108.4)	135.3	76.8	515.0
	2011	139.0	28.7	–	54.1	221.8
André Arrago	2012	88.6	196.0	68.3	44.0	396.9
	2011	0.0	66.1	–	27.3	93.4
Claude Chèvre	2012	–	–	11.8	41.4	53.2
	2011 (2 months)	–	–	–	1.0	1.0
Jürgen Gräber	2012	671.5	(273.7)	71.7	29.3	498.8
	2011	258.1	(87.9)	–	27.8	198.0
Dr. Klaus Miller	2012	–	16.9	98.3	70.4	185.6
	2011	–	8.6	–	40.2	48.8
Dr. Michael Pickel	2012	596.9	(238.6)	22.9	23.5	404.7
	2011	223.4	(66.2)	–	53.1	210.3
Roland Vogel	2012	146.6	(28.2)	65.4	25.2	209.0
	2011	45.0	28.9	–	25.4	99.3
Dr. Wolf Becke³	2012	–	–	–	–	0.0
	2011	269.4	(92.1)	–	–	177.3
Total	2012	1,914.9	(436.0)	473.7	310.6	2,263.2
Total	2011	934.9	(113.9)	–	228.9	1,049.9

¹ The change in the reserve for share awards from previous years derives from the increased market price of the Hannover Re share, the dividend approved for 2011, a contract extension for Dr. Pickel and the spreading of the expense for share awards across the remaining period of the individual service contracts.

² The expense for share awards is spread across the remaining period of the individual service contracts. This gives rise to a difference relative to the nominal amount shown in the table of total remuneration.

³ Dr. Becke left the company on 31 December 2011. An expense in connection with the stock appreciation rights of Dr. Becke is therefore no longer recognised with respect to the active members of the Executive Board.

Cash remuneration actually accruing to active members of the Executive Board

Name in EUR thousand	Year	Fixed remuneration	Variable remuneration	Stock appreciation rights exercised	Total
Ulrich Wallin	2012	520.0	698.9	411.3	1,630.2
	2011	520.0	545.4	139.0	1,204.4
André Arrago	2012	320.0	352.8	88.6	761.4
	2011	320.0	335.3	0.0	655.3
Claude Chèvre	2012	320.0	64.8	–	384.8
	2011 (2 months)	53.3	–	–	53.3
Jürgen Gräber	2012	400.0	490.5	671.5	1,562.0
	2011	400.0	459.3	258.1	1,117.4
Dr. Klaus Miller	2012	320.0	378.0	–	698.0
	2011	320.0	71.2	–	391.2
Dr. Michael Pickel	2012	320.0	374.4	596.9	1,291.3
	2011	320.0	373.3	223.4	916.7
Roland Vogel¹	2012	320.0	453.4	146.6	920.0
	2011	320.0	278.5	45.0	643.5
Dr. Wolf Becke^{1,2}	2012	–	446.2	–	446.2
	2011	300.0	492.4	269.4	1,061.8
Total³	2012	2,520.0	3,259.0	1,914.9	7,693.9
Total	2011	2,553.3	2,555.4	934.9	6,043.6

¹ Remuneration for seats with Group bodies that is counted towards the variable remuneration accrues in the year of occurrence.

² Dr. Becke left the company on 31 December 2011. Any exercises of stock appreciation rights on his part are therefore no longer reported for 2012 with respect to the active members of the Executive Board.

³ In 2012 altogether EUR 3,200 more in variable remuneration was paid to the members of the Executive Board for 2011 than had been reserved.

Sideline activities of the members of the Executive Board

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

Retirement provision

Final-salary pension commitment (appointment before 2009)

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

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

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

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

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

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

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

Contribution-based pension commitment (appointment from 2009 onwards)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The orphan's pension is paid until the age of 18. A child who is still attending school or undergoing vocational training at this time shall continue to receive the orphan's pension until completion of such education, although only for as long as

child benefits could have been claimed for the child under the Federal Child Benefit Act.

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

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

Adjustments

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

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

The pension payments to former members of the Executive Board and their surviving dependants, for whom 13 (13) pension commitments existed, totalled EUR 1.4 million (EUR 1.2 million) in the year under review. The projected benefit obligation of the pension commitments to former members of the Executive Board amounted to altogether EUR 22.5 million (EUR 15.8 million).

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

Defined benefit commitments

Name in EUR thousand	Financial year	Attainable annual pension (age 65)	DBO 31.12.	Personnel expense
Ulrich Wallin	2012	220.0	3,620.2	90.5
	2011	220.0	2,531.2	125.1
André Arrago	2012	127.0	2,390.8	68.3
	2011	127.0	1,791.9	96.6
Jürgen Gräber	2012	158.5	2,381.1	69.9
	2011	158.5	1,606.0	74.4
Dr. Michael Pickel	2012	120.0	1,298.0	67.0
	2011	120.0	800.1	73.9
Roland Vogel¹	2012	71.2	703.5	23.7
	2011	70.9	514.8	142.2
Total	2012	696.7	10,393.6	319.4
Total	2011	696.4	7,244.0	512.2

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

Defined contribution commitments

Name in EUR thousand	Financial year	Annual funding contribution ¹	Attainable annual pension (age 65)	Premium
Claude Chèvre²	2012	25%	68.2	80.0
	2011	25%	68.1	80.0
Dr. Klaus Miller²	2012	25%	48.5	80.0
	2011	25%	48.3	80.0
Total	2012		116.7	160.0
Total	2011		116.4	160.0

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

² Guaranteed interest rate 2.25%

Remuneration of the Supervisory Board

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

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

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

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

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

Individual remuneration received by the members of the Supervisory Board

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

To be continued on the following page

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

¹ Amounts excluding reimbursed VAT

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

³ Employee representatives

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

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

Loans to members of the management boards and contingent liabilities

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

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

Securities transactions and shareholdings (directors' dealings)

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

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

Securities transactions

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

Remuneration of staff and senior executives

Structure and system

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

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

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

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

Valid: 31 December 2012

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

Measurement of variable remuneration for senior executives

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

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

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

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

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

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

Amount and payment of variable remuneration for senior executives

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

MbO bonus

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

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

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

Allocation and payment of share awards to senior executives

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

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

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

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

Forecast

Economic development

Global economy

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

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

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

USA

At the beginning of the year a looming recession in the United States was narrowly averted after Democrats and Republicans found a last-minute solution to the budget wrangling over the fiscal cliff. The debt level and deficit reduction will nevertheless continue to be the issues which shape economic policy. However, the debate about raising the debt ceiling and the question of automatic spending cuts will require further negotiations between the parties. An economic upturn early in 2013 is unlikely because uncertainties in US fiscal policy are still hampering the willingness of companies to commit to capital expenditures. Nevertheless, as the year goes on the upswing in investment in residential construction and favourable effects

on the labour market could stimulate private consumption and give fresh impetus to the tame pace of economic growth. The export sector is expected to deliver only minimal stimuli, since weak demand from key US trading partners – such as in the Eurozone – is hindering any rise in exports. Demand for imports in the US will probably also remain low as a consequence of the ongoing consolidation efforts. Overall, exports may pick up slightly. According to the calculations of the Ifo Institute, GDP will likely grow by 1.6% in 2013.

Europe

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

Germany

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

China, India, Japan

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

Capital markets

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

Insurance industry

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

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

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

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

Non-life reinsurance

Overview

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

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

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

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

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

Target markets

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

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

The treaty renewals as at 1 January 2013 for our portfolio in North America delivered a pleasing outcome in terms of the rate level. Demand for high-quality reinsurance protection continued to rise in these markets too. Rates in US property business were broadly stable, although increases were obtained owing to the effects of Hurricane Sandy. The trend towards an adequate rate level should also be sustained on the casualty side in 2013. We shall continue to benefit from this as the year progresses, since barely half of our North American portfolio

was renewed on 1 January 2013. In some areas, including for example professional indemnity, we noted a trend towards clients carrying higher retentions. In Canada we are seeing a stable market environment with indications of further improvements in rates, and we are therefore looking to expand our portfolio here.

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

Specialty lines

We were satisfied with the treaty renewals in specialty lines.

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

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

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

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

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

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

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

Global reinsurance

Treaty reinsurance worldwide

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

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

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

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

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

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

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

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

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

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

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

Global catastrophe business

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

Global facultative reinsurance

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

Life and health reinsurance

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

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

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

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

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

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

Our business opportunities and risks

Non-life reinsurance

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

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

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

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

Life and health reinsurance

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

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

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

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

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

Investments

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

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

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

Outlook for the full 2013 financial year

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

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

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

The expected positive cash flow that we generate from the technical account and our investments should – subject to stable exchange rates – lead to further growth in our asset portfolio. We are targeting a return on investment of 3.4%.

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

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

Outlook for 2014/2015

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

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

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

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

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

Profit and growth targets 2013

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

¹ Excluding inflation swaps and ModCo derivatives

² 750 basis points above the 5-year average return on 10-year German government bonds after tax

³ Growth in book value per share including dividends paid

⁴ Average over the reinsurance cycle

⁵ Including major loss budget of EUR 625 million

⁶ EBIT/net premium earned

⁷ Excess return on allocated economic capital

⁸ Organic growth only