

Notes to the consolidated financial statements 2012

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1. Company information

The parent company Hannover Rückversicherung AG (“Hannover Re”) and its subsidiaries (collectively referred to as the “Hannover Re Group”) transact all lines of non-life and life/health reinsurance and maintain business relations with more than 5,000 insurance companies on every continent. With gross premium of approximately EUR 13.8 billion, Hannover Re is one of the largest reinsurance groups in the world. The company’s network consists of more than 100 subsidiaries, affiliates, branches and representative offices worldwide with a total workforce of roughly 2,300. The Group’s German busi-

ness is conducted by the subsidiary E+S Rückversicherung AG (“E+S Rück”). The parent company is a joint-stock corporation, the registered office of which is located at Karl-Wiechert-Allee 50, 30625 Hannover, Germany.

An interest of 50.22% in Hannover Rückversicherung AG is held by Talanx AG, which in turn is majority-owned (with a stake of 82.3%) by HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI).

2. Accounting principles

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

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

The consolidated financial statement reflects all IFRS in force as at 31 December 2012 as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), application of which was mandatory for the 2012 financial year. IFRS 4 “Insurance Contracts” requires disclosures on the nature and extent of risks stemming from reinsurance contracts, while IFRS 7 “Financial Instruments: Disclosures” requires similar information on risks from financial instruments. Additionally, § 315 Para. 2 Number 2 German Commercial Code (HGB) also contains requirements for insurance undertakings with regard to information on the management of technical and financial risks that is to be provided in the management report. The disclosures resulting from these requirements are included in the risk report. We have dispensed with an additional presentation of the same content in the notes. In order to obtain a comprehensive overview of the risks to which Hannover Re is exposed it is therefore necessary to consider both the risk report and the relevant information in the notes. We refer the reader accordingly to the corresponding remarks in the risk report and the notes.

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

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

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

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

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

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

The present consolidated financial statement was released for publication by the Executive Board on 18 February 2013.

New accounting standards or accounting standards applied for the first time

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

In addition, for transfers of financial assets that result in full derecognition but where the entity has continuing involvement in the assets, information is to be disclosed that allows users to evaluate the nature of and risks associated with the entity’s continuing involvement in derecognised financial assets. This includes, inter alia, the maximum exposure to loss from continuing involvement as well as a maturity analysis of future cash

flows. The amendments, which are applicable for the first time in the 2012 financial year, had no implications for Hannover Re in the period under review.

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

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

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

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

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

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

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

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

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

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

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

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

The requirements of IFRS 10, 11 and 12 as well as the revised IAS 27 and 28 are to be applied to financial years beginning on or after 1 January 2013. The Accounting Regulatory Committee (ARC) decided in June 2012 that application of the aforementioned standards within the EU shall not be mandatory until one year later, with an effective date of 1 January 2014. While the new IFRS 10, 11, 12 and the revised IAS 27 and 28 were ratified by the EU in December 2012, ratification of the amendments published in the year just ended is still pending.

IFRS 13 “Fair Value Measurement”, a standard published in May 2011, is intended to establish uniform and consistent requirements for the measurement of fair value, which had hitherto been contained in various standards. In this context, the fair value is defined as the exit price, the calculation of which shall be based as far as possible on relevant observ-

able inputs. In addition, extensive explanatory and qualitative disclosures are required; these are intended, in particular, to describe the quality of the calculation of fair value. IFRS 13 must be applied to financial years beginning on or after 1 January 2013.

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

The amendments to IAS 1 are to be applied to financial years beginning on or after 1 July 2012. It is envisaged that the amended IAS 19 will be applicable for the first time to financial years beginning on or after 1 January 2013. The amendments to IAS 1 and IAS 19 were ratified by the EU during the period under review.

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

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

Standards	Applicable to financial years beginning on or after	Adoption by European Commission
Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013	13 December 2012
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	1 January 2014	13 December 2012

3. Accounting policies

3.1 Changes in accounting policies

The treatment of tax expenditures in connection with unrealised income and expenses from investments that are already taxable under local tax law has been corrected for prior financial years. In the 2012 financial year this resulted in an increase in retained earnings that was recognised outside income and a reduction in unrealised gains and losses on investments in

amounts of EUR 5.7 million respectively. Retrospective adjustment of the disclosure for the previous year would have led to a reduction in tax expenditure of EUR 0.3 million. Adjustment of the previous year was omitted in view of the relative insignificance of the amounts involved.

3.2 Summary of major accounting policies

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

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

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

Loans and receivables are non-derivative financial instruments that entail fixed or determinable payments on a defined due date and are not listed on an active market or sold at short notice. They are carried at amortised cost.

Premiums or discounts are deducted or added within the statement of income using the effective interest rate method until the amount repayable becomes due. Impairment is taken only to the extent that repayment of a loan is unlikely or no longer expected in the full amount. Please refer to our comments on impairments in this section.

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

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

Establishment of the fair value of financial instruments carried as assets or liabilities: the fair value of a financial instrument corresponds to the amount that Hannover Re would receive or pay if it were to sell or settle the said financial instrument on the balance sheet date. Insofar as market prices are listed on markets for financial instruments, their bid price is used. In other cases the fair values are established on the basis of the market conditions prevailing on the balance sheet date for financial assets with similar credit rating, duration and return characteristics or using recognised models of mathematical finance. Hannover Re uses a number of different valuation models for this purpose. The details are set out in the table on page 125. For further information please see our explanatory remarks on the fair value hierarchy in Section 6.1 “Investments under own management”.

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

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

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

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

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

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

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

Cash is carried at face value.

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

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

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

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

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

Intangible assets: in accordance with IFRS 3 “Business Combinations” scheduled depreciation is not taken on goodwill; instead, impairments may be taken after an annual impairment test or as indicated. For the purposes of the impairment test, goodwill is to be allocated pursuant to IAS 36 “Impairment of Assets” to so-called “cash generating units” (CGUs). Each CGU to which goodwill is allocated should represent the lowest level on which goodwill is monitored for internal management purposes and may not be larger than a segment. Following allocation of the goodwill it is necessary to determine for each CGU the recoverable amount, defined as the higher of the value in use and the fair value less costs to sell. The recoverable amount is to be compared with the book value of the CGU including goodwill. When the latter exceeds the recoverable amount, an impairment expense is to be recognised. For detailed information on the impairment method used and the goodwill recognised as at the balance sheet date, please see Section 6.5 “Goodwill”.

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

Deferred tax assets: IAS 12 “Income Taxes” requires that assets-side deferred taxes be established if assets have to be recognised in a lower amount or liabilities in a higher amount in the consolidated balance sheet than in the tax balance sheet and if these temporary differences will lead to reduced tax burdens in the future. In principle, temporary differences result from the valuation differences between the tax balance sheets drawn up in accordance with national standards and the IFRS balance sheets of the companies included in the consolidated financial statement drawn up in accordance with uniform group standards as well as from consolidation processes. Deferred tax assets and liabilities are not established if they arise out of assets or liabilities, the carrying amount of which upon first-time recognition diverges from their initial tax base.

Deferred tax assets are also recognised on tax loss carry-forwards and for tax credits. Insofar as the deferred taxes refer to items carried directly in equity, the resulting deferred taxes are also recognised directly in equity. Value adjustments are taken on deferred tax assets as soon as realisation of the receivable no longer appears likely. Deferred taxes are measured according to the tax regulations specific to the country concerned that are applicable or have been adopted as at the closing date.

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

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

Other assets are accounted for at amortised cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

The individual companies’ statements of income prepared in the local currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statement. The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange on the balance sheet date. In accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates” differences from the currency translation of financial statements of foreign Group companies must be recognised in the consolidated financial statement as a separate item in shareholders’ equity. Currency translation differences resulting from long-term loans or lendings without specified maturity between Group companies and for which a settlement is neither planned nor likely to occur are similarly recognised outside the statement of income in a separate item of shareholders’ equity.

Key exchange rates

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

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

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

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

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

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

3.3 Major discretionary decisions and estimates

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

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

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

For further details, for example concerning the modelling of natural catastrophe scenarios and the assumptions relating to asbestos and pollution risks, the reader is referred to our comments in the risk report on page 60 et seq. We would further refer to our explanatory remarks on the technical reserves in Section 3.2 “Summary of major accounting policies” and Section 6.7 “Technical provisions”.

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

The projections, which cover various model scenarios (“conservative assumptions” versus “best estimate”), constitute the starting point for numerous areas of application encompassing quotation, the determination of carrying values and embedded values as well as contract-specific analyses, e.g. regarding the appropriateness of the recognised reinsurance liabilities (“liability adequacy test”). In this context we would refer the reader to our comments on technical assets and provisions in Section 3.2 “Summary of major accounting policies” and on the liability adequacy tests in Section 6.7 “Technical provisions”.

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

4. Consolidation

4.1 Consolidation principles

Capital consolidation

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

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

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

ciated companies is recognised separately in the consolidated statement of income.

Only subsidiaries which are of minor importance – both individually and in their entirety – for the net assets, financial position and results of operations of the Hannover Re Group are exempted from consolidation. Hannover Re assesses whether a subsidiary is of minor importance on the basis of the company’s total assets and net income relative to the corresponding values for the Group as a whole on average over the last three years. For this reason 16 (15) companies at home and abroad were not fully consolidated in the year under review. A further 16 (15) companies were not included at equity in the consolidated financial statement for the same reason. The business object of these altogether 32 (30) companies is for the most part the rendering of services for reinsurance companies within the Group.

Non-controlling interests in shareholders’ equity are reported separately within Group shareholders’ equity in accordance with IAS 1 “Presentation of Financial Statements”. The non-controlling interest in profit or loss, which forms part of net income and is shown separately after net income as a “thereof” note, amounted to EUR 75.4 million (EUR 70.8 million) in the year under review.

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

Consolidation of business transactions within the Group

Receivables and liabilities between the companies included in the consolidated financial statement were offset against each other. Profits and expenses from business transactions within the Group were also eliminated. Transactions between a dis-

posal group and the continuing operations of the Group were similarly eliminated in accordance with IAS 27 “Consolidated and Separate Financial Statements”.

4.2 Consolidated companies and complete list of shareholdings

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

Scope of consolidation

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

¹ Consists of: 20 (19) individual companies and 38 (36) companies which are fully consolidated in 3 (3) subgroups.

² Consists of: 2 (1) associated companies and 4 (5) companies which are included at equity in 1 (1) subgroup.

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

In conformity with Item 7.1.4 of the recommendations of the German Corporate Governance Code as amended on 15 May 2012, the following table also lists the percentage share in capital, the capital and reserves and the result for the last financial year for major participations in unconsolidated third companies.

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

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

List of shareholdings

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

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Hannover Services (UK) Limited, Virginia Water/United Kingdom	100.00	GBP	666	4
International Insurance Company of Hannover Limited, Bracknell/United Kingdom ¹	100.00	GBP	121,759	6,259
Inter Hannover (No.1) Limited, London/United Kingdom ¹	100.00	GBP	(4,265)	1
Leine Investment General Partner S.à r.l., Luxembourg/Luxembourg ⁵	100.00	EUR	30	–
Leine Investment SICAV-SIF, Luxembourg/Luxembourg ⁵	100.00	USD	200	–
Hannover Re (Guernsey) PCC Limited, St Peter Port/Guernsey ¹	100.00	EUR	254	2
Fracom FCP, Paris/France ⁷	100.00	EUR	877,017	25,935
Kaith Re Ltd., Hamilton/Bermuda ¹	88.00	USD	95	(291)
Integra Insurance Solutions Limited, Bradford/United Kingdom ⁸	74.99	GBP	509	636
Secquaero ILS Fund Ltd., Georgetown, Grand Cayman/Cayman Islands ⁹	74.09	USD	73,651	2,884
Svedea AB, Stockholm/Sweden	53.00	SEK	4,630	(44,890)
Subgroups resident abroad				
Hannover Finance, Inc., Wilmington/USA ⁹	100.00	USD	509,913	9,087
Hannover Finance, Inc. compiles its own subgroup financial statement in which the following major companies are included:				
Consolidated companies				
Clarendon Insurance Group, Inc., Wilmington/USA	100.00	USD	221,640	–
Atlantic Capital Corporation, Wilmington/USA ^{9, 10, 11}	100.00	USD	(111,867)	–
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR	210,017	154,417
Hannover Reinsurance Group Africa (Pty) Ltd. compiles its own subgroup financial statement in which the following companies are included:				
Consolidated companies				
Hannover Life Reassurance Africa Limited, Johannesburg/South Africa	100.00	ZAR	416,212	(7,678)
Hannover Reinsurance Africa Limited, Johannesburg/South Africa	100.00	ZAR	781,523	145,608
Compass Insurance Company Limited, Johannesburg/South Africa	100.00	ZAR	109,595	229
Micawber 185 (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR	17,976	2,121
Peachtree (Pty) Ltd., Johannesburg/South Africa ¹⁰	100.00	ZAR	–	–
Hannover Reinsurance Mauritius Ltd., Port Louis/Mauritius	100.00	MUR	50,178	3,785
Lireas Holdings (Pty) Ltd., Johannesburg/South Africa	51.00	ZAR	189,537	21,353
Transit Underwriting Managers (Pty) Ltd., Cape Town/South Africa	51.00	ZAR	991	185
MUA Insurance Company Ltd., Cape Town/South Africa	51.00	ZAR	10,332	547
MUA Insurance Acceptances (Pty) Ltd., Cape Town/South Africa	40.80	ZAR	2,207	(2,168)

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

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

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

¹ Provisional (unaudited) figures

² Year-end result after profit transfer

³ Financial year as at 30 September 2012

⁴ Figures as at 31 December 2011

⁵ Company was newly established in 2012; an annual financial statement is not yet available

⁶ Formerly Hannover Life Reassurance (Ireland) PLC, merged with Hannover Reinsurance (Ireland) PLC

⁷ Financial year as at 30 October 2011

⁸ Financial year as at 31 March 2012

⁹ IFRS figures

¹⁰ Company is in liquidation

¹¹ Certain equity items are not counted under IFRS, as a consequence of which the amount of capital and reserves can be negative here. According to the local accounting practice relevant for supervisory purposes, the company is adequately capitalised.

¹² Company is inactive

¹³ Last annual financial statement compiled as at 31 December 1999

¹⁴ Company was newly established in 2011; business operations have not commenced to date

Consolidation of special purpose entities

Business relations with special purpose entities are to be examined in accordance with SIC-12 “Consolidation – Special Purpose Entities” with an eye to their implications for consolidation. In cases where IFRS do not currently contain any specific

Retrocessions and Insurance-Linked Securities (ILS)

Since 2010, as part of its extended Insurance-Linked Securities (ILS) activities, Hannover Re has written a number of so-called collateralised fronting arrangements under which risks assumed from ceding companies are passed on to institutional investors outside the Group using special purpose entities. The purpose of such transactions is to directly transfer clients’ business. Due to the lack of a controlling influence over the special purpose entities involved, there is no consolidation requirement for Hannover Re with respect to these structures.

Securitisation of reinsurance risks

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

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

By way of its “K” transactions Hannover Re has raised further underwriting capacity for catastrophe risks on the capital market. The “K Cession” (formerly “K6”), which was placed with investors in North America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe busi-

Life and health reinsurance assumed

Some transactions in the life and health reinsurance segment necessitate the involvement of ceding special purpose entities as contracting parties that are established by parties outside the Group and from which member companies of the Hannover Re Group assume certain underwriting and/or financial risks in respect of which the probability of occurrence of a loss for Hannover Re is to be categorised as low in each case. The transactions largely serve the purpose of financing statutory reserves (so-called Triple-X or AXXX reserves) and transferring extreme mortality risks above a contractually defined retention. Since

standards, Hannover Re’s analysis – in application of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” – also falls back on the relevant standards of US GAAP.

In connection with the sale of the operational companies of the subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton/Bermuda, in July 2011, a partial portfolio of CIGI was retroceded to a special purpose entity. The term of the retrocession arrangement runs until the underlying obligations have been finally settled. Since Hannover Re is not the major beneficiary of the special purpose entity and does not exercise either indirect or direct control over it, there is no requirement to consolidate this special purpose entity.

ness as well as aviation and marine risks. The volume of this securitisation, which was increased in the year under review, was equivalent to EUR 268.0 million (EUR 258.8 million) as at the balance sheet date. The transaction henceforth has an indefinite term and can be cancelled annually by the investors. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is being used for the securitisation.

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

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

Hannover Re does not bear the majority of the economic risks or benefits arising out of its business relations with these special purpose entities and cannot exercise a controlling influence over them, there is no consolidation requirement for Hannover Re. Depending upon the classification of the contracts pursuant to IFRS 4 or IAS 39, the transactions are recognised either in the technical account or as derivative financial instruments or as financial guarantees. Please see also our remarks in Section 8.1 “Derivative financial instruments and financial guarantees”.

Investments

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

Hannover Re participates – primarily through the companies Secquaero ILS Fund Ltd. (Secquaero) and Hannover Insurance-Linked Securities GmbH & Co. KG (HILS) – in a number of special purpose entities for the securitisation of catastrophe risks by investing in “disaster bonds” (or “CAT bonds”). While HILS will continue to manage its portfolio, future new business in

this area will be written by the Leine Investment companies. In this connection please see also our remarks on the companies Leine Investment General Partner S.à. r.l. and Leine Investment SICAV-SIF in Section 4.3 “Major acquisitions and new formations”. Since Hannover Re cannot exercise a controlling influence in any of these transactions either there is no requirement to consolidate the relevant special purposes entities.

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

4.3 Major acquisitions and new formations

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

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

HR GLL Central Europe GmbH & Co. KG, which is based in Munich, was established in July 2012. The business object of the company is to purchase, manage, lease and sell commercial real estate or equivalent rights in Europe with a focus on Central European member states of the European Union. The

company was included in the consolidated financial statement for the first time with effect from the third quarter of 2012. At the time of initial consolidation and as at the balance sheet date Hannover Re held 74.4% of the shares in the company.

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

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

4.4 Major disposals and retirements

The disposals of the year under review within the South African subgroup Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg, as well as the liquidation of Hannover Re

Advanced Solutions Ltd., Dublin, which had been inactive since 2004, were of minor significance overall to the consolidated financial statement of Hannover Re.

4.5 Other corporate changes

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

In the third quarter of 2012 Hannover Reinsurance (Ireland) Public Limited Company (formerly Hannover Reinsurance (Ireland) Limited, a wholly owned subsidiary of Hannover Rück Beteiligung Verwaltungs GmbH, HRBV), was merged into Hannover Life Reassurance (Ireland) Public Limited Company (formerly Hannover Life Reassurance (Ireland) Limited, a wholly owned subsidiary of Hannover Life Re AG). In order to implement the merger HRBV transferred Hannover Reinsurance (Ireland) to Hannover Life Reassurance (Ireland) via several intermediate steps by way of a capital increase against contribution in kind. On 19 July 2012 the Commercial Division of the Irish High Court gave final approval to the merger of the companies. The measure was executed in law effective 3 September 2012. The new trading name of the absorbing entity

is Hannover Re (Ireland) Public Limited Company. Since this internal restructuring within the Group involves a transaction between companies under common control, the transaction does not give rise to goodwill nor does it have any implications for Group net income.

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

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

5. Segment reporting

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

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

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

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

Consolidated segment report as at 31 December 2012

Segmentation of assets	Non-life reinsurance	
in EUR thousand	31.12.2012	31.12.2011
Assets		
Held to maturity	3,213,397	3,704,836
Loans and receivables	3,313,608	3,486,857
Available for sale	15,572,034	11,707,340
At fair value through profit or loss	113,030	118,327
Other invested assets	1,679,251	1,554,528
Short-term investments	325,302	638,128
Cash	407,336	385,531
Total investments and cash under own management	24,623,958	21,595,547
Funds withheld	925,312	836,170
Contract deposits	25,803	–
Total investments	25,575,073	22,431,717
Reinsurance recoverables on unpaid claims	1,288,664	1,352,406
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	135,999	89,109
Reinsurance recoverables on other reserves	1,103	4,239
Deferred acquisition costs	476,592	458,651
Accounts receivable	1,691,435	1,977,106
Other assets in the segment	1,288,719	1,469,312
Assets held for sale	6,333	2,391
Total assets	30,463,918	27,784,931
Segmentation of liabilities		
in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	18,595,088	18,030,010
Benefit reserve	–	–
Unearned premium reserve	2,253,544	2,110,289
Provisions for contingent commissions	141,114	145,915
Funds withheld	432,884	313,851
Contract deposits	84,523	96,611
Reinsurance payable	702,224	446,301
Long-term liabilities	167,774	202,823
Other liabilities in the segment	1,848,933	1,544,215
Total liabilities	24,226,084	22,890,015

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

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

Consolidated segment report as at 31 December 2012

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

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

6. Notes on the individual items of the balance sheet

6.1 Investments under own management

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

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

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

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

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

Maturities of the fixed-income and variable-yield securities

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

¹ Including accrued interest

² Including short-term investments and cash

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

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

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

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

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

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

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

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

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

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

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

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

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as available for sale as well as their fair value

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

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as available for sale as well as their fair value

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

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

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

in EUR thousand	2012		2011		2012		2011	
	Fair value before accrued interest		Fair value before accrued interest		Fair value		Fair value	
Financial assets at fair value through profit or loss								
Fixed-income securities								
Debt securities of semi-governmental entities	–	9,998	–	115	–	10,113		
Corporate securities	54,474	81,974	13,305	1,194	67,779	83,168		
Covered bonds/asset-backed securities	79,634	67,849	–	–	79,634	67,849		
	134,108	159,821	13,305	1,309	147,413	161,130		
Other financial assets								
Derivatives	60,835	21,026	–	–	60,835	21,026		
	60,835	21,026	–	–	60,835	21,026		
Total	194,943	180,847	13,305	1,309	208,248	182,156		

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

Hannover Re recognised in this category as at the balance sheet date derivative financial instruments in an amount of EUR 60.8 million (EUR 21.0 million) that are originally allocable to this item as well as fixed-income securities amounting to EUR 147.4 million (EUR 161.1 million) designated in this category.

Analysis of the fair value changes in the portfolio of fixed-income securities at fair value through profit or loss indicated that a fair value increase of altogether EUR 1.1 million was

due to changes in the ratings of callable bonds. In the previous year changes in the ratings of these instruments resulted in a fair value decrease of EUR 4.1 million.

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

For further information please see the explanatory remarks in Section 8.1 "Derivative financial instruments and financial guarantees".

Carrying amounts before impairment

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

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

Rating structure of fixed-income securities

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

Rating structure of fixed-income securities

in EUR thousand	2011								
	AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity	1,775,632	1,783,998	478,168	118,291	–	–	–	–	4,156,089
Fixed-income securities – loans and receivables	1,598,652	1,676,610	132,617	70,559	5,302	4,242	–	36,753	3,524,735
Fixed-income securities – available-for-sale	5,472,083	4,063,262	4,826,757	2,347,271	415,233	76,694	3,092	124,519	17,328,911
Fixed-income securities – at fair value through profit or loss	–	12,728	9,134	57,322	48,404	24,990	52	8,500	161,130
Total fixed-income securities	8,846,367	7,536,598	5,446,676	2,593,443	468,939	105,926	3,144	169,772	25,170,865

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

Breakdown of investments by currencies

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

Breakdown of investments by currencies

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

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

Associated companies

Investments in associated companies

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

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

Real estate

Real estate is divided into real estate for own use and third-party use (investment property). The investment property in the portfolio which is used to generate income is shown under the investments.

Own-use real estate is recognised under other assets.

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

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

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

Development of investment property

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

The fair value of investment property amounted to EUR 511.3 million (EUR 397.2 million) as at the balance sheet date.

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

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

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

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

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

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

Other invested assets

The other invested assets consisted largely of participating interests in partnerships measured at fair value in an amount of EUR 881.4 million (EUR 833.8 million). The amortised cost of these participations amounted to EUR 619.5 mil-

lion (EUR 612.8 million); in addition, unrealised gains of EUR 267.8 million (EUR 222.9 million) and unrealised losses of EUR 5.9 million (EUR 1.9 million) were recognised from these participations.

Short-term investments

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

Fair value hierarchy

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: Inputs used for measurement that are based on observable market data and are not included within level 1.

This level includes, in particular, prices for comparable assets and liabilities, prices on markets that are not considered active as well as inputs derived from such prices or market data.

- Level 3: Inputs used for measurement that are not based on observable market data (unobservable inputs).

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

Fair value hierarchy of financial instruments recognised at fair value

in EUR thousand	2012			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	7,629,587	14,272,569	27,329	21,929,485
Equity securities	29,238	–	8	29,246
Other financial assets – at fair value through profit or loss	36,641	24,194	–	60,835
Other invested assets	687	47,311	1,061,953	1,109,951
Short-term investments	495,412	14,306	–	509,718
Total financial assets measured at fair value	8,191,565	14,358,380	1,089,290	23,639,235
Other liabilities	–	60,012	54,812	114,824
Total financial liabilities measured at fair value	–	60,012	54,812	114,824

Fair value hierarchy of financial instruments recognised at fair value

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

In the year under review financial instruments with a fair value of EUR 84.4 million (EUR 306.8 million) were no longer allocable to level 1 – as in the previous year – but rather to level 2. The reclassification was necessary owing to the reduced liquidity of the instruments. Financial instruments with a fair value of EUR 473.6 million (EUR 103.5 million), which in the previous year were recognised as level 2 instruments, were allocated to level 1 in the current reporting period. The reclassifications principally affected fixed-income securities carried as available for sale.

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

Development of level 3 financial instruments

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

Development of level 3 financial instruments

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

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

Income and expenses from level 3 financial instruments

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

Income and expenses from level 3 financial instruments

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

If models are used to measure financial instruments included in level 3 under which the adoption of reasonable alternative inputs leads to a material change in fair value, IFRS 7 “Financial Instruments: Disclosures” requires disclosure of the effects of these alternative assumptions. Of the financial instruments included in level 3 with fair values of altogether EUR 1,089.3 million (EUR 913.6 million) as at the balance sheet date, Hannover Re measures financial instruments with

a volume of EUR 990.4 million (EUR 863.5 million) using the net asset value method, in respect of which alternative inputs within the meaning of the standard cannot reasonably be established. For the remaining financial instruments included in level 3 with a volume of EUR 98.9 million (EUR 50.1 million), the effects of alternative inputs and assumptions are immaterial.

6.2 Funds withheld (assets)

The funds withheld totalling EUR 14,627.8 million (EUR 13,232.1 million) represent the cash and securities deposits furnished by our company to our cedants that do not trigger any cash flows and cannot be realised by cedants without our consent. The maturities of these deposits are matched to

the corresponding provisions. In the event of default on such a deposit our reinsurance commitment is reduced to the same extent. The rise in funds withheld was attributable principally to increased new business in the area of life reinsurance.

6.3 Contract deposits (assets)

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

6.4 Technical assets

The retrocessionaires' portions of the technical provisions are based on the contractual agreements of the underlying reinsurance treaties. For further details please refer to our comments on the technical provisions in Section 6.7 "Technical provisions" on page 165 et seq. as well as the remarks in the risk report on page 72 et seq.

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

In the case of reinsurance treaties for unit-linked life insurance policies classified as "universal life-type contracts" pursuant to FASB ASC 944-20-15-26 to -30, the capitalised acquisition costs are amortised on the basis of the estimated gross profit margins from the reinsurance treaties, making allowance for

the period of the insurance contracts. A discount rate based on the interest for medium-term government bonds was applied to such contracts. In the case of annuity policies with a single premium payment, these values refer to the expected policy period or period of annuity payment.

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

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

Development of deferred acquisition costs

in EUR thousand	2012	2011
Net book value at 31 December of the previous year	1,926,570	1,834,496
Currency translation at 1 January	(3,863)	15,423
Net book value after currency translation	1,922,707	1,849,919
Additions	428,889	430,093
Reclassification	–	1,269
Amortisations	508,694	362,353
Currency translation at 31 December	(1,623)	7,642
Net book value at 31 December of the year under review	1,841,279	1,926,570

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

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

Age structure of overdue accounts receivable

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

Within the scope of our management of receivables we expect to receive payment of accounts receivable within three months of the date of creation of the debit entry – a period for which we also make allowance in our risk analysis. Please see our comments on the credit risk within the risk report on page 71 et seq.

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

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

Value adjustments on accounts receivable

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

In addition, we took specific value adjustments on reinsurance recoverables on unpaid claims in the year under review. We would refer the reader to the corresponding remarks on the loss and loss adjustment expense reserve in Section 6.7 “Technical provisions”.

With regard to the credit risks resulting from technical assets we would also refer the reader to our comments in the risk report on page 71 et seq.

6.5 Goodwill

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

Development of goodwill

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

This item principally included the goodwill from the acquisition of E+S Rückversicherung AG as well as from the acquisition of a 75% interest in Integra Insurance Solutions Ltd.

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

the respective 30-year government bonds. The selection of the market risk premium is guided by the current recommendations of the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW). The beta factor is calculated for Hannover Rückversicherung AG on the basis of publicly accessible capital market data.

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

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

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

6.6 Other assets

Other assets

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

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

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

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

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

Development of the present value of future profits (PVFP) on acquired life reinsurance portfolios

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

This item consists of the present value of future cash flows from the business acquired that we recognised in 2009 in the context of the acquisition of the ING life reinsurance portfolio. This intangible asset is amortised over the term of the underlying reinsurance contracts in proportion to the future premium

income. The period of amortisation amounts to altogether 30 years. For further information please refer to our explanatory notes on intangible assets in Section 3.2 “Summary of major accounting policies”.

Insurance for pension commitments

Effective 1 July 2003 Hannover Re took out insurance for pension commitments. The commitments involve deferred annuities with regular premium payment under a group insurance

policy. In accordance with IAS 19 “Employee Benefits” they were carried as a separate asset at fair value as at the balance sheet date in an amount of EUR 64.6 million (EUR 62.5 million).

Fixtures, fittings and equipment

Fixtures, fittings and equipment

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

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

Other intangible assets

Development of other intangible assets

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

The item includes EUR 4.5 million (EUR 5.7 million) for self-created software and EUR 25.2 million (EUR 28.5 million) for purchased software as at the balance sheet date. Scheduled depreciation is taken over useful lives of three to ten years. The additions can be broken down into EUR 7.9 million (EUR 6.4 million) for purchased software and EUR 0.9 million (EUR 0.9 million) for capitalised development costs for self-created software.

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

Credit risks may result from other financial assets that were not overdue or adjusted as at the balance sheet date. In this regard, the reader is referred in general to our comments on the credit risk contained in the risk report on page 71 et seq.

6.7 Technical provisions

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

Technical provisions

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

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

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

Loss and loss adjustment expense reserve

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

¹ Including expenses recognised directly in shareholders' equity

In the year under review specific value adjustments on retrocessions, i.e. on the reinsurance recoverables on unpaid claims, were established in an amount of EUR 0.4 million (EUR 2.2 million) and reversed in the amount of EUR 3.0 million (EUR 2.2 million). On balance, therefore, cumulative specific value adjustments of EUR 0.9 million (EUR 3.5 million) were recognised in these reinsurance recoverables as at the balance sheet date.

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

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

In the 2012 financial year the run-off triangles provided by the reporting units were also shown for the first time after adjustment for the currency effects arising out of translation of the respective transaction currency into the local reporting

The total amount of the net reserve before specific value adjustments, to which the following remarks apply, was EUR 20,071.6 million (EUR 19,213.2 million) as at the balance sheet date.

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

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

The following table shows the net loss reserve for the non-life reinsurance business group in the years 2002 to 2012 as well as the run-off of the reserve (so-called run-off triangle). The figures reported for the 2002 balance sheet year also include

the amounts for previous years that are no longer shown separately in the run-off triangle. The run-off results shown reflect the changes in the ultimate loss arising in the 2012 financial year for the individual run-off years.

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

in EUR million	31.12. 2002	31.12. 2003	31.12. 2004	31.12. 2005	31.12. 2006	31.12. 2007	31.12. 2008	31.12. 2009	31.12. 2010	31.12. 2011	31.12. 2012
Loss and loss adjustment expense reserve (from balance sheet)											
	12,523.0	13,186.7	12,658.8	13,324.6	16,573.8	12,814.4	13,673.5	14,012.6	15,257.0	16,699.0	17,308.0
Cumulative payments for the year in question and previous years											
One year later	2,350.7	3,378.2	4,188.5	1,568.7	2,566.6	2,511.4	2,984.5	2,811.7	2,490.2	3,173.2	
Two years later	5,184.9	6,908.7	5,335.4	3,583.0	4,315.7	4,319.4	4,637.9	4,060.2	4,152.2		
Three years later	7,844.8	7,629.2	6,314.6	4,733.8	5,647.6	5,446.1	5,407.4	4,895.2			
Four years later	8,478.6	8,368.7	7,095.8	5,856.2	6,455.8	6,004.7	6,004.0				
Five years later	9,039.2	8,963.4	7,890.8	6,487.6	6,858.4	6,446.7					
Six years later	9,477.5	9,607.5	8,352.5	6,809.4	7,203.3						
Seven years later	10,047.8	9,957.1	8,626.7	7,081.6							
Eight years later	10,316.6	10,179.1	8,836.0								
Nine years later	10,473.8	10,357.9									
Ten years later	10,613.7										
Loss and loss adjustment expense reserve (net) for the year in question and previous years plus payments made to date on the original reserve											
End of year	12,523.0	13,186.7	12,658.8	13,324.6	16,573.8	12,814.4	13,673.5	14,012.6	15,257.0	16,699.0	17,308.0
One year later	10,830.9	12,809.5	13,378.9	14,349.9	12,363.3	12,479.4	13,484.6	13,918.5	14,562.6	16,376.9	
Two years later	10,629.7	13,290.8	14,428.4	10,996.1	11,951.1	12,101.0	12,703.1	12,825.7	14,079.3		
Three years later	10,966.2	14,240.6	11,847.0	10,566.5	11,705.9	11,916.7	12,690.1	12,228.2			
Four years later	11,642.5	12,219.0	11,466.0	10,454.9	11,518.9	11,717.8	12,182.3				
Five years later	10,218.5	12,017.5	11,438.1	10,285.3	10,961.0	11,359.3					
Six years later	10,307.4	12,075.9	11,287.8	9,746.2	10,682.9						
Seven years later	10,395.3	11,932.4	11,789.5	9,543.5							
Eight years later	10,282.5	12,438.5	11,657.2								
Nine years later	11,290.3	12,346.8									
Ten years later	11,208.6										
Change relative to previous year											
Net run-off result	81.6	10.0	40.6	70.5	75.4	80.4	149.4	89.6	(114.1)	(161.3)	
As percentage of original loss reserve	0.7	0.1	0.3	0.5	0.5	0.6	1.1	0.6	(0.7)	-1.0	

The run-off profit of altogether EUR 322.1 million in the 2012 financial year derives, as in the previous year, above all from positive run-offs of reserves in the areas of credit/surety, marine/aviation and short-tail property business.

Maturities of the technical reserves

IFRS 4 "Insurance Contracts" requires information which helps to clarify the amount and timing of cash flows expected from reinsurance contracts. In the following tables we have shown the future maturities of the technical provisions broken down by the expected remaining times to maturity. As part of our maturity analysis we have directly deducted the deposits put

up as security for these reserves, since the cash inflows and outflows from these deposits are to be allocated directly to the ceding companies. For further explanation of the recognition and measurement of the reserves please see Section 3.2 "Summary of major accounting policies".

Maturities of the technical reserves

in EUR thousand	2012					
	Loss and loss adjustment expense reserves			Benefit reserve		
	gross	retro	net	gross	retro	net
Due in one year	6,235,411	426,631	5,808,780	657,514	101,659	555,855
Due after one through five years	8,355,362	590,629	7,764,733	432,281	36,429	395,852
Due after five through ten years	3,084,720	190,742	2,893,978	634,063	51,381	582,682
Due after ten through twenty years	2,076,465	119,868	1,956,597	794,098	40,280	753,818
Due after twenty years	1,076,778	64,067	1,012,711	719,028	20,899	698,129
	20,828,736	1,391,937	19,436,799	3,236,984	250,648	2,986,336
Deposits	781,962	147,201	634,761	7,737,586	256,609	7,480,977
Total	21,610,698	1,539,138	20,071,560	10,974,570	507,257	10,467,313

Maturities of the technical reserves

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

The average maturity of the loss and loss adjustment expense reserves was 5.1 years (5.1 years), or 5.1 years (5.1 years) after allowance for the corresponding retrocession shares. The benefit reserve had an average maturity of 12.0 years (12.8 years) – or 12.4 years (13.2 years) on a net basis.

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

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

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

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

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

The mortality and morbidity rates used are chosen on the basis of national tables and the insurance industry standard. Empirical values for the reinsured portfolio, where available, are also taken into consideration. In this context insights into the gender, age and smoker structure are incorporated into the calcu-

lations, and allowance is also made for factors such as product type, sales channel and the frequency of premium payment by policyholders.

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

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

Development of the benefit reserve

in EUR thousand	2012			2011		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	10,309,066	380,714	9,928,352	8,939,190	347,069	8,592,121
Currency translation at 1 January	49,603	(124)	49,727	150,726	901	149,825
Net book value after currency translation	10,358,669	380,590	9,978,079	9,089,916	347,970	8,741,946
Changes	545,318	16,035	529,283	619,849	(1,611)	621,460
Portfolio entries/exits	76,266	113,211	(36,945)	527,657	29,144	498,513
Reclassification	(103)	–	(103)	–	–	–
Currency translation at 31 December	(5,580)	(2,579)	(3,001)	71,644	5,211	66,433
Net book value at 31 December of the year under review	10,974,570	507,257	10,467,313	10,309,066	380,714	9,928,352

The unearned premium reserve derives from the deferral of ceded reinsurance premium. The unearned premium is determined by the period during which the risk is carried and established in accordance with the information supplied by ceding companies. In cases where no information was received, the

unearned premium was estimated using suitable methods. Premium paid for periods subsequent to the date of the balance sheet was deferred from recognition within the statement of income.

Development of the unearned premium reserve

in EUR thousand	2012			2011		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	2,215,864	91,823	2,124,041	1,910,422	83,224	1,827,198
Currency translation at 1 January	(8,542)	(986)	(7,556)	19,890	454	19,436
Net book value after currency translation	2,207,322	90,837	2,116,485	1,930,312	83,678	1,846,634
Changes	146,108	58,957	87,151	269,222	(5,644)	274,866
Portfolio entries/exits	31	(98)	129	2	35	(33)
Currency translation at 31 December	(13,652)	(11,323)	(2,329)	16,328	13,754	2,574
Net book value at 31 December of the year under review	2,339,809	138,373	2,201,436	2,215,864	91,823	2,124,041

The adequacy of the technical liabilities arising out of our reinsurance treaties is reviewed as at each balance sheet date. In the context of the adequacy testing of technical liabilities (liability adequacy test pursuant to IFRS 4 in conjunction with loss recognition test as per US GAAP) the anticipated future contractual payment obligations are compared with the anti-

ipated future income. Should the result of the test indicate that the anticipated future income will not be sufficient to fund future payments, the entire shortfall is recognised in income by first writing off capitalised acquisition costs corresponding to the shortfall. Any remaining difference is constituted as an additional provision.

6.8 Funds withheld (liabilities)

The funds withheld under reinsurance treaties totalling EUR 821.1 million (EUR 644.6 million) represent the cash and securities deposits furnished to our company by our retrocessionaires that do not trigger any cash flows and cannot be realised without the consent of our retrocessionaires. The

maturities of these deposits are matched to the corresponding shares of the reinsurers in the technical provisions. If such a share no longer exists the corresponding funds withheld are reduced to the same extent.

6.9 Contract deposits (liabilities)

The contract deposits on the liabilities side increased by EUR 789.7 million in the year under review from EUR 5,008.2 million to EUR 5,797.9 million. The contract deposits item on the liabilities side essentially encompasses

balances deriving from non-traditional life insurance contracts that are to be carried as liabilities. The rise was due principally to growth in new business in the area of life reinsurance.

6.10 Provisions for pensions and other post-employment benefit obligations

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

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

formance. The pension plan was closed to new participants with effect from 31 March 1999.

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

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

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

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

Provisions for pensions are established in accordance with IAS 19 "Employee Benefits" using the projected unit credit method. The pension plans are defined benefit plans. The basis of the valuation is the estimated future increase in the rate of compensation of the pension beneficiaries. The benefit entitlements are discounted by applying the capital market rate for

highest-rated securities. The commitments to employees in Germany predominantly comprise benefit obligations financed by the Group companies. The pension plans are unfunded. Amounts carried as liabilities are recognised under other liabilities. The provisions for pensions in Germany and abroad were calculated on the basis of uniform standards according to prevailing economic circumstances.

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

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

Measurement assumptions

in %	2012		2011	
	Germany	Australia	Germany	Australia
Discount rate	3.20	3.50	4.84	4.00
Projected long-term yield on plan assets	–	7.00	–	7.00
Rate of compensation increase	2.75	3.50	2.75	5.00
Pension indexation	2.06	3.00	2.00	3.00

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

Change in the projected benefit obligation

in EUR thousand	2012	2011
Projected benefit obligation at the beginning of the year under review	106,618	109,962
Current service cost for the year under review	2,875	3,341
Interest cost	4,901	4,921
Actuarial gain/loss	33,738	(10,643)
Currency translation	46	366
Benefits paid during the year	(4,805)	(2,309)
Past service cost	(2,257)	1,062
Effect of plan curtailments or settlements	(11)	(82)
Projected benefit obligation at 31 December of the year under review	141,105	106,618

Funding of the defined benefit obligation

in EUR thousand	2012	2011
Projected benefit obligation from unfunded plans	124,134	91,730
Projected benefit obligation from wholly or partially funded plans (before deduction of fair value of plan assets)	16,971	14,888
Projected benefit obligation at 31 December of the year under review	141,105	106,618
Fair value of plan assets	14,979	11,525
Funded status (present value of earned benefit entitlements less fund assets)	126,126	95,093

The fair value of the plan assets developed as follows:

Change in plan assets

in EUR thousand	2012	2011
Fair value at 31 December of the previous year	11,525	10,464
Expected return on plan assets	902	777
Actuarial gain/loss	(309)	(1,253)
Currency translation	29	283
Employer contributions	2,851	1,257
Benefits paid during the year	(3)	(3)
Effect of plan curtailments or settlements	(16)	–
Fair value of plan assets at 31 December of the year under review	14,979	11,525

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

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

Reconciliation of the net provision for pensions

in EUR thousand	2012	2011
Defined benefit obligations at 31 December of the year under review	141,105	106,618
Fair value of plan assets at 31 December of the year under review	14,979	11,525
Funded status	126,126	95,093
Unrealised actuarial gain/loss	(39,376)	(6,650)
Past service cost	(432)	(254)
Effect of the upper limit in IAS 19.58(b)	146	110
Net provisions for pensions at 31 December of the year under review	86,464	88,299

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

Change in the provisions for pensions

in EUR thousand	2012	2011
Net provisions for pensions at 31 December of the previous year	88,299	81,657
Currency translation	49	83
Expense for the year under review	5,817	9,217
Amounts paid during the year	(2,899)	(590)
Benefits paid during the year	(4,802)	(2,306)
Other	–	238
Net provisions for pensions at 31 December of the year under review	86,464	88,299

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

Net periodic pension cost

in EUR thousand	2012	2011
Current service cost for the year under review	2,875	3,341
Interest cost	4,910	4,893
Expected return on plan assets	917	738
Recognised actuarial gain/loss	(1,338)	(1,695)
Past service cost	2,428	–
Effect of plan curtailments or settlements	(3)	–
Effect of the upper limit in IAS 19.58(b)	(36)	(26)
Total	5,817	9,217

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

The net periodic pension cost was recognised in the consolidated statement of income in amounts of EUR 3.9 million (EUR 6.9 million) under administrative expenses, EUR 1.0 million (EUR 1.6 million) under other expenses and EUR 0.9 million (EUR 0.8 million) under other investment expenses.

As in the previous year, no actuarial gains were recognised in other comprehensive income as at the balance sheet date.

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

Amounts recognised

in EUR thousand	2012	2011	2010	2009	2008
Present value of defined benefit obligation	141,105	106,618	109,962	93,462	79,908
Fair value of plan assets	14,979	11,525	10,464	9,317	7,051
Surplus/(deficit) in the plan	(126,126)	(95,093)	(99,498)	(84,145)	(72,857)
Experience adjustments on plan liabilities	(39,376)	(6,650)	(17,784)	(6,647)	(649)

As in the previous year, Hannover Re does not expect any contribution payments under the pension plans set out above in the 2012 financial year.

Defined contribution plans

In addition to the defined benefit plans, some Group companies have defined contribution plans that are based on length of service and the employee’s income or level of contributions. The expense recognised for these obligations in the 2012 financial year in accordance with IAS 19 “Employee Benefits” was

EUR 12.8 million (EUR 11.3 million), of which EUR 1.1 million (EUR 0.8 million) was due to obligations to members of staff in key positions and EUR 5.8 million (EUR 5.5 million) to contributions to the statutory pension insurance scheme in Germany.

6.11 Other liabilities

Other liabilities

in EUR thousand	2012	2011
Liabilities from derivatives	86,585	69,407
Interest	65,824	69,246
Deferred income	28,240	12,929
Direct minority interests in partnerships	35,353	35,418
Sundry non-technical provisions	125,245	109,960
Sundry liabilities	153,357	146,711
Total	494,604	443,671

Of this, other liabilities of EUR 7.8 million (EUR 4.4 million) are attributable to affiliated companies.

The liabilities from derivatives of EUR 86.6 million (EUR 69.4 million) consist of instruments to hedge currency and inflation risks as well as embedded derivatives recognised separately from the underlying insurance contract at fair value pursuant to IAS 39 “Financial Instruments: Recognition and Measure-

ment”. Please see our remarks on derivative financial instruments in Section 8.1 “Derivative financial instruments and financial guarantees”.

The sundry liabilities include, most notably, distributions within the year of EUR 53.0 million (EUR 53.4 million) from interests in private equity funds that had still to be recognised in income as at the balance sheet date.

Development of sundry non-technical provisions

in EUR thousand	Balance at 31.12.2011	Currency translation at 1 January	Balance at 1 January of the year under review	Reclassification
Provisions for				
Audits and costs of publishing the annual financial statements	5,888	(19)	5,869	–
Consultancy fees	2,014	(30)	1,984	–
Suppliers' invoices	5,647	(92)	5,555	–
Partial retirement arrangements and early retirement obligations	5,885	33	5,918	–
Holiday entitlements and overtime	6,021	(22)	5,999	–
Anniversary bonuses	2,170	–	2,170	–
Management bonuses	24,198	(191)	24,007	(229)
Other	58,137	(169)	57,968	229
Total	109,960	(490)	109,470	–

As at the balance sheet date the sundry non-technical provisions were attributable in an amount of EUR 66.0 million to maturities of less than one year, in an amount of EUR 49.0 million to maturities of one through five years and in an amount of EUR 5.8 million to maturities of more than five years. The sundry non-technical provisions with no maturity amounted to EUR 4.4 million.

Changes in consolidated group	Additions	Utilisation	Release	Currency translation at 31 December	Balance at 31.12.2012
–	4,908	4,588	534	(9)	5,646
–	1,167	1,068	21	7	2,069
–	4,517	3,743	1,743	(13)	4,573
–	286	1,006	–	24	5,222
196	4,432	2,968	–	16	7,675
–	1,044	–	–	–	3,214
–	19,814	14,287	3,267	(9)	26,029
–	30,696	18,251	238	413	70,817
196	66,864	45,911	5,803	429	125,245

6.12 Debt and subordinated capital

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

On 20 November 2012 Hannover Re placed a EUR 500.0 million subordinated bond in the European capital market via its subsidiary Hannover Finance (Luxembourg) S.A. The bond has a maturity of approximately 30 years, with a first scheduled call option on 30 June 2023. It carries a fixed coupon of 5.00% p.a. until this date, after which the interest basis changes to a floating rate of 3-month EURIBOR +430 basis points.

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

On 1 June 2005 Hannover Re issued further subordinated debt in the amount of EUR 500.0 million through its subsidiary Hannover Finance (Luxembourg) S.A. The bond is perpetual and carries a fixed coupon of 5.00% in the first ten years. It may be redeemed by Hannover Re on 1 June 2015 at the earliest and at each coupon date thereafter. If the bond is not called at the end of the tenth year, the coupon will step up to a floating-rate yield of 3-month EURIBOR +268 basis points. The interest will be serviced according to the same principles as those practised in the past.

On 26 February 2004 subordinated debt in the amount of EUR 750.0 million was placed through Hannover Finance (Luxembourg) S.A. on the European capital markets. The bond has a final maturity of 20 years and for the first ten years carries a fixed coupon of 5.75%. It may be redeemed by Hannover Re on 26 February 2014 at the earliest and at each coupon date thereafter. If the bond is not called at the end of the tenth year, the coupon will step up to a floating-rate yield of 3-month EURIBOR +263 basis points.

Altogether four (previous year: three) subordinated bonds were recognised as at the balance sheet date with an amortised cost of EUR 2,233.0 million (EUR 1,731.6 million).

Debt and subordinated capital

in EUR thousand				2012			
Subordinated loans	Coupon	Maturity	Currency	Amortised cost	Fair value measurement	Accrued interest	Fair value
Hannover Finance (Luxembourg) S.A., 2012	5.00	2043	EUR	496,643	49,572	2,808	549,023
Hannover Finance (Luxembourg) S.A., 2010	5.75	2040	EUR	498,033	77,287	8,507	583,827
Hannover Finance (Luxembourg) S.A., 2005	5.00	n/a	EUR	489,550	22,016	14,589	526,155
Hannover Finance (Luxembourg) S.A., 2004	5.75	2024	EUR	748,791	32,146	36,409	817,346
				2,233,017	181,021	62,313	2,476,351
Debt				167,758	–	690	168,448
Other long-term liabilities				16	–	–	16
Total				2,400,791	181,021	63,003	2,644,815

Debt and subordinated capital

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

The aggregated fair value of the extended subordinated loans is based on quoted, active market prices. If such price information was not available, fair value was determined on the basis of the recognised effective interest rate method or estimated

using other financial assets with similar rating, duration and return characteristics. Under the effective interest rate method the current market interest rate levels in the relevant fixed-interest-rate periods are always taken as a basis.

Maturities of financial liabilities

in EUR thousand	2012						
	Less than three months	Three months to one year	One to five years	Five to ten years	Ten to twenty years	More than twenty years	No maturity
Other financial liabilities ¹	155,168	92,247	2	4	–	–	–
Debt	–	–	134,886	32,872	–	–	–
Subordinated loans	–	–	–	–	748,791	994,677	489,549
Other long-term liabilities	–	–	16	–	–	–	–
Total	155,168	92,247	134,904	32,876	748,791	994,677	489,549

¹ Excluding minority interests in partnerships; the maturities of derivative financial instruments and sundry non-technical provisions are broken down separately.

Maturities of financial liabilities

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

¹ Excluding minority interests in partnerships; the maturities of derivative financial instruments and sundry non-technical provisions are broken down separately.

Net gains and losses from debt and subordinated capital

in EUR thousand	2012	2011	2012	2011	2012	2011
	Ordinary income/expenses		Amortisation		Net result	
Debt	(10,564)	(10,548)	(847)	(1,520)	(11,411)	(12,068)
Subordinated loans	(99,765)	(98,539)	(4,746)	(630)	(104,511)	(99,169)
Total	(110,329)	(109,087)	(5,593)	(2,150)	(115,922)	(111,237)

The ordinary expenses principally include interest expenses of nominally EUR 99.8 million (EUR 98.5 million) resulting from the subordinated debt placed through Hannover Finance (Luxembourg) S.A.

Other financial facilities

Letter of credit (LoC) facilities exist with a number of financial institutions. With respect to the syndicated facility taken out in 2011 with a volume equivalent to EUR 758.6 million (EUR 772.5 million), the first renewal option was utilised and the maturity extended from the beginning of 2017 to the beginning of 2018. In addition, several bilateral loan agreements were taken out and existing such agreements were expanded.

Unsecured letter of credit facilities with various terms (maturing at the latest in 2022) and a total volume equivalent to EUR 2,621.2 million (EUR 2,403.1 million) exist on a bilateral basis with financial institutions; in addition, a long-term unsecured line of credit intended specifically for US life business was concluded in December 2009 with a total volume equivalent to EUR 379.3 million (EUR 386.2 million).

For further information on the letters of credit provided please see our explanatory remarks in Section 8.7 “Contingent liabilities and commitments”. A number of LOC facilities include standard market clauses that allow the banks rights of cancellation in the event of material changes in our shareholding structure or trigger a requirement on the part of Hannover Re to furnish collateral upon materialisation of major events, for example if our rating is significantly downgraded. Please see our explanatory remarks in the “Financial position” section of the management report, page 55, on the information pursuant to § 315 Para. 4 German Commercial Code (HGB).

6.13 Shareholders’ equity, non-controlling interests and treasury shares

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

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

Non-controlling interests in the shareholders’ equity of the subsidiaries amounted to EUR 684.5 million (EUR 636.0 million) as at the balance sheet date. They were principally attributable to non-controlling interests in the shareholders’ equity of E+S Rückversicherung AG in an amount of EUR 651.0 million (EUR 611.6 million).

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

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

For the disclosures arising out of IAS 1 “Presentation of Financial Statements” with regard to the management of capital, the reader is referred to page 51 of the “Financial position” section of the management report.

Treasury shares

IAS 1 “Presentation of Financial Statements” requires separate disclosure in shareholders’ equity of treasury shares and transactions with owners acting in their capacity as such. By a resolution of the Annual General Meeting of Hannover Rückversicherung AG adopted on 4 May 2010, the company was authorised until 3 May 2015 to acquire treasury shares of up to 10% of the share capital existing on the date of the resolution.

As part of this year’s employee share option plan Hannover Re acquired altogether 23,160 treasury shares in the course of the second quarter of 2012 and delivered them to eligible employees at preferential conditions. These shares are blocked until 31 May 2016. This transaction reduced the retained earnings by EUR 0.4 million. The company was no longer in possession of treasury shares as at the balance sheet date.

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

7.1 Gross written premium

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

Gross written premium		
in EUR thousand	2012	2011
Regional origin		
Germany	1,151,510	1,172,044
United Kingdom	2,765,958	2,415,505
France	563,459	524,153
Other	1,798,392	1,574,466
Europe	6,279,319	5,686,168
USA	3,204,558	2,725,705
Other	642,148	444,492
North America	3,846,706	3,170,197
Asia	1,545,192	1,327,159
Australia	791,760	620,901
Australasia	2,336,952	1,948,060
Africa	498,647	472,423
Other	812,620	819,265
Total	13,774,244	12,096,113

7.2 Investment income

Investment income

in EUR thousand	2012	2011
Income from real estate	47,433	38,283
Dividends	3,622	6,965
Interest income	1,030,153	916,220
Other income	7,201	4,703
Ordinary investment income	1,088,409	966,171
Profit or loss on shares in associated companies	10,415	3,088
Appreciation	2,680	36,769
Realised gains on investments	269,952	262,853
Realised losses on investments	42,444	83,293
Unrealised gains and losses on investments	89,268	(38,795)
Impairments on real estate	12,574	10,532
Impairments on equity securities	2,225	876
Impairments on fixed-income securities	613	5,445
Impairments on participating interests and other financial assets	6,335	14,115
Other investment expenses	96,369	70,322
Net income from assets under own management	1,300,164	1,045,503
Interest income on funds withheld and contract deposits	470,380	432,186
Interest expense on funds withheld and contract deposits	114,894	93,648
Total investment income	1,655,650	1,384,041

Of the impairments totalling EUR 11.4 million (EUR 22.0 million), an amount of EUR 5.8 million (EUR 14.0 million) was attributable to alternative investments and EUR 2.2 million (EUR 1.6 million) to real estate and real estate funds. The impairments on fixed-income securities of EUR 0.6 million (EUR 5.4 million) were taken predominantly on structured assets. An impairment loss of EUR 2.2 million (EUR 0.9 million) was recognised on equities whose fair value had fallen significantly – i.e. by at least 20% – or for a prolonged period – i.e. for at least nine months – below

acquisition cost. Other impairments totalling EUR 0.5 million (EUR 0.2 million) were taken. This contrasted with write-ups of EUR 2.7 million (EUR 36.8 million) on investments that had been written down in previous periods. Of this total volume, EUR 0.6 million (EUR 17.3 million) was attributable to alternative assets and EUR 2.0 million (EUR 16.9 million) to fixed-income securities. The portfolio did not contain any overdue, unadjusted assets as at the balance sheet date since overdue securities are written down immediately.

Interest income on investments

in EUR thousand	2012	2011
Fixed-income securities – held to maturity	144,151	127,697
Fixed-income securities – loans and receivables	125,868	97,708
Fixed-income securities – available for sale	731,487	652,365
Financial assets – at fair value through profit or loss	2,895	6,571
Other	25,752	31,879
Total	1,030,153	916,220

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

Making allowance for the other investment expenses of EUR 96.4 million (EUR 70.3 million), net income from assets under own management of altogether EUR 1,300.2 million (EUR 1,045.5 million) was recognised in the year under review.

Net gains and losses on investments

in EUR thousand	2012				
	Ordinary investment income ¹	Realised gains and losses	Impairments/ appreciation	Unrealised gains and losses	Net income from assets under own management ²
Held to maturity					
Fixed-income securities	136,155	(2,606)	–	–	133,549
Loans and receivables					
Fixed-income securities	124,658	13,991	35	–	138,614
Available for sale					
Fixed-income securities	677,772	149,358	(1,465)	–	828,595
Equity securities	1,362	1,340	2,225	–	477
Other invested assets	58,072	17,671	6,546	2,838	72,035
Short-term investments	18,787	32	261	–	18,558
At fair value through profit or loss					
Fixed-income securities	8,924	(2,991)	–	14,134	20,067
Other financial assets	1,206	560	–	38,485	40,251
Other	71,888	50,153	11,465	33,811	144,387
Total	1,098,824	227,508	19,067	89,268	1,396,533

¹ Including income from associated companies, for reconciliation with the consolidated statement of income

² Excluding other investment expenses

Net gains and losses on investments

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

¹ Including income from associated companies, for reconciliation with the consolidated statement of income

² Excluding other investment expenses

7.3 Reinsurance result

Reinsurance result

in EUR thousand	2012	2011
Gross written premium	13,774,244	12,096,113
Ceded written premium	1,407,851	1,069,745
Change in unearned premium	(146,108)	(269,189)
Change in ceded unearned premium	58,957	(5,668)
Net premium earned	12,279,242	10,751,511
Other technical income	1,455	8,841
Total net technical income	12,280,697	10,760,352
Claims and claims expenses paid	7,884,130	6,266,166
Change in loss and loss adjustment expense reserve	969,216	1,763,729
Claims and claims expenses	8,853,346	8,029,895
Change in benefit reserve	529,283	621,460
Net change in benefit reserve	529,283	621,460
Commissions	2,560,420	2,394,591
Change in deferred acquisition costs	(73,888)	75,682
Change in provision for contingent commissions	15,385	17,219
Other acquisition costs	17,353	10,675
Other technical expenses	4,575	8,954
Administrative expenses	310,790	289,063
Net technical result	(84,343)	(535,823)

With regard to the claims and claims expenses as well as the change in the benefit reserve the reader is also referred to Section 6.7 “Technical provisions”. The change in the benefit reserve relates exclusively to the life and health reinsurance segment.

The administrative expenses amounted to altogether 2.5% (2.7%) of net premium earned.

Other technical income

in EUR thousand	2012	2011
Other technical income (gross)	2,357	9,129
Reinsurance recoverables	902	288
Other technical income (net)	1,455	8,841

Commissions and brokerage, change in deferred acquisition costs

in EUR thousand	2012	2011
Commissions paid (gross)	2,736,643	2,491,637
Reinsurance recoverables	176,223	97,046
Change in deferred acquisition costs (gross)	(56,628)	45,516
Reinsurance recoverables	17,260	(30,166)
Change in provision for contingent commissions (gross)	10,231	22,723
Reinsurance recoverables	(5,154)	5,504
Commissions and brokerage, change in deferred acquisition costs (net)	2,649,693	2,336,128

Other technical expenses

in EUR thousand	2012	2011
Other technical expenses (gross)	4,575	8,980
Reinsurance recoverables	–	26
Other technical expenses (net)	4,575	8,954

7.4 Other income/expenses

Other income/expenses

in EUR thousand	2012	2011
Other income		
Exchange gains	84,764	77,099
Reversals of impairments on receivables	8,511	11,878
Income from contracts recognised in accordance with the deposit accounting method	58,683	49,374
Income from services	4,132	2,996
Other interest income	4,249	73,139
Sundry income	20,620	19,883
	180,959	234,369
Other expenses		
Other interest expenses	75,850	43,460
Exchange losses	109,095	59,057
Expenses from contracts recognised in accordance with the deposit accounting method	11,369	7,877
Separate value adjustments	27,308	12,933
Expenses for the company as a whole	50,207	50,854
Depreciation	12,666	14,326
Expenses for services	5,210	4,339
Expenses from the disposal of Clarendon	–	10,015
Sundry expenses	54,098	38,309
	345,803	241,170
Total	(164,844)	(6,801)

The decrease in the other interest income derived principally from the interest portion of the tax refund arising out of the Federal Fiscal Court (BFH) decision of 2010, which was booked in the previous year. Please see our explanatory remarks in Section 7.5 “Taxes on income”.

7.5 Taxes on income

Domestic taxes on income, comparable taxes on income at foreign subsidiaries as well as deferred taxes in accordance with IAS 12 “Income Taxes” are recognised under this item.

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

The tax rate used to calculate the deferred taxes of the domestic companies was unchanged from the previous year at 31.93% (rounded to 32%). It is arrived at from the corporate income tax rate of 15.0%, the German reunification charge of 5.5%

Breakdown of taxes on income

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

Income tax

in EUR thousand	2012	2011
Actual tax for the year under review	255,566	191,911
Actual tax for other periods	5,262	(124,812)
Deferred taxes due to temporary differences	99,670	42,515
Deferred taxes from loss carry-forwards	10,700	(43,830)
Change in deferred taxes due to changes in tax rates	(2,969)	(324)
Total	368,229	65,460

Domestic/foreign breakdown of recognised tax expenditure/income

in EUR thousand	2012	2011
Current taxes		
Germany	164,362	8,045
Outside Germany	96,466	59,053
Deferred taxes		
Germany	91,027	34,072
Outside Germany	16,374	(35,710)
Total	368,229	65,460

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

The separate value adjustments were attributable principally to accounts receivable in an amount of EUR 26.9 million (EUR 9.2 million) as well as to reinsurance recoverables on unpaid claims in an amount of EUR 0.4 million (EUR 2.2 million) and other receivables in a minimal amount (EUR 0.6 million).

and a uniform trade earnings tax rate of 16.1%. The deferred taxes at the companies abroad were calculated using the applicable country-specific tax rates.

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

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

Deferred tax assets and deferred tax liabilities of all Group companies

in EUR thousand	2012	2011
Deferred tax assets		
Tax loss carry-forwards	68,393	81,178
Loss and loss adjustment expense reserves	285,396	271,615
Benefit reserve	76,508	54,846
Other technical/non-technical provisions	174,094	216,240
Funds withheld	513,357	586,554
Deferred acquisition costs	22,671	14,073
Accounts receivable/reinsurance payable	3,809	7,156
Valuation differences relating to investments	22,857	19,210
Contract deposits	8,876	5,230
Other valuation differences	51,447	64,927
Value adjustments ¹	(43,228)	(43,203)
Total	1,184,180	1,277,826
Deferred tax liabilities		
Loss and loss adjustment expense reserves	24,797	22,542
Benefit reserve ²	526,348	553,381
Other technical/non-technical provisions	52,805	87,485
Equalisation reserve	1,040,561	933,711
Funds withheld	27,961	39,951
Deferred acquisition costs	342,640	372,436
Accounts receivable/reinsurance payable	79,811	62,800
Valuation differences relating to investments	381,555	174,914
Present value of future profits on acquired life reinsurance portfolios (PVFP)	11,513	11,873
Other valuation differences	48,069	59,110
Total	2,536,060	2,318,203
Deferred tax liabilities	1,351,880	1,040,377

¹ Thereof on tax loss carry-forwards: -EUR 43,228 thousand (-EUR 42,760 thousand)

² Including reinsurance recoverables on benefit reserve; previous year was adjusted pursuant to IAS 1 in an amount of EUR 38,174 thousand charged to the other technical provisions.

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

Netting of deferred tax assets and deferred tax liabilities

in EUR thousand	2012	2011
Deferred tax assets	620,493	682,888
Deferred tax liabilities	1,972,373	1,723,265
Net deferred tax liabilities	1,351,880	1,040,377

The actual and deferred taxes recognised directly in shareholders' equity in the financial year increased by -EUR 174.5 million to -EUR 207.3 million (-EUR 32.8 million) against the backdrop of unrealised gains and losses on investments.

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

Reconciliation of the expected expense for income taxes with the actual expense

in EUR thousand	2012	2011
Profit before income taxes	1,301,952	742,248
Expected tax rate	32%	32%
Expected expense for income taxes	416,625	237,519
Change in deferred tax rates	(2,969)	(324)
Taxation differences affecting subsidiaries	(85,664)	(37,199)
Non-deductible expenses	67,002	56,022
Tax-exempt income	(26,747)	(66,664)
Tax income not attributable to the reporting period	3,788	(127,547)
Other	(3,806)	3,653
Actual expense for income taxes	368,229	65,460

The tax burden in the 2012 financial year rose sharply year-on-year by EUR 302.8 million to EUR 368.2 million (EUR 65.5 million). The increase can be attributed partly to a higher pre-tax profit in the year under review and partly to tax refunds in the previous year based on a decision of the Federal Fiscal Court

(BFH) from 2010 regarding the taxation of investment income generated by the Group's reinsurance subsidiaries domiciled in Ireland as foreign-sourced income. The tax ratio amounted to 28.3% (8.8%).

Availability of non-capitalised loss carry-forwards

Unused tax loss carry-forwards of EUR 233.7 million (EUR 286.9 million) existed as at the balance sheet date. Making allowance for local tax rates, EUR 152.4 million (EUR 151.5 million) thereof was not capitalised since realisation is not sufficiently certain.

No deferred taxes were established on assets-side taxable temporary differences amounting to EUR 107.5 million (EUR 38.9 million) and liabilities-side temporary differences of EUR 70.7 million (EUR 108.2 million) in connection with interests in Group companies because the Hannover Re Group can control their reversal and will not reverse them in the foreseeable future.

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

Expiry of non-capitalised loss carry-forwards

in EUR thousand	One to five years	Six to ten years	More than ten years	Unlimited	Total
Loss carry-forwards	–	1,431	–	150,980	152,411
Total	–	1,431	–	150,980	152,411

8. Other notes

8.1 Derivative financial instruments and financial guarantees

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

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

The change in equity from hedging instruments in an amount of -EUR 9.5 million that is recognised directly in equity pursuant to IAS 39 results exclusively from forward exchange contracts taken out within the year to hedge currency risks from long-term investments in foreign operations. Ineffective components of the hedge amounting to EUR 6.1 million were expensed under other expenses.

Hannover Re holds derivative financial instruments to hedge interest rate risks from loans connected with the financing of real estate; these gave rise to recognition of other liabilities in an amount of EUR 3.9 million (EUR 3.2 million).

Hannover Re’s portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange transactions predominantly taken out to hedge cash flows from reinsurance contracts. These transactions gave rise to recognition of other liabilities in an amount of EUR 16.8 million (EUR 20.7 million).

Hannover Re also holds derivative financial instruments to hedge inflation risks associated with the loss reserves in the technical account. These transactions resulted in the recognition of other liabilities amounting to EUR 4.9 million (EUR 32.5 million) and other financial assets at fair value through profit or loss in an amount of EUR 13.1 million (EUR 12.2 million).

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

Maturity structure of derivative financial instruments

in EUR thousand	2012				
	Less than three months	Three months to one year	One to five years	Five to ten years	Total
Interest rate hedges					
Fair values	–	–	(3,597)	(330)	(3,927)
Notional values	–	–	82,668	33,378	116,046
Currency hedges					
Fair values	(935)	(2,585)	(10,696)	(2,586)	(16,802)
Notional values	12,237	77,969	36,395	11,038	137,639
Inflation hedges					
Fair values	–	–	9,094	(877)	8,217
Notional values	–	–	2,544,433	304,822	2,849,255
Total hedging instruments					
Fair values	(935)	(2,585)	(5,199)	(3,793)	(12,512)
Notional values	12,237	77,969	2,663,496	349,238	3,102,940

Maturity structure of derivative financial instruments

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

The net changes in the fair value of these instruments improved the result of the financial year by EUR 27.4 million (EUR 19.8 million).

Derivative financial instruments in connection with reinsurance

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

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

Hannover Re calculates the fair value of the embedded derivatives in ModCo treaties using the market information available on the valuation date on the basis of a “credit spread” method. Under this method the derivative is valued at zero on the date when the contract commences and its value then fluctuates over time according to changes in the credit spreads of the securities. The derivative had a positive value of EUR 39.8 million as at the balance sheet date and was recognised under other financial assets at fair value through profit or loss (EUR 12.9 million under other liabilities).

In the course of the year the change in the fair value of the derivative gave rise to a positive profit contribution of EUR 51.8 million before tax (negative profit contribution of EUR 55.4 million).

A number of transactions concluded in the life and health reinsurance business group in 2012, under which Hannover Re companies offer their contracting parties coverage for risks from possible future payment obligations arising out of hedging instruments, are also to be classified as derivative financial instruments. The payment obligations result from contractually defined events and relate to the development of an underlying group of primary insurance contracts with statutory reserving requirements. The contracts are to be categorised and recognised as stand-alone credit derivatives pursuant to IAS 39. These derivative financial instruments were carried in equity on initial recognition because receivables recognised under other assets were to be carried in the same amount. Please see Section 6.6 “Other assets”. The fair value of these instruments on the balance sheet date was EUR 54.8 million, which was recognised under other liabilities. The change in value in subsequent periods is dependent upon the risk experience.

The derivative components of another group of contracts in the area of life and health reinsurance were measured on the basis of stochastic considerations. The measurement produced a positive derivative value of EUR 7.5 million (EUR 8.2 million) on the balance sheet date. The derivative was recognised under other financial assets at fair value through profit or loss. The valuation resulted in a charge against investment income of EUR 0.7 million (EUR 1.1 million) as at 31 December 2012.

All in all, application of the standards governing the carrying of derivatives in connection with the technical account led to recognition of assets totalling EUR 47.7 million (EUR 8.8 million) as well as recognition of liabilities from the derivatives resulting from technical items in an amount of EUR 60.9 million (EUR 13.0 million) as at the balance sheet date. Increases

Financial guarantees

Structured transactions were entered into in the life and health reinsurance business group in order to finance statutory reserves (so-called Triple-X or AXXX reserves) of US ceding companies. In each case such structures necessitate the involvement of a special purpose entity. The special purpose entities carry extreme mortality risks securitised by the cedant above a contractually defined retention and transfer these risks by way of a fixed/floating swap with a ten-year term to a member company of the Hannover Re Group. The maximum capacity of the transactions is equivalent to EUR 1,137.9 million; an amount equivalent to EUR 848.1 million had been taken up as at the balance sheet date. The variable payments to the special purpose entities that are guaranteed by Hannover Re cover their payment obligations. By way of compensation

in investment income amounting to EUR 52.0 million (EUR 8.8 million) as well as charges to income of EUR 7.1 million (EUR 56.4 million) were recognised in the year under review from all separately measured derivatives in connection with the technical account.

agreements Hannover Re is reimbursed by the parent companies of the cedants for all payments resulting from the swap in the event of a claim. Under IAS 39 these transactions are to be recognised at fair value as financial guarantees. To this end Hannover Re uses the net method, according to which the present value of the agreed fixed swap premiums is netted with the present value of the guarantee commitment. The fair value on initial recognition therefore amounted to zero. The higher of the fair value and the amount carried as a provision on the liabilities side pursuant to IAS 37 is recognised at the point in time when utilisation is considered probable. This was not the case as at the balance sheet date. In this case the reimbursement claims from the compensation agreements are to be capitalised separately from and up to the amount of the provision.

8.2 Related party disclosures

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

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

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

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

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

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

Talanx Reinsurance Broker AG grants Hannover Re and E+S Rückversicherung AG a preferential position as reinsurers of cedants within the Talanx Group. In addition, Hannover Re and E+S Rückversicherung AG are able to participate in the protection covers on the retention of Group cedants and share

in the protection afforded by them. In certain circumstances Hannover Re and E+S Rück are obliged to assume unplaced shares of the reinsurance of Group cedants from Talanx Reinsurance Broker AG.

Business assumed and ceded in Germany and abroad

in EUR thousand	2012		2011	
	Premium	Underwriting result	Premium	Underwriting result
Business assumed				
Non-life reinsurance	443,469	39,727	408,359	54,912
Life and health reinsurance	209,342	17,083	246,051	23,748
	652,811	56,810	654,410	78,660
Business ceded				
Non-life reinsurance	(13,894)	558	(23,341)	31,749
Life and health reinsurance	(51,869)	(9,023)	(48,389)	(10,015)
	(65,763)	(8,465)	(71,730)	21,734
Total	587,048	48,345	582,680	100,394

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

In October 2012 Funis GmbH & Co. KG acquired 30% of the shares in the Liechtenstein-based ASPECTA Assurance International AG from Talanx International AG for a purchase price of EUR 1. At the same time the remaining shares were sold by Talanx International AG to an investor outside the Group. The negative difference of EUR 0.7 million resulting from netting of the purchase price with the proportionate shareholders' equity was recognised in income.

In the 2007 financial year Hannover Re (Bermuda) Ltd. extended a loan due on 31 May 2012 with a coupon of 4.98% to Talanx AG, the volume of which as at the balance sheet date of the previous year was EUR 51.5 million. The carrying amount included accrued interest of EUR 1.5 million. The loan was repaid by Talanx AG on schedule.

The Group companies E+S Rückversicherung AG, Hannover Finance (Luxembourg) S.A., Hannover Re (Ireland) Plc and Hannover Re (Bermuda) Ltd. invested in a nominal amount of altogether EUR 150.0 million in a bearer debenture of Talanx AG with a term until 8 July 2013 and a coupon of 5.43%. The carrying amount of the instrument, which is recognised under fixed-income securities held to maturity, was EUR 153.0 million (EUR 153.9 million) and included accrued interest of EUR 3.9 million (EUR 3.9 million) as at the balance sheet date.

Under long-term lease arrangements companies belonging to the Hannover Re Group rented out business premises in 2012 to Talanx Service AG, Hannover, which also entered into the existing lease agreements. In the year under review a lease arrangement with Talanx Service AG was taken over with the purchase of the office building at Karl-Wiechert-Allee 57. Under this agreement Hannover Re rents out office space to Talanx Service AG at normal market conditions. In addition, lease agreements exist with Talanx Service AG for use of a portion of the space in our data-processing computer centre.

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

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

In December 2012 Hannover Re concluded a service agreement with Talanx AG, Hannover, regarding the purchase of services for operation of data acquisition software.

Remuneration and shareholdings of the management boards of the parent company

The remuneration of the Executive Board of Hannover Re amounted to altogether EUR 7.5 million (EUR 9.4 million). The total remuneration (excluding pension payments) of former members of the Executive Board and their surviving dependants stood at EUR 2.4 million (EUR 0.1 million). The pension payments to previous members of the Executive Board and their surviving dependants, for whom 13 (13) pension commitments existed, totalled EUR 1.4 million (EUR 1.2 million) in the year under review; altogether, a provision of EUR 22.5 million (EUR 15.8 million) has been set aside for these commitments.

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

The members of the governing bodies did not receive any advances or loans in the year under review. Nor were there any other reportable circumstances or contractual relationships as defined by IAS 24 between companies of the Hannover Re Group and the members of the governing bodies or their related parties in the year under review.

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

All other information on the remuneration of the governing bodies, directors' dealings and shareholdings as well as the structure of the remuneration system for the Executive Board is contained in the remuneration report from page 83 onwards. This remuneration report is based on the recommendations of the German Corporate Governance Code and contains information which also forms part of the notes to the 2012 consolidated financial statement as required by IAS 24 "Related Party Disclosures". In addition, we took into account the more specific provisions of DRS 17 "Reporting on the Remuneration of Members of Governing Bodies". Under German commercial law, too, this information includes data specified as mandatory for the notes (§ 314 HGB) and the management report (§ 315 HGB). These details are discussed as a whole in the remuneration report. Consequently, we have not provided any further explanation in the notes.

8.3 Share-based payment

Stock Appreciation Rights Plan

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

The Conditions for the Granting of Stock Appreciation Rights were cancelled for the 2011 financial year by a resolution of the Supervisory Board dated 8 November 2010, insofar as the members of the company's Executive Board could be granted stock appreciation rights on the basis of these Conditions (partial cancellation). The Conditions for the Granting of Stock Appreciation Rights were also cancelled for the other eligible recipients for the year under review by a resolution of the Executive Board dated 14 March 2011. Awarded stock appreciation rights continue to be exercisable until the end of their period of validity.

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

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

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

On 4 November 2009 the Supervisory Board of Hannover Re decided to extend the waiting period applicable to members of the Executive Board from two to four years for stock appreciation rights granted from the 2010 allocation onwards; on 23 November 2009 the Executive Board decided to extend the waiting period accordingly for the other members of the Group's management. Upon expiry of this waiting period a maximum 60% of the stock appreciation rights awarded for an allocation year may be exercised. The waiting period for each additional 20% of the stock appreciation rights awarded for this allocation year to a member of the managerial staff is one year.

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

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

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

The allocations for the years 2003, 2004 as well as 2006, 2007 and 2009 to 2011 gave rise to commitments in the 2012 financial year shown in the following table. No allocations were made for 2005 or 2008.

Stock appreciation rights of Hannover Re

	Allocation year						
	2011	2010	2009	2007	2006	2004	2003
Award date	15.3.2012	8.3.2011	15.3.2010	28.3.2008	13.3.2007	24.3.2005	25.3.2004
Period	10 years	10 years	10 years	10 years	10 years	10 years	10 years
Waiting period	4 years	4 years	2 years	2 years	2 years	2 years	2 years
Basic price (in EUR)	40.87	33.05	22.70	34.97	30.89	27.49	24.00
Participants in year of issue	143	129	137	110	106	109	110
Number of rights granted	263,515	1,681,205	1,569,855	926,565	817,788	211,171	904,234
Fair value at 31.12.2012 (in EUR)	17.31	7.16	8.62	10.79	10.32	24.62	8.99
Maximum value (in EUR)	32.21	8.92	8.76	10.79	10.32	24.62	8.99
Weighted exercise price	–	–	8.76	9.84	10.32	21.49	8.99
Number of rights existing at 31.12.2012	262,789	1,661,890	932,372	240,852	26,491	3,354	0
Provisions at 31.12.2012 (in EUR million)	0.94	5.08	6.21	2.6	0.27	0.08	0
Amounts paid out in the 2012 financial year (in EUR million)	–	–	4.94	5.94	2.33	2.49	0.02
Expense in the 2012 financial year (in EUR million)	0.94	3.38	2.8	2.94	0.69	1.08	0

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

The calculations were based on the price of the Hannover Re share of EUR 57.65 as at the reference date of 14 December 2012, expected volatility of 41.16% (historical volatility on a five-year basis), a dividend yield of 4.60% and risk-free interest rates of -0.07% for the 2004 allocation year, 0.19% for the 2006 allocation year, 0.39% for the 2007 allocation year, 0.84% for the 2009 allocation year, 1.06% for the 2010 allocation year and 1.26% for the 2011 allocation year.

In the 2012 financial year the waiting period expired for 100% of the stock appreciation rights awarded in 2003, 2004 and 2006, 80% of those awarded in 2007 and 40% of those awarded in 2009.

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

Development of the stock appreciation rights of Hannover Re

Number of options	Allocation year						
	2011	2010	2009	2007	2006	2004	2003
Granted in 2004	-	-	-	-	-	-	904,234
Exercised in 2004	-	-	-	-	-	-	-
Lapsed in 2004	-	-	-	-	-	-	59,961
Number of options at 31.12.2004	-	-	-	-	-	-	844,273
Granted in 2005	-	-	-	-	-	211,171	-
Exercised in 2005	-	-	-	-	-	-	-
Lapsed in 2005	-	-	-	-	-	6,397	59,834
Number of options at 31.12.2005	-	-	-	-	-	204,774	784,439
Granted in 2006	-	-	-	-	-	-	-
Exercised in 2006	-	-	-	-	-	-	278,257
Lapsed in 2006	-	-	-	-	-	14,511	53,578
Number of options at 31.12.2006	-	-	-	-	-	190,263	452,604
Granted in 2007	-	-	-	-	817,788	-	-
Exercised in 2007	-	-	-	-	-	12,956	155,840
Lapsed in 2007	-	-	-	-	8,754	13,019	38,326
Number of options at 31.12.2007	-	-	-	-	809,034	164,288	258,438
Granted in 2008	-	-	-	926,565	-	-	-
Exercised in 2008	-	-	-	-	-	1,699	121,117
Lapsed in 2008	-	-	-	-	3,103	1,443	2,162
Number of options at 31.12.2008	-	-	-	926,565	805,931	161,146	135,159
Granted in 2009	-	-	-	-	-	-	-
Exercised in 2009	-	-	-	-	-	1,500	79,262
Lapsed in 2009	-	-	-	17,928	16,158	3,192	-
Number of options at 31.12.2009	-	-	-	908,637	789,773	156,454	55,897
Granted in 2010	-	-	1,569,855	-	-	-	-
Exercised in 2010	-	-	-	10,399	95,380	29,832	52,581
Lapsed in 2010	-	-	34,255	8,380	2,642	-	-
Number of options at 31.12.2010	-	-	1,535,600	889,858	691,751	126,622	3,316
Granted in 2011	-	1,681,205	-	-	-	-	-
Exercised in 2011	-	-	-	41,583	437,491	7,183	602
Lapsed in 2011	-	15,245	39,710	4,044	1,817	-	-
Number of options at 31.12.2011	-	1,665,960	1,495,890	844,231	252,443	119,439	2,714
Granted in 2012	263,515	-	-	-	-	-	-
Exercised in 2012	-	-	563,518	603,379	225,952	116,085	2,714
Lapsed in 2012	726	4,070	-	-	-	-	-
Number of options at 31.12.2012	262,789	1,661,890	932,372	240,852	26,491	3,354	-

2,714 stock appreciation rights from the 2003 allocation year, 116,085 stock appreciation rights from the 2004 allocation year, 225,952 stock appreciation rights from the 2006 allocation year, 603,379 stock appreciation rights from the 2007 allocation year and 563,518 stock appreciation rights from the 2009 allocation year were exercised. The total amount paid out stood at EUR 15.7 million.

Share Award Plan

With effect from the 2011 financial year the Supervisory Board of Hannover Re implemented a “Share Award Plan” for the members of the Executive Board of Hannover Re; this provides for the granting of stock participation rights in the form of virtual shares (referred to as “share awards”). The Executive Board of Hannover Re decided to adopt a Share Award Plan for certain management levels at Hannover Re as well with effect from the 2012 financial year.

The Share Award Plan replaces the Stock Appreciation Rights Plan that was cancelled with effect from the year under review. Please see our remarks under “Stock Appreciation Rights Plan” in this section. The share awards do not establish any claim against Hannover Re to the delivery of stock, but merely to payment of a cash amount in accordance with the conditions set out below.

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

After share awards were already granted to the members of the Executive Board in the year under review for the 2011 financial year, share awards will be granted separately to managers for the first time for the 2012 financial year and then for each financial year (allocation year) thereafter.

The total number of share awards granted is based on the value per share of Hannover Re. The value per share is established according to the unweighted arithmetic mean of the Xetra closing prices of the Hannover Re share. In the conditions applicable to members of the Executive Board a period of five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement for the financial year just-ended is envisaged for

On this basis the aggregate provisions – included in the sundry non-technical provisions – amounted to EUR 15.2 million for the 2012 financial year (EUR 19.1 million). The expense totalled altogether EUR 11.8 million (EUR 5.2 million).

the calculation. For managers a period of twenty trading days before to ten trading days after the meeting of the Supervisory Board that approves the consolidated financial statement for the financial year just-ended has been agreed. The total number of share awards granted is established by dividing the amount available for the granting of share awards to the respective eligible recipients by the value per share, rounded up to the next full share. For members of the Executive Board 20% and for managers 40% or 35% – according to management levels – of the defined variable remuneration shall be granted in the form of share awards.

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

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

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

In the event that the Board mandate or service relationship with the member of the Executive Board or the employment relationship with the manager ends, the eligible recipient shall retain his claims to payment of the value of already granted share awards after expiry of the applicable vesting period, unless such termination is based on resignation of office/voluntary termination on the part of the member of the Executive Board or voluntary termination on the part of the manager or dismissal by Hannover Re for a compelling reason. In the event of death the claims arising out of the already granted and/or still to be granted share awards pass to the heirs. All share awards including the dividend shall be paid out to the eligible party irrespective of any remaining vesting period at a disbursement date to be determined once the status as heir has been documented to Hannover Re. The value of all share awards shall be determined by the value per share of Hannover Re calculated as at this disbursement date.

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

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

The provisional fair value for the 2012 allocation year is measured according to the market price of the share on the valuation date of 28 December 2012 and amounts to EUR 58.96 (EUR 38.325) per share award. The probable allocation for the members of the Executive Board amounts to altogether 16,053 (24,390) share awards and for managers altogether 12,329 (0) share awards, in each case plus the total present value of the dividend entitlements acquired until the end of the period. No allowance is made for anticipated dividend payments.

For the 2011 allocation year the members of the Executive Board were ultimately awarded 22,232 share awards after adjustment of the fair value of EUR 38.325 recognised in the consolidated financial statement to the unweighted mean of EUR 42.09. Entitlements from dividends arose in the year under review as at the balance sheet date only for the share awards granted to the members of the Executive Board in an amount of EUR 45,5 thousand.

The personnel expense from share awards to members of the Executive Board is spread on an accrual basis across the period of the service contracts, while the personnel expense from share awards received by managers is spread across the four-year term of the share awards. Personnel expenses of EUR 0.8 million (EUR 0.2 million) in the case of the Executive Board and EUR 1.4 million (EUR 0) in the case of managers were allocated to the provision for share awards in the year under review in the context of the proportionate write-up of fair values.

The total amount of the provision of EUR 2.4 million (EUR 0.2 million) is shown under the sundry provisions.

8.4 Staff and expenditures on personnel

Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group during the reporting period was 2,263 (2,210). As at the balance sheet date altogether 2,312 (2,217) staff were employed

by the Hannover Re Group, with 1,164 (1,110) employed in Germany and 1,148 (1,107) working for the consolidated Group companies abroad.

Personnel information

	2012					2011	
	31.3.	30.6.	30.9.	31.12.	Average	31.12.	Average
Number of employees (excluding Board members)	2,228	2,266	2,293	2,312	2,263	2,217	2,210

Nationality of employees

	2012								Total
	German	US	South African	UK	Swedish	Australian	Irish	Other	
Number of employees	1,081	287	157	210	90	74	36	377	2,312

Expenditures on personnel

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

Personnel expenditures

in EUR thousand	2012	2011
a) Wages and salaries	197,664	171,362
	197,664	171,362
b) Social security contributions and expenditure on provisions and assistance		
ba) Social security contributions	18,295	15,201
bb) Expenditures for pension provision	20,369	23,134
bc) Expenditures for assistance	3,840	3,254
	42,504	41,589
Total	240,168	212,951

8.5 Earnings per share and dividend proposal

Calculation of the earnings per share

	2012	2011
Group net income in EUR thousand	858,312	605,973
Weighted average of issued shares	120,596,877	120,596,999
Basic earnings per share in EUR	7.12	5.02
Diluted earnings per share in EUR	7.12	5.02

The earnings per share is calculated by dividing the net income attributable to the shareholders of Hannover Re by the weighted average number of shares outstanding within the period under review.

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

ments in Section 6.13 “Shareholders’ equity, non-controlling interests and treasury shares”.

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

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

Dividend per share

A dividend of EUR 253.3 million (previous year: EUR 277.4 million) was paid in the year under review for the 2011 financial year.

It will be proposed to the Annual General Meeting on 7 May 2013 that a dividend of EUR 2.60 and a bonus of EUR 0.40 per share should be paid for the 2012 financial year. This corresponds to a total distribution of EUR 361.8 million. The dividend proposal does not form part of this consolidated financial statement.

8.6 Lawsuits

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

8.7 Contingent liabilities and commitments

Hannover Re has placed four subordinated debts on the European capital market through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured by subordinated guarantee both the debt issued in 2004, the volume of which amounts to EUR 750.0 million, and the debts from the 2005, 2010 and 2012 financial years in amounts of EUR 500.0 million each.

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

As security for technical liabilities to our US clients, we have established two trust accounts (master trust and supplemental trust) in the United States. They amounted to EUR 2,855.7 million (EUR 2,756.1 million) and EUR 11.9 million (EUR 12.1 million) respectively as at the balance sheet date. The securities held in the trust accounts are shown as available-for-sale investments. In addition, we furnished further collateral to ceding companies in an amount of EUR 549.3 million (EUR 367.4 million) in the form of so-called "single trust funds".

As part of our business activities we hold collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the Group's major companies was EUR 2,314.4 million (EUR 2,017.4 million) as at the balance sheet date.

The securities held in the blocked custody accounts and trust accounts are recognised predominantly as available-for-sale investments.

As security for our technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount as at the balance sheet date was EUR 3,343.0 million (EUR 3,097.8 million). The standard market contractual clauses contained in some of the underlying letter

of credit facilities regarding compliance with stipulated conditions are explained in greater detail in the "Financial position" section of the management report, page 55, on the information pursuant to § 315 Para. 4 German Commercial Code (HGB) as well as in Section 6.12 "Debt and subordinated capital" on other financial facilities.

In addition, we keep own investments with a book value of EUR 67.3 million (EUR 37.4 million) in blocked custody accounts as collateral provided under existing derivative transactions. We received collateral with a fair value of EUR 9.5 million (EUR 5.2 million) for existing derivative transactions.

For liabilities in connection with participating interests in real estate companies and real estate transactions Hannover Re Real Estate Holdings has furnished the usual collateral under such transactions to various banks, the amount of which totalled EUR 288.3 million (EUR 309.3 million) as at the balance sheet date.

Outstanding capital commitments with respect to alternative investments exist on the part of the Group in an amount of EUR 575.9 million (EUR 451.9 million). These primarily involve as yet unfulfilled payment obligations from investment commitments given to private equity funds and venture capital firms.

The application of tax regulations may not have been resolved at the time when tax items are brought to account. The calculation of tax refund claims and tax liabilities is based on what we consider to be the regulations most likely to be applied in each case. The revenue authorities may, however, take a differing view, as a consequence of which additional tax liabilities could arise in the future.

Hannover Re enters into contingent liabilities as part of its normal business operations. A number of reinsurance treaties concluded by Group companies with outside third parties include letters of comfort, guarantees or novation agreements under which the parent company guarantees the liabilities of the subsidiary in question or enters into the rights and obligations of the subsidiary under the treaties if particular constellations materialise.

8.8 Long-term commitments

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

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

8.9 Rents and leasing

Leased property

Future leasing commitments

in EUR thousand	Payments
2013	7,080
2014	6,579
2015	5,043
2016	4,413
2017	2,907
Subsequent years	9,633

Operating leasing contracts produced expenditures of EUR 6.0 million (EUR 6.6 million) in the year under review.

Rented property

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

Rental income

in EUR thousand	Payments to be received
2013	37,889
2014	36,029
2015	33,350
2016	31,030
2017	25,698
Subsequent years	77,852

Rental income totalled EUR 47.3 million (EUR 36.7 million) in the year under review. The rental income resulted principally from the renting out of properties by the Group's real estate companies.

8.10 Fee paid to the auditor

An expense of altogether EUR 3.2 million (EUR 2.0 million) was incurred in the year under review for the fee paid to the appointed auditor of the consolidated financial statement as defined by § 318 German Commercial Code (HGB). Of this total amount, EUR 1.5 million (EUR 1.3 million) was attributable to

the fee for auditing services in relation to the financial statement, EUR 0.5 million (EUR 0.6 million) to other assurance services, EUR 0.1 million (previous year: minimal amount) to tax consultancy services and EUR 1.1 million (previous year: minimal amount) to other services.

8.11 Events after the balance sheet date

In a press release dated 21 February 2013 we announced the completion of another block transaction for longevity risks in our life and health reinsurance business group. Under the transaction pension obligations in the amount of GBP 3.2 billion assumed by a UK cedant are mostly transferred to Hannover Re with contractual effect from 31 January 2013. Hannover Re assumes only the biometric risk under this transaction, not the investment risk. Hannover Re will generate total premium income of roughly GBP 2.2 billion from this longevity transaction, with gross premium of around GBP 100.0 million attributable to the 2013 financial year.

Sizeable major loss events were recorded in non-life reinsurance at the beginning of 2013 in connection with floods along the east coast of Australia – caused in particular by Tropical Cyclone Oswald – and the failed launch of the communications satellite Intelsat 27. Hannover Re anticipates losses in the low double-digit million euros from both events.

The Annual General Meeting of Hannover Rückversicherung AG on 3 May 2012 adopted a resolution to convert the company to a European limited company (Societas Europaea or SE). The SE will be created upon entry in the commercial register, which is expected to take place in the first quarter of the 2013 financial year.

Hannover, 5 March 2013

Executive Board



Wallin



Arrago



Chèvre



Gräber



Dr. Miller



Dr. Pickel



Vogel

Auditors' report

We have audited the consolidated financial statements prepared by Hannover Rückversicherung AG, Hannover – comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and notes to the consolidated financial statements – as well as the group management report for the business year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Para. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment

of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hannover, 5 March 2013

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Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group

management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Hannover, 5 March 2013

Executive Board



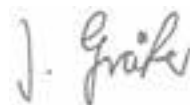
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