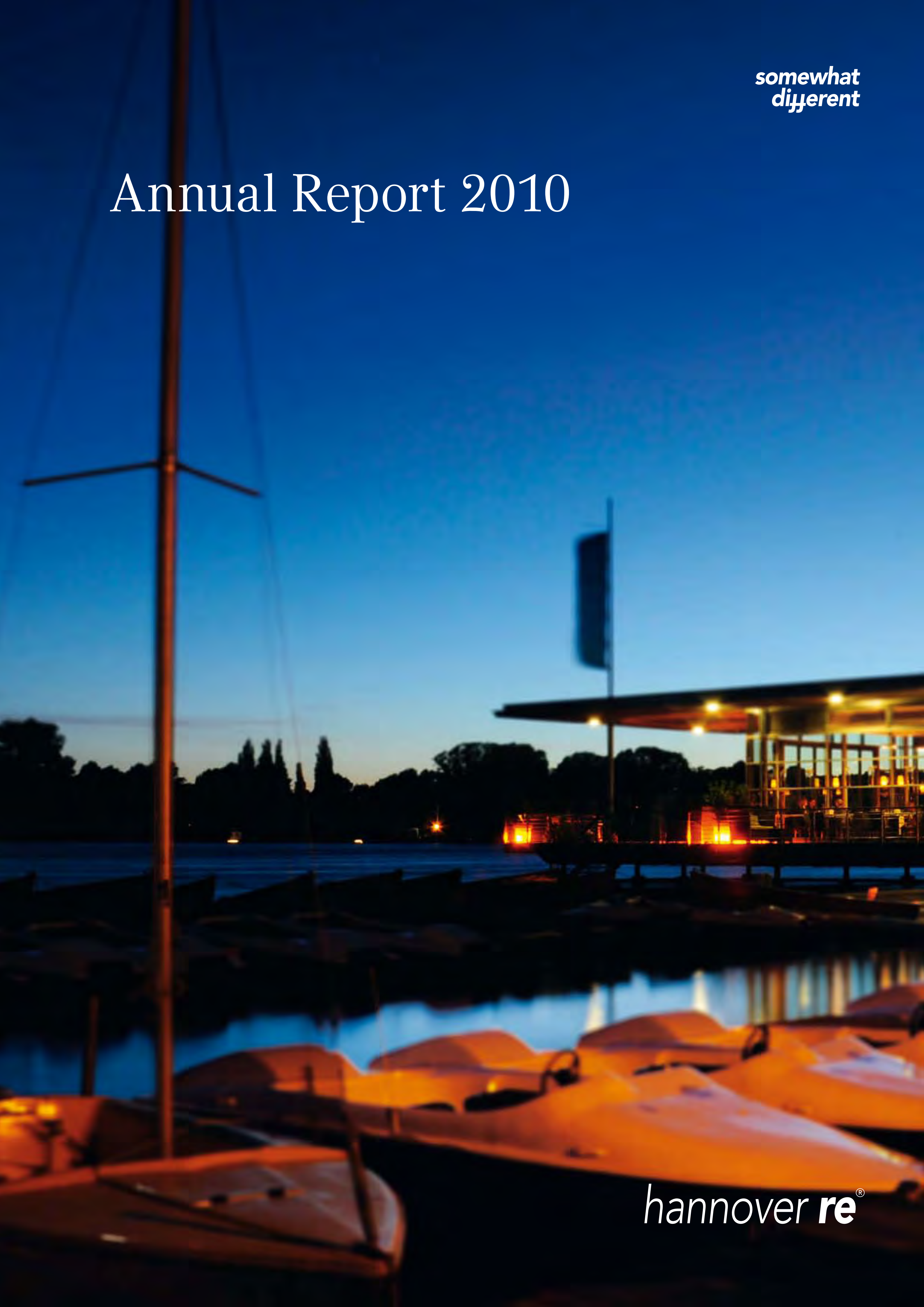
somewhat different

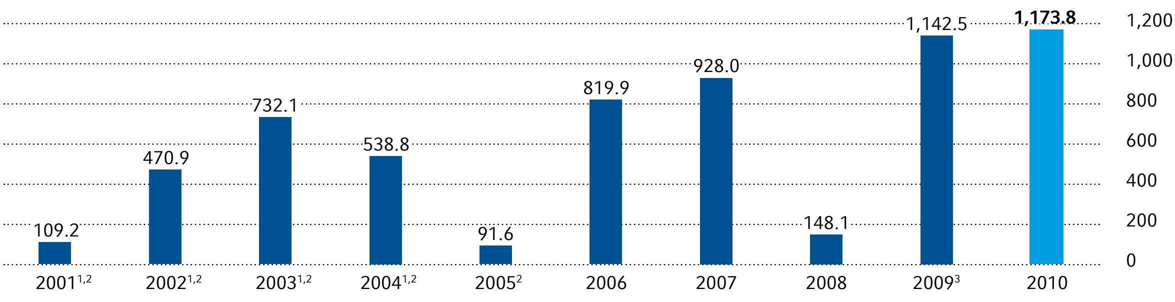
Annual Report 2010



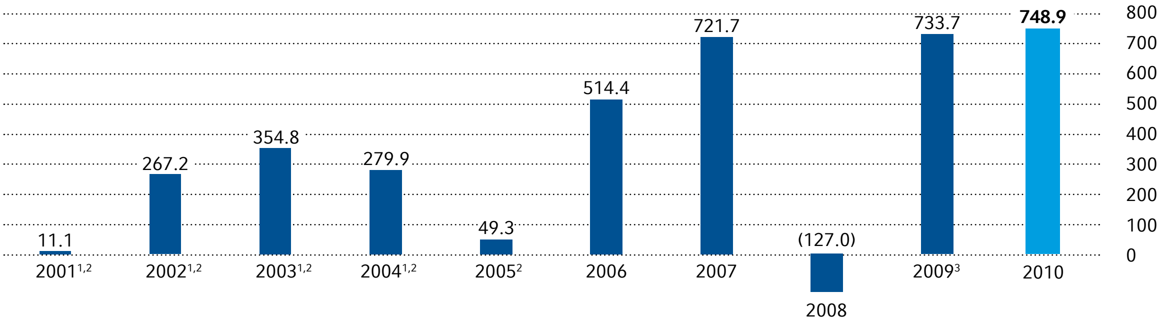
hannover re®

An overview

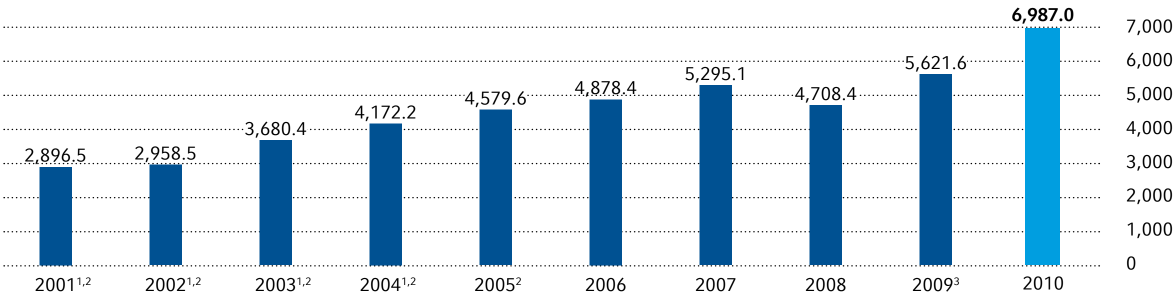
Operating result (EBIT) Figures in EUR million



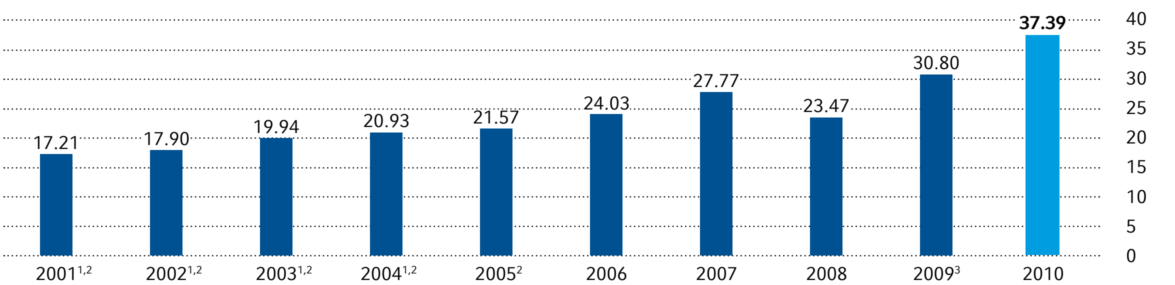
Group net income (loss) Figures in EUR million



Policyholders' surplus Figures in EUR million

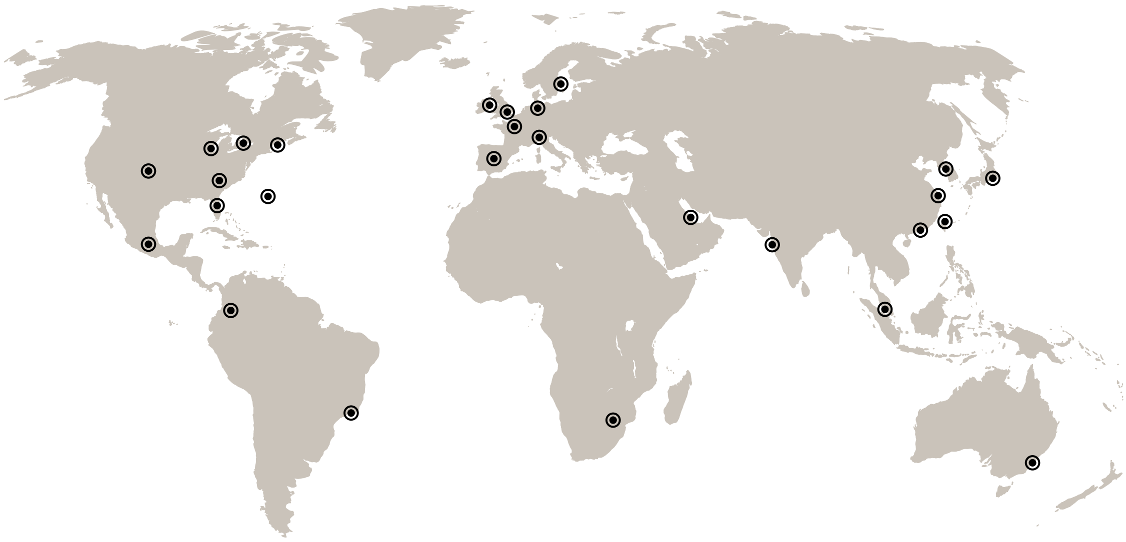


Book value per share Figures in EUR



1 Based on US GAAP
2 Incl. financial reinsurance and specialty insurance
3 Adjusted on the basis of IAS 8

The Hannover Re Group



America

Hannover Rückversicherung AG Canadian Branch – Chief Agency
Toronto, Canada

Hannover Rückversicherung AG Canadian Branch – Facultative Office
Toronto, Canada

Hannover Re Services USA, Inc.
Itasca/Chicago, USA
100.0%

Hannover Life Reassurance Company of America
Orlando/Charlotte/Denver/New York, USA
100.0%

Hannover Life Reassurance Bermuda Ltd.
Hamilton, Bermuda
100.0%

Hannover Re (Bermuda) Ltd.
Hamilton, Bermuda
100.0%

Hannover Services (México) S.A. de C.V.
Mexico City, Mexico
100.0%

Hannover Rückversicherung AG Bogotá Representative Office
Bogotá, Colombia

Hannover Rückversicherung AG Escritório de Representação no Brasil Ltda.
Rio de Janeiro, Brazil
100.0%

Europe

Hannover Rückversicherung AG
Hannover, Germany

E+S Rückversicherung AG
Hannover, Germany
63.7%

Hannover Life Reassurance (Ireland) Limited
Dublin, Ireland
100.0%

Hannover Reinsurance (Ireland) Limited
Dublin, Ireland
100.0%

International Insurance Company of Hannover Limited
Bracknell/London, United Kingdom
100.0%

Hannover Life Reassurance (UK) Limited
Virginia Water, United Kingdom
100.0%

Hannover Services (UK) Ltd.
Virginia Water, United Kingdom
100.0%

Hannover Rückversicherung AG Tyskland filial
Stockholm, Sweden

International Insurance Company of Hannover Ltd. England filial
Stockholm, Sweden

Hannover Rückversicherung AG Succursale Française
Paris, France

Hannover Re Services Italy Srl
Milan, Italy
99.6%

HR Hannover Re, Correduría de Reaseguros, S.A.
Madrid, Spain
100.0%

Asia

Hannover ReTakaful B.S.C. (c)
Manama, Bahrain
100.0%

Hannover Rückversicherung AG Bahrain Branch
Manama, Bahrain

Hannover Re Consulting Services India Private Limited
Mumbai, India
100.0%

Hannover Rückversicherung AG Korea Branch
Seoul, Korea

Hannover Re Services Japan K.K.
Tokyo, Japan
100.0%

Hannover Rückversicherung AG Shanghai Branch
Shanghai, China

Hannover Rückversicherung AG Taipei Representative Office
Taipei, Taiwan R.O.C.

Hannover Rückversicherung AG Hong Kong Branch
Hong Kong, China

Hannover Rückversicherung AG Malaysian Branch
Kuala Lumpur, Malaysia

Africa

Hannover Life Reassurance Africa Limited
Johannesburg, South Africa
100.0%

Hannover Reinsurance Africa Limited
Johannesburg, South Africa
100.0%

Hannover Reinsurance Group Africa (Pty) Ltd.
Johannesburg, South Africa

Compass Insurance Company Limited
Johannesburg, South Africa
100.0%

Australia

Hannover Rückversicherung AG Australian Branch – Chief Agency
Sydney, Australia

Hannover Rückversicherung AG Australian Branch – Facultative Office
Sydney, Australia

Hannover Life Re of Australasia Ltd
Sydney, Australia
100.0%

%-figures = participation

Key figures

Figures in EUR million	2010	+/– previous year	2009[1]	2008	2007	2006
Results						
Gross written premium	11,428.7	+11.2%	10,274.8	8,120.9	8,258.9	9.289.3
Net premium earned	10,047.0	+7.9%	9,307.2	7,061.6	7,292.9	7.092.1
Net underwriting result	(185.1)	+84.3%	(100.4)	69.6	(131.0)	(254.7)
Net investment income	1,258.9	+12.4%	1,120.4	278.5	1,121.7	1,188.9
Operating profit (EBIT)	1,173.8	+2.7%	1,142.5	148.1	928.0	819.9
Group net income (loss)	748.9	+2.1%	733.7	(127.0)	721.7	514.4
Balance sheet						
Policyholders' surplus	6,987.0	+24.3%	5,621.6	4,708.4	5,295.1	4,878.4
Total shareholders' equity	4,509.0	+21.4%	3,714.4	2,830.1	3,349.1	2,897.8
Minority interests	608.9	+12.3%	542.1	501.4	572.7	608.6
Hybrid capital	1,869.1	+36.9%	1,365.1	1,376.9	1,373.3	1,372.0
Investments (excl. funds withheld by ceding companies)	25,411.1	+12.9%	22,507.0	20,137.2	19,815.3	19,494.0
Total assets	46,725.3	+14.4%	40,837.6	37,490.2	37,068.4	41,386.4
Share						
Earnings per share (basic and diluted) in EUR	6.21	+2.1%	6.08	(1.05)	5.98	4.27
Book value per share in EUR	37.39	+21.4%	30.80	23.47	27.77	24.03
Dividend	277.4[2]	+9.5%	253.3	–	277.4	193.0
Dividend per share in EUR	2.30[2]	+9.5%	2.10	–	1.80+0.50[3]	1.60
Share price at year-end in EUR	40.14	+22.7%	32.71	22.50	31.55	35.08
Market capitalisation at year-end	4,840.8	+22.7%	3,944.7	2,713.4	3,804.8	4,230.5
Ratios						
Combined ratio (non-life reinsurance)[4]	98.2%		96.6%	95.4%	99.7%	100.8%
Large losses as percentage of net premium earned (non-life reinsurance)[5]	12.3%		4.6%	10.7%	6.3%	2.3%
Retention	90.1%		92.6%	89.1%	87.4%	76.3%
Return on investment (excl. funds withheld by ceding companies)	3.9%		4.0%	0.4%	4.6%	5.0%
EBIT margin[6]	11.7%		12.3%	2.1%	12.7%	11.6%
Return on equity (after tax)	18.2%		22.4%	–4.1%	23.1%	18.7%

1 Adjusted on the basis of IAS 8
2 Dividend proposal
3 Bonus
4 Incl. funds withheld
5 Natural catastrophes and other major losses in excess of EUR 5 million gross for the Hannover Re Group's share as percent of net premium earned
6 Operating result (EBIT)/net premium earned

Contents

Ulrich Wallin Chairman of the Executive Board

Dear shareholders, ladies and gentlemen,

The 2010 financial year was an eventful but successful one overall for your company Hannover Re. In the fourth quarter, for example, we reached an agreement on the sale of the operational units of our subsidiary Clarendon Insurance Group. Although this put a strain on the result for the year under review, it will save us considerable administrative expenses from the coming year onwards while at the same time relieving us of the operational risks associated with a US primary insurer. What is more, we can use the expected cash inflow and the freeing up of risk capital previously committed to Clarendon in order to further strengthen our core business of reinsurance.

Through the placement of subordinated debt in the amount of EUR 500 million that qualifies as hybrid capital we were again able to reinforce your company's financial strength in the year under review.

Our operational business was impacted by a heavy incidence of major losses that was significantly higher than the expected level calculated at the beginning of the year.

We were, however, able to more than offset this burden thanks to a gratifyingly low incidence of basic losses, very healthy investment income and the release of provisions following a favourable ruling for our company by the Federal Fiscal Court.

Your company was therefore able to further improve on the record result of 2009. The net income of EUR 749 million even surpassed our expectations.

Based on this good performance and equity-affecting increases in the valuation of our assets, our shareholders' equity grew by more than 20 percent in the year under review. The book value per share amounted to EUR 37.39 (EUR 30.80) as at 31 December 2010. This improved financial strength of Hannover Re is also the basis for the company's growth and its resulting need for greater risk capital.

It is pleasing to note that your company's success has also been reflected in a favourable share price movement. The value of the Hannover Re share increased by around 23 percent in the year under review.

Reducing the volatility of results and hence also improving the reliability of dividend payments has been and continues to be one of our central objectives. With a view to achieving this goal, we maintained our risk appetite for property catastrophe risks unchanged despite the increased shareholders' equity while at the same time further enlarging the proportion of the total portfolio generated by the comparatively less volatile life and health business.

Despite growing competitive pressure, the development of our operational business was highly satisfactory overall. Leaving aside some areas of life and health reinsurance, with demand in Asian markets seeing a particularly marked surge, the demand for reinsurance remained broadly stable in the year under review. On the other hand, the increased capital resources available to reinsurers have led to a substantially enlarged supply of capacity. With reinsurers generally exercising considerable discipline in their underwriting practice, it was nevertheless possible to keep prices and conditions for the most part on a level that can be considered commensurate with the risks. Thanks to our solid financial strength and our market position, we held our ground well in the competitive environment and were able to further boost our premium volume in both non-life and life/health reinsurance.

Although it was shaped by various special effects with differing implications, our result in the non-life reinsurance business group was very pleasing from an overall perspective. First and foremost, mention should be made of the considerable burden of catastrophe losses: even though the hurricane season spared the US mainland from any damage, the (re)insurance industry worldwide found itself faced with very appreciable losses, especially from natural disasters. To start with, the year under review witnessed three severe earthquakes – in Haiti, Chile and New Zealand. Then there was winter storm “Xynthia” in Europe, numerous flood events all over the world and the sinking of the “Deepwater Horizon” drilling rig, which caused an environmental disaster on a hitherto unprecedented scale in the Gulf of Mexico as well as a substantial insured loss. All in all, the major loss expenditure of EUR 662 million incurred by Hannover Re was well in excess of the expected level of EUR 500 million.

Not only that, the result in non-life reinsurance was impacted by the aforementioned strains connected with the sale of Clarendon. On the other hand, a positive special effect derived from the decision of the Federal Fiscal Court regarding the taxation of foreign sourced investment income generated by our Irish subsidiaries. All tax risks were reassessed in this context. As a result, Group net income was boosted by altogether EUR 112 million.

The fact that the combined ratio came in at a very good 98.2 percent despite the major loss expenditure described above can be attributed to the favourable basic loss experience and the run-off profits booked on reserves constituted for previous years. The operating profit (EBIT) amounted to EUR 880 million, corresponding to a highly gratifying EBIT margin of 16.3 percent. Net income after tax was also thoroughly satisfactory at EUR 581 million.

Another significant development for your company was the decision taken by US regulators in Florida at the beginning of the year under review to allow Hannover Re – as the first foreign reinsurer – to qualify as an “Eligible Reinsurer”; the state of New York followed suit at the beginning of 2011. Thanks to this status we are now able to write our non-life reinsurance business in these US states under significantly improved conditions. In the past, ceding companies were only able to recognise technical reserves ceded to foreign reinsurers as balance sheet relief if collateral for these reserves was posted in the full amount. In the two US states mentioned above this requirement has now been reduced to 20 percent for Hannover Re.

Our life and health reinsurance business group also developed exceptionally well. It is notable for stable results that are subject to only minimal volatility. We shall therefore continue to strive for growth in life and health reinsurance. With double-digit percentage gains in both gross and net premium, we again accomplished our goals here in the year under review. Growth was driven in particular by the very positive development of our business in the United Kingdom, especially in the area of longevity risks. In the first place, mention should be made of the substantial expansion in reinsurance business involving portfolios of immediate enhanced annuities with a single premium payment. This segment, which we played a crucial role in shaping in the United Kingdom, is accounting for an ever-increasing market share of UK annuity business – a trend from which we profit disproportionately strongly as a leading reinsurer. Secondly, we significantly stepped up our acceptances of longevity risks from pension funds. Particularly noteworthy is the fact that we were able to act as the largest participating reinsurer in the highest-volume transaction of this type to date. The returns on our longevity business are thoroughly satisfactory overall. In accordance with current IFRS accounting practice, however, only future financial years will be able to significantly profit from this development; this is because the income is only booked after a delay, since the longevity risk builds up over time. Nevertheless, the considerable appeal of this business is already evident now in the substantial value of new business, which recognises all expected future cash flows on a discounted basis.

We again expanded particularly vigorously in China, generating growth of more than 50 percent thanks to our status as a locally licensed reinsurer. Most notable here is that we were the first reinsurer to write liquidity-affecting financing arrangements in China. These transactions were concluded in consultation with the local regulator.

Since the acquisition of the ING life reinsurance portfolio in 2009 we have been increasingly active on the US mortality market – also in relation to new business. We have gone on to successfully expand this business and currently enjoy a market share of 5 percent. For 2011 we have set our sights on 7 percent. The successful enlargement of our customer base thus far brings us a step closer to attaining our goal of a 10 to 15 percent share over the medium term.

The results of our life and health reinsurance business in the year under review were similarly highly satisfactory. If the figures for the previous year are adjusted for the already described non-recurring effects, we achieved a substantial increase. Investment income, which was better than expected, was a particularly significant factor here, while the experience of our biometric risks of mortality and morbidity came in somewhat below expectations. With an operating profit (EBIT) of EUR 284 million we generated an EBIT margin of 6.1 percent; this is within the range of our target return. Net income after tax was highly satisfactory at around EUR 220 million.

Our investment performance continues to be overshadowed by the low level of interest rates. While this curtailed the investment income, we were able to book gains on the sale of government bonds. During the second half of the year under review – in accordance with our strategic asset allocation – we stepped up investments in corporate bonds as part of our reinvestment activities. We increased the percentage share of this asset class overall, while always paying close attention to the quality of debtors and a broad spread of the risks. What is more, in the third quarter of 2010 we began to move back into listed equity with a limited budget. At the end of the year under review 2.1 percent of our investment portfolio was invested in this asset class – a proportion that we plan to increase moderately during the current year. Thanks not least to the continued highly positive cash flow from operating activities, our portfolio of assets under own management grew by almost EUR 3 billion to more than EUR 25 billion. This led to a pleasing increase of 8.6 percent in current investment income. All in all, then, we generated income of EUR 943 million from the assets under own management – a performance with which we are thoroughly satisfied. Including deposit interest and expenses, net investment income rose by 12 percent to EUR 1.3 billion.

The efforts that we have made over the past two years to tap into new business opportunities in non-life reinsurance are bearing initial fruit. In cooperation with a partner in the United States, for example, we launched a new insurance product on the market designed to guarantee the energy savings promised by companies that make energy-improving upgrades to buildings. In this way we are able to play our part in reducing energy consumption and hence the emission of greenhouse gases. We are pleased to report that we have already written business in this area.

Even though the trend towards softer markets in non-life reinsurance looks set to continue in the current financial year, we expect to achieve a very good result for 2011. In life and health reinsurance it is our expectation that the business written in past years will generate increasing income in 2011. What is more, we continue to assess the prospects for writing new business as good to very good, and we therefore take an optimistic view of the results trend in life and health reinsurance over the medium term as well.

We expect to record further substantial growth in both non-life and life/health reinsurance in 2011. At constant exchange rates growth should be in the region of 5 percent overall. In view of the unchanged good quality of our portfolio, we anticipate net income in the order of EUR 650 million for the current year – always assuming that the burden of major losses remains within expectations and there are no fresh distortions on financial markets.

On my own behalf and that of my colleagues on the Executive Board I would like to thank you, our valued shareholders, most sincerely for your confidence.

Yours sincerely,

Ulrich Wallin
Chairman of the Executive Board

Executive Board of Hannover Re

Ulrich Wallin
Chairman
Controlling
Corporate Communications
Corporate Development
Human Resources Management
Internal Auditing
Risk Management

André Arrago
Global Reinsurance
– Catastrophe Business
– Facultative Business
– Non-Life Reinsurance

Dr. Wolf Becke
Life and Health Reinsurance
– Africa
– Asia
– Australasia
– Western and Southern Europe
– North and Latin America

Jürgen Gräber
Coordination of worldwide Non-Life Reinsurance
Quotations Non-Life Reinsurance
Retrocessions
Specialty Lines worldwide
– Aviation and Space
– Credit, Surety and Political Risks
– Marine incl. Offshore Energy
– Structured Reinsurance incl. Insurance-Linked Securities
– UK & Ireland and London Market, Direct Business

Dr. Klaus Miller
from 1 September 2010
Life and Health Reinsurance
– Longevity Solutions
– Eastern Europe
– Northern and Central Europe

Dr. Michael Pickel
Group Legal Services, Compliance
Run-Off Solutions
Target Markets in Non-Life Reinsurance
– Germany, Austria, Italy, Switzerland
– North America

Roland Vogel
Deputy Member (Full Member since 1 January 2011)
Asset Management
Facility Management
Finance and Accounting
Information Technology

Seated from left to right: **Jürgen Gräber, Ulrich Wallin, André Arrago**
Standing from left to right: **Dr. Klaus Miller, Dr. Wolf Becke, Roland Vogel, Dr. Michael Pickel**

The Hannover Re share

Stock market environment

The stock market environment was broadly favourable in the 2010 financial year, despite considerable volatility and uncertainty among the market players. A brief upswing at the turn of the year very quickly gave way to a sharp correction – triggered by reports of possible sovereign default by Greece and discussions surrounding the solvency of a number of other European countries. From the end of February onwards markets underwent repeated swings – sometimes of a violent nature – in various directions. These lasted several weeks at a time and were fed largely by economic news. The protracted uncertainty prevailing on financial markets prompted further restraint as the third quarter got underway. This was due to growing concern about a possible double-dip recession in the United States. The prospect of a further cut in interest rates and the supply of liquidity by the Federal Reserve nevertheless served to soothe investors as the weeks passed. Finally, towards the end of the third quarter, the major equity markets also began to recover appreciably.

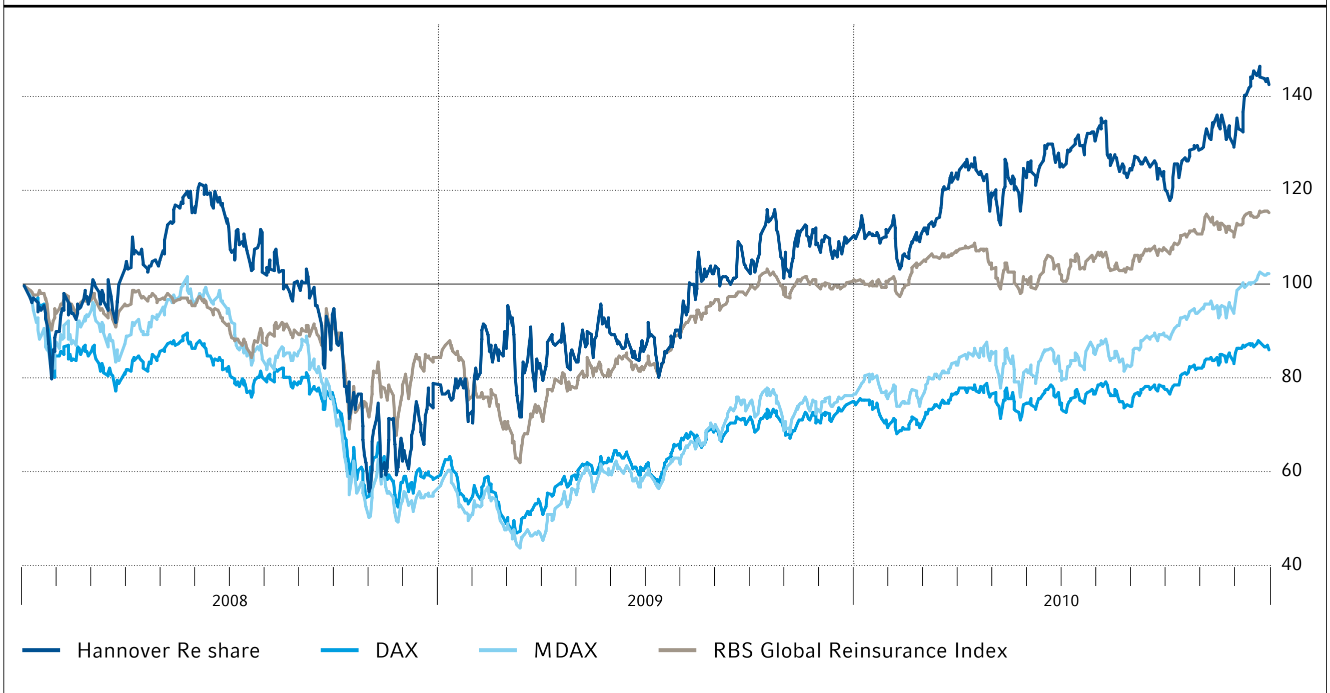
The Dow Jones had gained 11.0% by year-end, while the Nikkei closed 3.0% down on the beginning of the year. The DAX, which had started 2010 at 5,957 points, ended the year only just below the 7,000 mark at 6,914 – an improvement of 16.1% on the previous year's closing date. The MDAX put on as much as 34.9% in the same period.

Performance

The Hannover Re share began 2010 at a price of EUR 32.71. The performance in the first three months of the year was determined largely by the reporting on the treaty renewals as well as the publication of the year-end results for the 2009 financial year. On the back of the company's favourable development the price of the Hannover Re share climbed to EUR 36.56 by the end of the first quarter. However, heavy loss expenditures – resulting inter alia from the earthquake in Chile and the sinking of the "Deepwater Horizon" drilling rig in the Gulf of Mexico – adversely impacted the share performance in the second quarter. Between June and November the share price then moved in a sideways direction. However, the publication of the figures for the first nine months and the associated raising of the guidance for the full year prompted vigorous price increases – the share reached its highest point of the year on 22 December at EUR 41.38. At the end of the financial year on 31 December 2010 the Hannover Re share was listed at EUR 40.14, an improvement of 22.7% on the previous year-end closing. We thus comfortably outperformed our benchmark, the RBS Global Reinsurance Index, which put on just 14.8%.

In a three-year comparison (see chart) the Hannover Re share including reinvested dividends delivered a performance of +27.2%. It thus clearly surpassed the DAX (–14.3%), MDAX (+2.7%) and the RBS Global Reinsurance Index (+15.9%).

Relative performance of the Hannover Re share in %



The market capitalisation of the Hannover Re Group totalled EUR 4,840.8 million as at year-end. With a free float market capitalisation of EUR 2,384.6 million our company ranked seventh in the MDAX at the end of December, while our share came in at number 10 in the MDAX according to the criterion "trading volume over the past twelve months" with a volume of EUR 3,227.7 million. According to both criteria the Hannover Re Group thus ranks among the 50 largest listed companies in Germany.

With a book value per share of EUR 37.39 the Hannover Re share showed a price-to-book (P/B) ratio of 1.1 as at year-end 2010; compared to the average MDAX P/B ratio of 1.9 as at year-end the share is thus very moderately valued. A comparison of the price-to-earnings (P/E) ratios reveals a similar picture, although it makes sense here to base the comparison on the expected earnings for 2011 since the results posted by many MDAX companies in 2010 were still heavily impacted by the economic crisis. Based on current guidance for the 2011 financial year, the P/E ratio for Hannover Re at the turn of the year stood at just 7.4 as against 14.9 for the MDAX.

As far as the dividend for the 2010 financial year is concerned, we intend to propose to our shareholders at the Annual General Meeting on 3 May 2011 that an amount of EUR 2.30 (EUR 2.10) per share be distributed. This represents an increase on the previous year. Based on the year-end closing price of EUR 40.14, this produces a dividend yield of 5.7%.

Annual General Meeting

The Annual General Meeting of Hannover Re in the year under review was held on 4 May 2010 in the Kuppelsaal of Hannover Congress Centrum. Around 660 shareholders, shareholder and bank representatives as well as guests accepted our invitation to come to Hannover in order to learn about the development of our business in the financial year just-ended. This means that roughly 71% of the share capital was represented. In his address to the meeting Chief Executive Officer Ulrich Wallin took the opportunity to look back on a superb 2009 financial year, in which the company was for the first time able to show an operating profit (EBIT) in excess of EUR 1 billion after positive non-recurring effects.

In the subsequent voting the Annual General Meeting adopted by a large majority the resolutions proposed by the Executive Board and Supervisory Board and also approved for the first time the new system of remuneration for the members of Hannover Re's Executive Board.

The next Annual General Meeting is scheduled for 3 May 2011 and will again be held at Hannover Congress Centrum.

Investor Relations activities

We further expanded our Investor Relations activities in 2010. Most strikingly, the number of roadshow days was almost double that of the previous year. Altogether, we held 22 roadshows and took part in nine investor conferences. On these trips and also by way of separate conference calls and visits to our offices in Hannover we were able to cultivate a personal dialogue in numerous discussions with institutional investors and analysts. Along with the financial centres of New York, London and Frankfurt, which are a regular stop on our travels, we returned to Boston, Paris, Copenhagen, Stockholm, Oslo, Munich and Zurich in the year under review and added Toronto, Chicago, Los Angeles and Geneva to our itinerary. Investors and analysts had another opportunity for a lively exchange with the Executive Board at our analysts' conferences, which we again held same-day in Frankfurt and London one day after the press briefing on the annual results. Conference calls for investors and analysts were also held following the publication of the quarterly results and in connection with any exceptional developments.

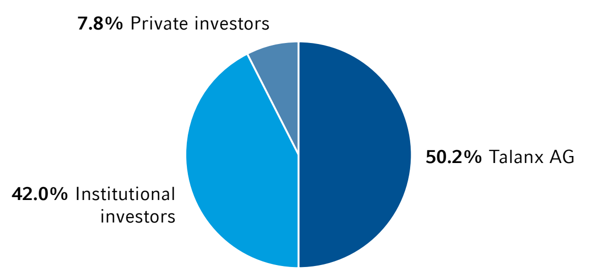
In the year just-ended we also optimised the online offerings available on our Investor Relations website. Not only did we expand the range of available information, e.g. in the form of an online fact sheet, we also significantly enhanced the user-friendliness of the online version of our Annual Report. These steps were already recognised in the year under review: our Investor Relations website was selected as the best in the MDAX by the company NetFederation, and our HTML Annual Report moved up 13 places in the Kirchhoff ranking to number 4 in the MDAX.

Other surveys also delivered a pleasing assessment of Hannover Re's overall Investor Relations activities. The company placed fourth within the MDAX category in the IR rankings published by the business magazine Capital, while it came in at number 11 in a survey conducted by Thomson Extel. In the European IR Perception Study carried out by Institutional Investor magazine we placed tenth in the "insurers" category.

Our annual Investors' Day – the thirteenth time this event has been held – was again well attended by analysts and investors alike in the year under review. The most notable topics covered included the future challenges facing the insurance industry against the backdrop of Solvency II, the significance of the Market Consistent Embedded Value (MCEV) for life reinsurance business, the importance of the Chinese market for Hannover Re going forward as well as – along with an update on the level of our reserves – the handling of retrocessions within the Hannover Re Group.

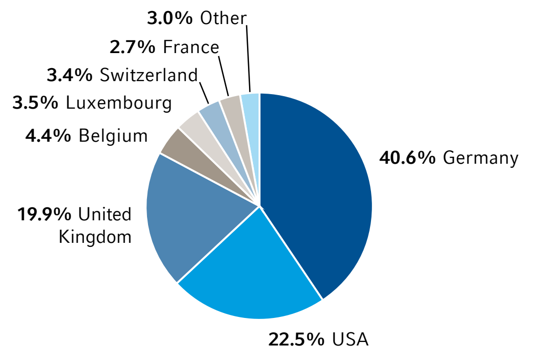
The shareholding structure of Hannover Re was stable in the year under review. The interest held by Talanx AG remained unchanged, while the stake held by private investors grew by 0.3% to 7.8%, causing the proportion in the hands of institutional investors to contract slightly to 42.0%.

Shareholding structure



Turning to the breakdown of our free float by countries, the proportionate holding attributable to Germany increased sharply in the year under review by 4.1% to 40.6%, while the US share contracted. The relative holdings attributable to other countries changed only marginally in comparison with the end of the previous year.

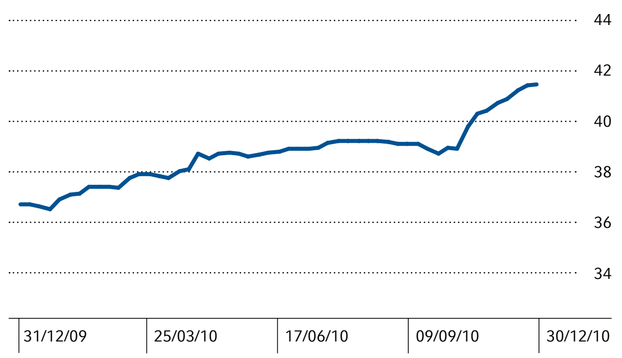
Shareholding structure by countries (free float)



Analyst research

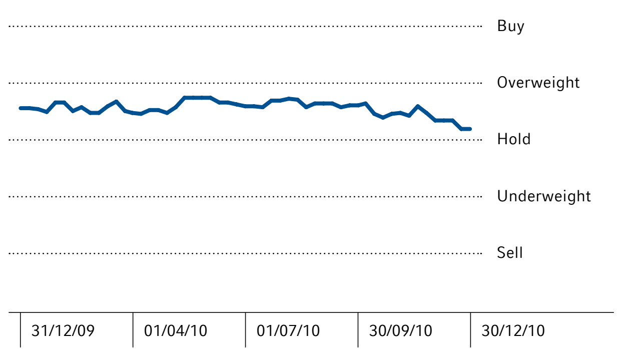
All in all, 38 analysts handed down more than 220 recommendations for Hannover Re in 2010. The extent of our analyst coverage remained very stable overall, although fluctuation among the analysts was comparatively high. We were pleased to note that the cessation of research activities as a consequence of takeovers was offset by the fact that four new analysts began to follow us. The analysts' average target price developed favourably in the course of the year, climbing incrementally from EUR 36.71 at the start of the year to EUR 41.43 by year-end. The average analysts' opinion tended to move sideways during the year, declining only in the fourth quarter in the context of the rise in price of the Hannover Re share. Based on the data for the first nine months of 2010, 33 analysts published their opinion at year-end: twelve analysts recommended the Hannover Re share as "buy" or "overweight"; altogether fifteen opinions were a "hold", making this the most common, while only six "underweight" or "sell" recommendations were handed down.

Average analysts' price target for the Hannover Re share in EUR



Source: Bloomberg

Average analysts' opinions of the Hannover Re share (3-month consensus)



Source: Bloomberg

Basic information	
Securities identification number:	840221
International Securities Identification Number (ISIN):	DE 000 840 221 5
Bloomberg ticker symbol:	HNR1
Thomson Reuters ticker symbol:	HNRGn
Market segment:	Prime Standard
Index inclusion:	MDAX
First listed:	30 November 1994
Number of issued shares (as at 31 December 2010):	120,597,134
Common shares (as at 31 December 2010):	EUR 120,597,134.00
Share class:	No-par-value registered shares
Exchange listings:	Xetra, Frankfurt, Munich, Stuttgart, Hamburg, Berlin, Düsseldorf, Hannover (official trading: Xetra, Frankfurt and Hannover) USA: American Depositary Receipts (Level 1 ADR program; 2 ADR = 1 share)

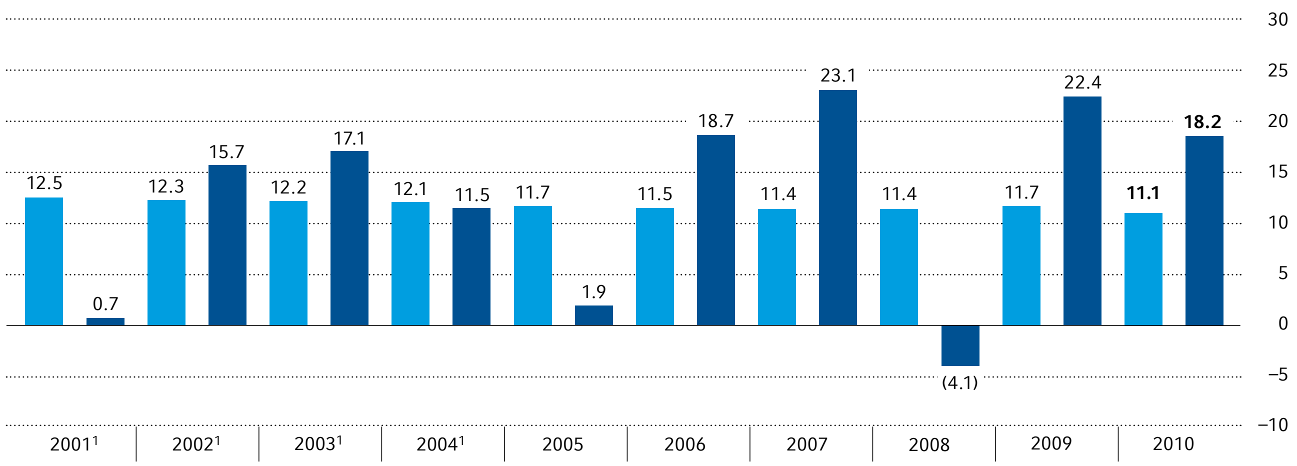
Key figures in EUR	2010	2009[1]	2008	2007	2006
Number of shares in million	120.6	120.6	120.6	120.6	120.6
Annual low[2]	30.61	20.64	15.70	30.30	25.85
Annual high[2]	41.38	34.65	35.79	37.50	35.14
Year-opening price[2]	32.71	22.50	31.55	35.08	29.93
Year-ending price[2]	40.14	32.71	22.50	31.55	35.08
Market capitalisation at year-end in EUR million	4,840.8	3,944.7	2,713.4	3,804.8	4,230.5
Shareholders' equity in EUR million	4,509.0	3,714.4	2,830.1	3,349.1	2,897.8
Book value per share	37.39	30.80	23.47	27.77	24.03
Earnings per share (basic and diluted)	6.21	6.08	(1.05)	5.98	4.27
Dividend per share	2.30[3]	2.10	–	2.30[4]	1.60
Cash flow per share	13.94	14.53	12.10	7.56	13.77
Return on equity (after tax)[5]	18.2%	22.4%	–4.1%	23.1%	18.7%
Dividend yield (after tax)[6]	5.7%	6.4%	–	7.3%	4.6%
Price-to-book (P/B) ratio[7]	1.1	1.1	1.0	1.1	1.5
Price-to-earnings (P/E) ratio[8]	6.5	5.4	–	5.3	8.2
Price-to-cash flow (P/CF) ratio[9]	2.9	2.3	1.9	4.2	2.5

1 Adjusted to IAS 8
2 XETRA daily closing prices
3 Dividend proposal
4 1.80 EUR + 0.50 EUR bonus
5 Earnings per share/average of book value per share at start and end of year
6 Dividend per share/year-end closing price
7 Year-end closing price/book value per share
8 Year-end closing price/earnings per share
9 Year-end closing price/cash flow (from operating activities) per share

Our strategy

Profit and value creation are the basis of sustainable development in the interests of our shareholders, clients, employees and other business partners. We strive to be one of the three most profitable reinsurers in the world. We are a "somewhat different" reinsurer, meaning that we are a well diversified multi-specialist with whom our clients enjoy working and are driven by an aspiration to excellence in all our actions.

After-tax return on equity in %



● Minimum target ● Actual

1 Based on US GAAP

Strategic objectives

1. Profitable growth
Return on equity of at least 750 basis points above the "risk-free" interest rate. Triple-10 target; allocation of capital to generate the maximum risk-weighted profit; increase in the share price > Global Reinsurance Index; lowest cost of capital in the industry

2. Capital protection
Positive return on equity in at least nine out of ten years

3. Preferred business partner
Highly capable – rating of at least "AA–" from S&P and "A+" from A.M. Best

4. Motivated employees
Skills and motivation just as crucial to success as capital resources

5. Lean organisation
Effective and efficient organisation geared to business processes; safeguarding of know-how and cost leadership

Strategic action fields

1. Performance Excellence
Holistic management system including regular external assessment

Our holistic management system of "Performance Excellence" ensures consistent execution of our strategy. We improve our performance systematically and continuously under all excellence criteria and subject our accomplishments to both internal and external assessments.

2. Corporate Governance
Integrity in our dealings with all stakeholders – high ethical standards

We support meaningful and pragmatic Corporate Governance principles and recognise these as guidelines for our activities. Ethical corporate conduct towards our business partners, employees, shareholders and all other stakeholders constitutes a core element of our Corporate Governance principles. We apply high ethical standards at all times, both in our strategy and in our day-to-day business operations.

3. Compliance
Observance of all external requirements in order to avoid business, liability and reputational risks

Our corporate guidelines and other rules and regulations as well as our business processes and daily actions are always consistent with external requirements. We thus avoid business, liability and reputational risks that could harm our commercial activities. By defining and implementing clear standards we also deliver efficient and effective support for attainment of our corporate objectives.

Business group strategies

Non-life reinsurance
Not one of the largest, but one of the most profitable non-life reinsurers in the world – special attention paid to the correct assessment of risks – pricing and conditions guided by technical considerations and appropriate level of reserves

Life/health reinsurance
Within five years one of the three major, globally operating life and health reinsurers of above-average profitability – annual double-digit growth in volume and profit indicators – special attention devoted to the regional and biometric balance of the portfolio

→ The business center strategies/service center strategies are derived from the Group and business group strategies.

Management report of the Hannover Re Group

The 2010 financial year was a very pleasing one for Hannover Re. We generated vigorous growth and our highest Group net income to date of EUR 749 million. Although our operational business was impacted by a heavy major loss incidence and the sale of our US subsidiary Clarendon Insurance Group, this was more than offset by a special effect associated with the release of provisions for tax proceedings that have now been resolved.

We accomplished our goals for the year under review and are confident of doing so in 2011 as well.

Macroeconomic climate

The global economic recovery continued in 2010. Yet after initially vigorous increases in the winter half-year of 2009/2010, the pace of the economic upturn slowed somewhat. The picture varied widely, however, in the individual economic regions and countries. In emerging markets – especially in Asia – the expansion began to flatten out even as the year got underway; by this time, though, growth levels were for the most part already back to those seen in past years. The industrialised nations only began to lose impetus in the middle of the year, although they did not quite manage to regain pre-crisis levels. Persistent structural problems in the financial and real estate sectors as well as strong pressure to consolidate prevented a swift return to earlier heights.

USA

The economic recovery in the United States weakened appreciably as the year progressed. Key factors in this change of pace were, in the first place, foreign trade – which delivered a clearly negative growth contribution – and, secondly, the declining impetus from economic stimulus programmes. Against this backdrop, the structural problems remained considerable: the level of debt carried by private households was and still is high; what is more, the crisis in the real estate sector continued unabated. The state of the labour market consequently showed no signs of easing; the unemployment rate of 9.8% was exceptionally high, reaching a historic record level among the long-term unemployed. Private consumption, one of the mainsprings of the US economy, was therefore muted, and a sustained return to economic growth failed to materialise. Overall, gross domestic product – after contracting in 2009 – moved back into growth in the year under review, albeit only to the tune of 2.9%.

Europe

The pace of economic growth in the Eurozone returned to normal. Gross domestic product for 2010 climbed by 1.8%. The speed of the economic recovery varied widely in the individual member states, however. Export-oriented countries with relatively healthy public finances, such as Germany, the Netherlands, Finland and Austria, profited from the upswing in world demand. Their growth rate was above-average by Eurozone standards. The situation in Greece, Ireland, Portugal and Spain was quite different. In response to their borrowing difficulties these countries were obliged to adopt stringent austerity measures, which proved to be a drag on business activity. France, Italy and Belgium, on the other hand, recorded economic growth in line with the Eurozone average. While the employment situation in Germany, Finland and the Netherlands continued to improve, jobless figures elsewhere – including Spain and Ireland – rose sharply.

Germany

In Germany the economic upturn continued at a rapid tempo in the year under review. Real gross domestic product grew by 3.6% in the full year. Having been the tailender for many years in the Eurozone, the German economy thus delivered above-average growth contributions to gross domestic product within the area of the single currency. The most significant growth engine in the year under review was the domestic economy. This can be attributed to the greater incentive to invest that resulted from the historically low interest rate level. Private consumption rose for the third time in succession in the summer quarter, although public-sector consumption surged even more strongly. Thanks to the economic upturn the state of the labour market continued to ease in 2010.

Asia

China continued to see very vigorous expansion, although the pace slowed somewhat in the course of the year. This was likely due first and foremost to the government's efforts to prevent overheating of the real estate market and counter excessive lending with a considerably more restrictive monetary policy. Gross domestic product nevertheless grew by 10.3%. All in all, growth prospects remain positive.

In Japan the recovery that followed the sharp economic downturn associated with the financial market crisis was sustained. The pace of growth nevertheless slowed appreciably over the course of the year. This was due in part to the ending of government assistance measures; as a further factor, the economic slowdown in major export markets and the stronger yen led to a decline in exports.

Capital markets

Against the backdrop of the after-effects of the financial and economic crises, the market climate for equities was still characterised by considerable volatility and uncertainty. Among other things, the overextended state of national budgets in several European countries prompted marked fluctuations during the year. Yet despite this volatile climate European equity markets remained relatively stable. The German market, in particular, was able to divorce itself from the broader context and closed the year with sizeable price gains. US markets also moved higher, and by the end of the year major indices such as the Dow Jones and DAX had consequently surpassed the levels of the previous year.

Owing to the continued expansionary monetary policy in our main currency areas, yields on many government bonds fell to record lows during the year. The yield on ten-year German government bonds declined to 2.1% at one point. These levels were assisted by a monetary policy that remained committed to a strong supply of liquidity as the prescription for combating the economic and financial crisis. Most central banks were a long way away from raising key interest rates. Spreads for bonds in countries on the European periphery increased sharply in light of the historic deficits, however, prompting stronger demand for German government bonds as a secure form of investment.

The value of the euro fell against other currencies, such as the US dollar or pound sterling, during the year under review.

Industry-specific environment

The European Commission's Solvency II Directive continues to be of great significance to the insurance industry. Solvency II is intended to introduce European insurance regulation and a risk-based solvency system. The specifics are currently under consideration by various government bodies in consultation with the insurance industry. In 2010 European insurance and reinsurance undertakings were invited to participate in the fifth Solvency II Quantitative Impact Study (QIS 5), which was conducted from August to November. The findings are expected to be published in April 2011 by the European Insurance and Occupational Pensions Authority (EIOPA). The standards contained in the EU Solvency II Directive are to be implemented by the member states in national law by 2012.

The international insurance industry has overcome the repercussions of the financial market crisis relatively quickly. It demonstrated its ability to rebuild its capital base – which had been eroded by the crisis – in a relatively short space of time. The global reinsurance industry remained robust. It was able to absorb a large number of natural disasters, some of which resulted in substantial loss expenditures. One of the challenges facing reinsurers in the year under review, however, was softening rates against the backdrop of an adequate supply of reinsurance capacity. Overall, though, insurance undertakings fared well in the year under review and again proved to be a stabilising factor for the economy.

As part of the macroeconomic recovery, German insurers generated further growth in 2010 – with premium income expected to show a nominal increase of 4.7%. This growth was driven first and foremost by single-premium business in the life insurance sector. Owing to the specific business model operated by insurers and their essential function in the national economy, the insurance industry has been able to maintain a stable development in times of crisis.

In the United States the passing of the "Dodd-Frank Wall Street Reform and Consumer Protection Act" heralded a far-reaching overhaul of US financial regulation in response to the financial market crisis. This Act entails extensive changes for the financial services sector. Some changes are also of relevance to (re)insurers. For the first time an agency for insurance matters has been established on the federal level – the Federal Insurance Office. Regulatory responsibility will nevertheless remain with the individual US states.

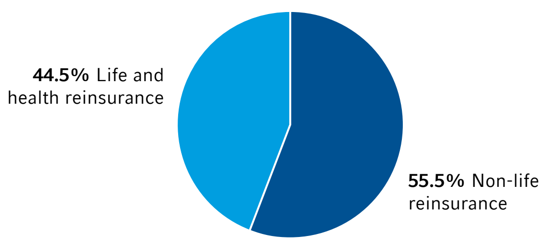
Business development

We are thoroughly satisfied with the development of our business in the year under review. Market conditions for financially strong reinsurers such as Hannover Re were good in both non-life and life/health reinsurance. Gross premium in total business grew to EUR 11.4 billion (EUR 10.3 billion). The operating profit (EBIT) climbed to EUR 1.2 billion (EUR 1.1 billion), while the Group net income of EUR 748.9 million (EUR 733.7 million) surpassed both our forecast and the record profit reported in the previous year.

Even though a trend towards softening reinsurance conditions could be observed in some non-life reinsurance markets, not all lines were affected in the same way. Overall, prices were still very much commensurate with the risks. The 2010 financial year was impacted by the large number of (natural) catastrophe losses; for our company too, the burden of major losses significantly exceeded our expectations. Nevertheless, these strains were offset by the otherwise good performance of our non-life reinsurance portfolio. For further details of developments in non-life reinsurance in the year under review please see page 21 et seq.

Our second business group, life and health reinsurance, delivered particularly vigorous growth. Its contribution to the total premium volume now stands at 44.5%. Given the low volatility of results we have set ourselves premium growth targets here – unlike in non-life reinsurance. In the year under review we achieved in full not only these goals but also our profit targets. For detailed comments on the development of business in life and health reinsurance please see page 36 et seq.

Gross premium by business group



We are also highly satisfied with the development of our investments. Thanks to positive cash inflows from the technical account and improvements in fair values, our portfolio of assets under own management grew appreciably to EUR 25.4 billion (EUR 22.5 billion). Despite the overall decline in interest rate levels ordinary income consequently surpassed the comparable figure for the previous year at EUR 880.5 million (EUR 810.5 million). Income on funds withheld and contract deposits climbed to EUR 316.4 million (EUR 276.8 million).

The impairments of EUR 16.5 million taken on securities (excluding real estate) were considerably lower than in the previous year (EUR 141.3 million). Of this amount, EUR 7.7 million (EUR 92.6 million) was attributable to alternative investments – primarily private equity funds. Write-downs of just EUR 0.6 million (EUR 3.2 million) had to be taken on equities, while on fixed-income assets they contracted sharply to EUR 7.9 million (EUR 45.4 million). In view of increased fair values, the write-downs were opposed by write-ups of EUR 24.1 million (EUR 9.3 million) on fixed-income securities written down in previous periods as well as write-ups of EUR 3.0 million (EUR 10.8 million) on alternative investments.

The unrealised losses on our assets recognised at fair value through profit or loss amounted to EUR 39.9 million, as against unrealised gains of EUR 100.6 million in the previous year. The losses derived predominantly (EUR 31.2 million) from changes in the value of inflation swaps taken out to hedge inflation risks associated with the loss reserves in our technical account. Particularly in light of the attractive market environment for fixed-income securities, we realised amounts of altogether EUR 162.0 million (EUR 113.0 million). In the second half of the year we began to move back into listed equities; our equity allocation at year-end was 2.1%.

Compared to the previous year, we were again able to boost our net investment income from assets under own management – it totalled EUR 942.5 million (EUR 843.6 million) in the financial year just-ended. Net investment income including income on funds withheld and contract deposits amounted to EUR 1.3 billion (EUR 1.1 billion).

Demand for reliable reinsurance protection remained strong in the year under review. Premium income consequently grew more vigorously than anticipated: gross premium in total business increased by 11.2% to EUR 11.4 billion (EUR 10.3 billion). At constant exchange rates – especially against the US dollar – growth would have come in at 6.8%. The level of retained premium retreated to 90.1% (92.6%). Net premium earned climbed 7.9% to EUR 10.0 billion (EUR 9.3 billion).

Group net income for the year under review substantially exceeded our expectations. A very good profit on ordinary activities was assisted by a special effect associated with a decision of the Federal Fiscal Court (BFH) which had a bearing on our company. After the BFH had confirmed in its ruling of

Management report

13 October 2010 that taxation of foreign sourced investment income recorded by Irish subsidiaries was not permissible, we were able to release provisions that had been constituted in this regard. The core of the legal dispute revolved around the question of whether investment income generated by a reinsurance subsidiary based in Ireland was subject to taxation at the parent company in Germany. The ruling of the BFH confirmed the decision in the first instance of the Lower Saxony Fiscal Court in Hannover. Against this backdrop, all tax risks were reassessed. This resulted in an increase of altogether EUR 112.2 million in Group net income.

In December 2010 we reached agreement on the sale of all operational companies of our US subsidiary Clarendon Insurance Group, Inc., New York, to the Bermuda-based Enstar Group Ltd., Hamilton. The transaction, which is still subject to the customary foreign regulatory approvals, is expected to close in the second quarter of 2011. The purchase price of Clarendon, which has been in run-off since 2005, is equivalent to EUR 162.5 million before final price determination. The sale enables us to reduce material risks for our company, including for example those connected with reinsurance recoverables on unpaid claims. We are also able to eliminate operational risks associated with the run-off of a US primary insurer as well as considerable administrative expenses that would have been incurred in subsequent years. In accordance with IFRS accounting practice, the sale of Clarendon produces a charge of EUR 69.2 million to our Group net income in the year under review, which is recognised in the non-life reinsurance business group.

The operating profit (EBIT) booked by Hannover Re increased to EUR 1.2 billion (EUR 1.1 billion) in 2010. The previous year had been influenced by positive special effects in life and health reinsurance amounting to EUR 144.7 million. These derived from the acquisition of the ING life reinsurance portfolio as well as the reversal of unrealised losses on deposits held by US cedants on behalf of Hannover Re (ModCo). The Group net income of EUR 748.9 million once again surpassed the outstanding level of the previous year (EUR 733.7 million). A very healthy underlying operating profit and favourable non-recurring effects associated with the decision of the Federal Fiscal Court were both factors in this positive performance. Earnings per share amounted to EUR 6.21 (EUR 6.08).

Our shareholders' equity excluding minority interests also developed particularly favourably, rising in the year under review from EUR 3.7 billion to EUR 4.5 billion. The policyholders' surplus increased from EUR 5.6 billion to EUR 7.0 billion. The return on equity for 2010 came in at 18.2%.

In September 2010 we used the relatively low interest rate level to place subordinated hybrid debt of EUR 500 million on the European capital market. The bond, which has a term of 30 years, serves to further optimise our capital structure as well as to back future growth with the necessary capital resources.

We use retrocession, i.e. the passing on of portions of our covered risks to other reinsurers, as a means of risk reduction. In the course of the year the reinsurance recoverables on unpaid claims – i.e. receivables due to us from our retrocessionaires – decreased to EUR 1.0 billion (EUR 1.7 billion). Of this total reduction, an amount of EUR 0.8 billion results from the sale of Clarendon. We continue to attach considerable importance to the quality of our retrocessionaires: 92.4% of the companies with which we maintain such business relations have an investment grade rating of "BBB" or better from Standard & Poor's.

Our business groups

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

Non-life reinsurance

Accounting for 55.5% of our premium volume, non-life reinsurance is Hannover Re's largest business group. We do not pursue any growth targets here, but are instead guided by active cycle management according to which we expand our business if the rate situation is favourable and scale back our portfolio if prices are inadequate.

The expectations expressed with regard to the treaty renewals as at 1 January 2010 were confirmed over the course of the year: prices remained broadly stable, although they softened slightly in loss-free segments. Rate increases were also recorded in areas that had seen sizeable losses in 2009, such as aviation insurance or credit and surety reinsurance. The fact that prices remained on a largely stable level also reflects the underwriting discipline practised among reinsurers. Given the lower returns attainable on investments owing to the low interest rate level, the primary focus of attention was even more heavily on underwriting results. This was also true of the various treaty renewal phases that took place within the year. Although the major loss situation was certainly tense throughout the year under review, our combined ratio of 98.2% still came in below our targeted maximum level of 100%.

The treaty renewals in North America were in line with our expectations, although the rate level in many areas was not adequate. We therefore exercised caution in assuming additional risks. In credit and surety business – despite growing capacity on the market – we were again able to push through significantly improved conditions and expand our market position. In worldwide catastrophe business prices for reinsurance covers declined as expected owing to the relatively untroubled major loss experience in 2009 as well as the improved capital resources of primary insurers. Rate reductions in the United States were particularly marked; price increases were nevertheless obtained under loss-impacted programmes in certain regions.

All in all, we enjoyed very good opportunities to generate profitable business and extend our market share. The focus of our activities was on the markets of China as well as Central and Eastern Europe, facultative reinsurance and agricultural risks. In the UK market, too, we successfully extended our position.

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

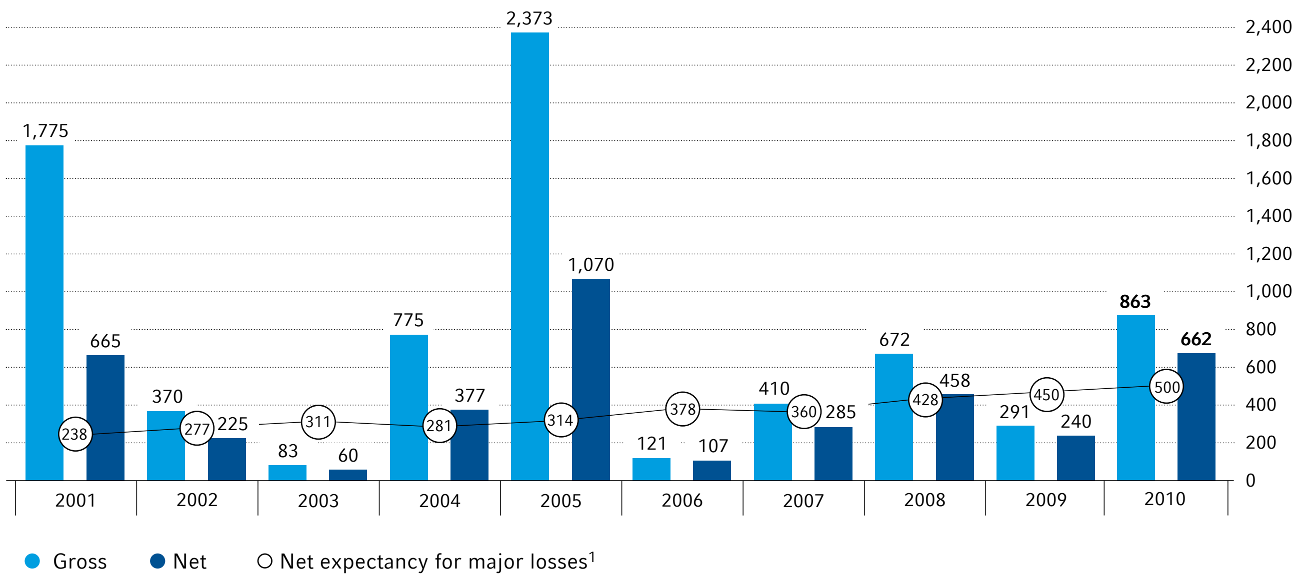
Key figures for non-life reinsurance — Figures in EUR million

	2010	+/- previous year	2009	2008	2007	2006
Gross written premium	6,339.3	+10.3%	5,746.6	4,987.8	5,189.5	6,495.7
Net premium earned	5,393.9	+3.1%	5,229.5	4,276.7	4,497.6	4,718.7
Underwriting result	82.4	–42.6%	143.5	184.7	(26.7)	(71.0)
Net investment income	721.2	+28.1%	563.2	11.1	783.3	831.7
Operating result (EBIT)	879.6	+20.3%	731.4	2.3	656.7	670.1
Group net income	581.0	+22.9%	472.6	(160.9)	549.5	478.5
Earnings per share in EUR	4.82	+22.9%	3.92	(1.33)	4.56	3.97
Retention	88.9%		94.1%	88.9%	82.5%	72.4%
Combined ratio[1]	98.2%		96.6%	95.4%	99.7%	100.8%

1 Including expenses on funds withheld and contract deposits

Major loss trend[1]

Figures in EUR million



1 Losses > EUR 5 million gross

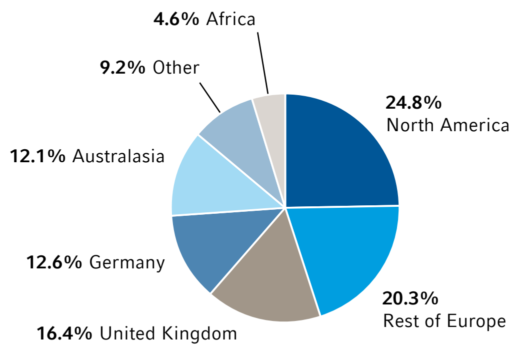
Along with traditional retrocession, we again transferred insurance risks to the capital market in the year under review so as to conserve our capital. We increased our "K6" facility, which was launched in 2009, by USD 152 million to the desired volume of more than USD 300 million – specifically USD 329 million. The portfolio assembled for the "K6" securitisation consists of non-proportional reinsurance treaties in the property catastrophe, aviation and marine (including offshore) lines.

The gross premium volume for our non-life reinsurance business group increased as forecast, rising by 10.3% to EUR 6.3 billion (EUR 5.7 billion). At constant exchange rates, especially against the US dollar, growth would have come in at 6.7%. The level of retained premium fell from 94.1% to 88.9%. Net premium earned climbed 3.1% to EUR 5.4 billion (EUR 5.2 billion).

Even though the hurricane season in North and Central America again passed off very moderately in the year under review without any expenditures for our account, the major loss situation was exceptionally strained in 2010. Hannover Re's total net expenditure on catastrophe losses and major claims in the year under review amounted to EUR 661.9 million, compared to EUR 239.7 million in the previous year. It thus surpassed the expected level of EUR 500 million. Against this backdrop, the combined ratio climbed to 98.2% (96.6%).

The largest single loss event for our account in the year under review – at EUR 181.9 million – was the severe earthquake in Chile. The devastating earthquake in Haiti, on the other hand, produced a somewhat more modest loss amount of EUR 27.2 million owing to the lower insured values. In Europe, too, we were impacted by a number of natural disasters in the year under review, including for example several flood events and a powerful winter storm ("Xynthia"). The earthquake in New Zealand, which caused destruction on a massive scale, resulted in a net strain of EUR 113.8 million for our account.

Geographical breakdown of gross written premium

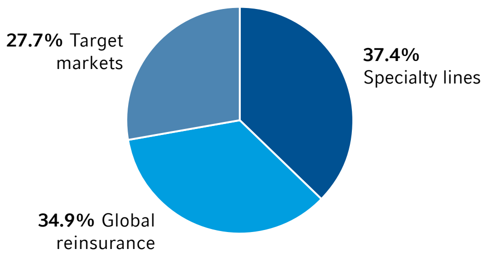


Along with the aforementioned natural disasters, one loss event in particular attracted worldwide attention in the year under review – namely the sinking of the "Deepwater Horizon" drilling rig, which caused extensive environmental damage. Particularly with regard to possible liability claims, very many questions remain unanswered; the loss for the insurance industry and hence also for reinsurers is therefore still difficult to assess. The loss reserves of EUR 84.7 million that we set aside in 2010 reflect all the actual and potential exposures for our portfolio from this complex loss event that are known to us at this point in time and, as things currently stand, represent a conservative level of reserving.

In view of the substantial major loss expenditure, the underwriting result for non-life reinsurance contracted year-on-year by EUR 61.2 million to EUR 82.4 million (EUR 143.5 million). Net investment income climbed 28.1% to EUR 721.2 million (EUR 563.2 million). The operating profit (EBIT) increased by 20.3% to EUR 879.6 million (EUR 731.4 million). Group net income in non-life reinsurance was positively affected to the tune of EUR 112.2 million in 2010 owing to the decision of the Federal Fiscal Court in the aforementioned matter of additional taxation. This amount was not split into the three segments of target markets, specialty lines and global reinsurance. Group net income consequently surged by a very appreciable 22.9% to EUR 581.0 million (EUR 472.6 million). Earnings per share amounted to EUR 4.82 (EUR 3.92).

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

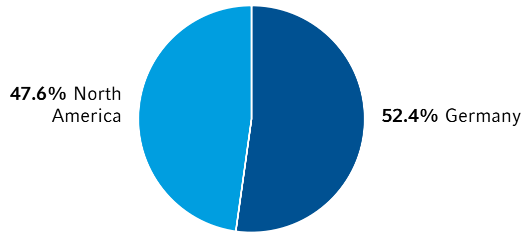
Gross written premium in non-life reinsurance



Our target markets

Our business fared better than expected in the year under review in our target markets of Germany and North America: the premium volume remained virtually unchanged at EUR 1,754.0 million (EUR 1,737.9 million). The combined ratio stood at 97.4% in the year under review, after 104.7% in the previous year. The operating profit (EBIT) for the target markets totalled EUR 300.6 million (EUR 118.8 million).

Breakdown of gross written premium in target markets



Germany

In the context of the planned launch of Solvency II in 2013 it remains to be seen to what extent the regulations and reporting duties will be reasonably proportionate to the intended improvements in risk management. Smaller insurers, at least, could incur considerable strains as a result of Solvency II. With this in mind, it is our expectation that demand for reinsurance protection will increase. Reinsurance will prove particularly attractive as it serves to reduce the amount of required capital and offers greater contractual flexibility compared to other tools.

The insurance industry in Germany profited from an increase in gross domestic product. Yet after-effects of the financial and economic crisis could also still be felt: the historically low interest rates led to a sharp fall in interest income, which constitutes a key pricing component in long-tail lines such as motor liability and general liability. This prompted almost all providers to review premiums in motor business, which particularly in the last four years had been reduced, and impose sometimes appreciable surcharges. What is more, the losses incurred by property and casualty insurers in Germany climbed by around 2.4% to EUR 43.1 billion. Major factors here were winter storm "Xynthia", which cost the industry around EUR 500 million, as well as the protracted period of frost at the beginning of the year, which resulted in additional claims expenditure of around EUR 400 million for German insurers. The combined ratio for property and casualty insurers consequently increased, especially in the homeowners' comprehensive line.

The German market is served within the Hannover Re Group by our subsidiary E+S Rück. As the dedicated reinsurer for the German market, the company has for decades been a sought-after partner thanks to its good rating, highly developed customer orientation and the continuity of its business relationships.

E+S Rück is very well positioned in our domestic market and continues to be the number two player in Germany, the second-largest non-life reinsurance market in the world. It ranks first in the reinsurance of motor business.

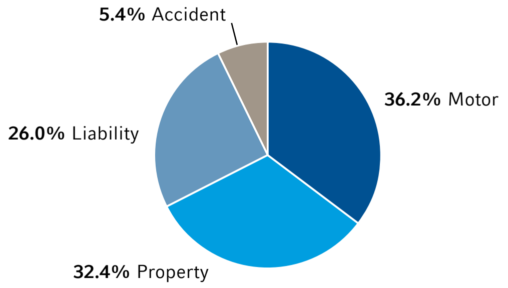
The brighter developments on the primary side also had positive implications for our motor portfolio: margins under our proportional treaties were better, while non-proportional arrangements benefited from an improved premium level in the original business as well as increased reinsurance premiums.

Personal accident insurance, which remains one of our target lines, developed favourably. We acquired new clients in the year under review, while at the same time assuming larger participations with existing accounts. Our premium volume consequently showed further growth. In terms of the loss situation, too, we are highly satisfied with the business development in accident insurance. In the year under review we further extended our range of services, which include inter alia training programmes for cedants in matters of underwriting and claims assessment.

Industrial fire business fared considerably better than expected in the year under review. We profited from the absence of significant losses in this regard.

The loss situation in the engineering lines was satisfactory overall for our company in 2010, although the insurance of wind turbines has still to turn a profit on account of various serial losses.

Breakdown of gross written premium in Germany by line of business



Business developed favourably in general liability insurance, which delivered a positive profit contribution thanks to a combined ratio under 100%.

The German market recorded a major loss in the year under review in the shape of winter storm "Xynthia". The impact on E+S Rück was, if anything, below average at EUR 4 million for net account. A further strain was incurred in connection with a pharmaceutical claim. The combined ratio for our German business improved to 94.0% (103.1%) in the year under review.

We succeeded in cementing our position as one of the leading reinsurers in the profitable German market in the year under review. With our gross premium volume showing modest growth, we are highly satisfied with the development of business on our domestic market in the face of sometimes challenging conditions.

North America

The North American (re)insurance market is the largest single market both worldwide and for our non-life reinsurance portfolio. It accounted for 13.2% of our premium volume in this business group.

Hannover Re is very well positioned in the United States; we write our business almost exclusively through brokers. It is therefore all the more gratifying to report that in the year under review a survey of US brokers conducted by the Flaspöhler Research Group crowned us as the best reinsurance company for the fourth time in succession. Ceding companies are of the opinion that our excellent financial standing and our service have continuously improved and they therefore consider it important for all their casualty placements to be submitted to our company.

The establishment of the Federal Insurance Office – as a point of contact on the federal level for foreign agencies and associations – heralds a significant new development in insurance regulation in the United States. We were also pleased that regulators – initially in Florida and at the beginning of 2011 in the state of New York as well – granted Hannover Re the status of "eligible reinsurer". This enables us to write our business at improved conditions; specifically, our technical reserves no longer need to be collateralised in the full amount, but rather only to a level of 20%. We hope that further US states will follow suit with such an arrangement.

Having been largely spared natural disasters in the last two years and buoyed by the recovery on the capital market, our clients were able to generate healthy profits. As a result, their equity resources have probably improved by around 10%. Yet the total premium booked by US primary insurers grew only minimally in the year under review by 1%. Competition continued to be very fierce in almost all areas of the insurance business, causing rates to soften appreciably – above all in industrial property business. Rate increases were only recorded under small and mid-sized commercial programmes as well as in retail business.

Hardly any new market players entered the US market and reinsurers – despite increased equity resources – for the most part acted with considerable discipline. The trend towards primary insurers carrying greater retentions was sustained only to a modest extent in the year under review. While reinsurance rates in certain lines did come under pressure, they nevertheless remained relatively stable overall; this was also especially true on the conditions side.

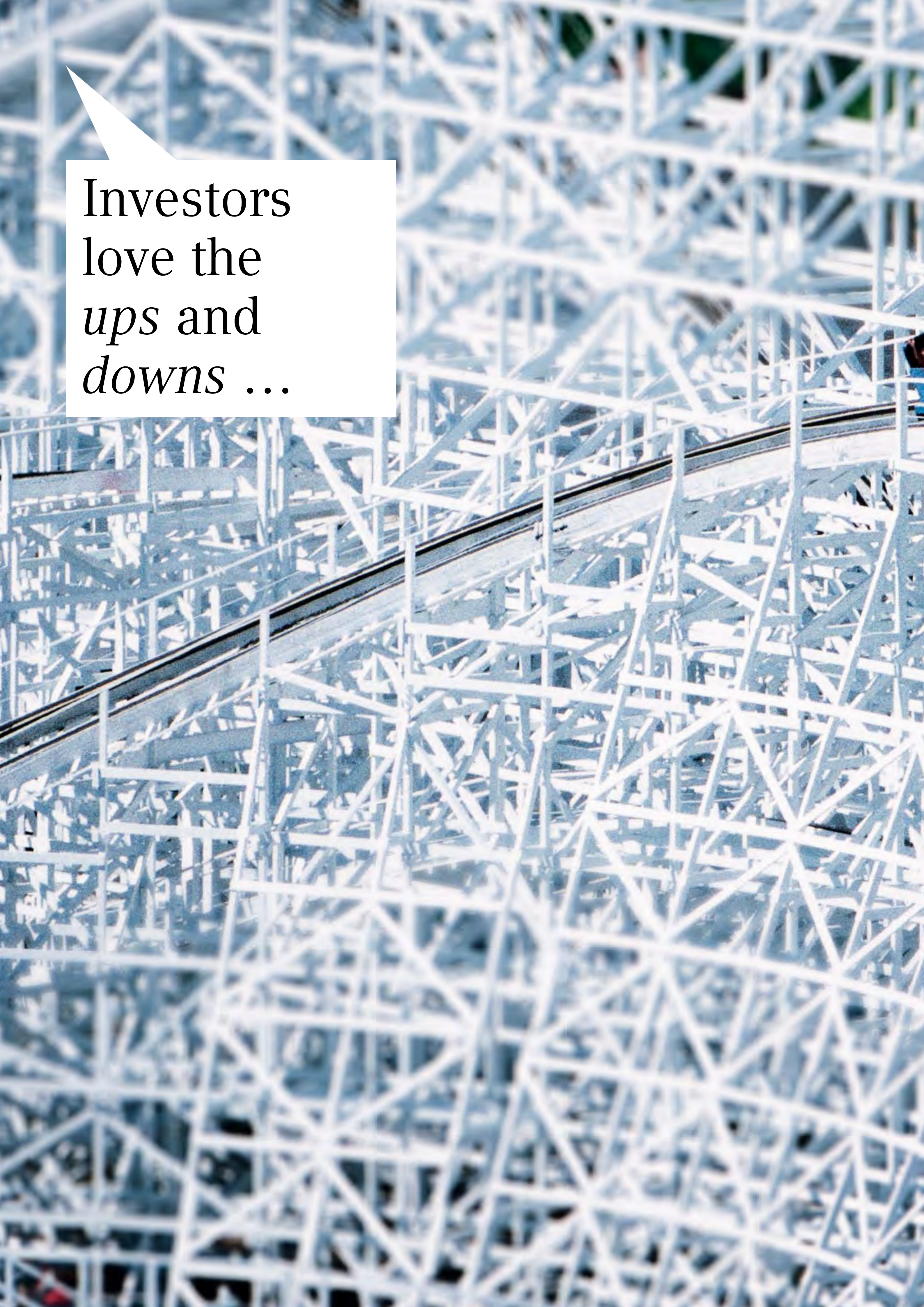
With a view to further diversifying our portfolio we again scaled back the share attributable to larger cedants in the year under review, while at the same time expanding our business relationships with mid-sized regional players and mutual insurers. This business segment now accounts for 20% of our total portfolio. Altogether, we work with around 500 clients in North America and maintain more than 2,000 treaties. Market players confirm that we are the reinsurer with the broadest portfolio diversification.

Our clients particularly value our extensive product range and our involvement in all lines – provided prices are adequate. Given that the market environment is still relatively soft, we again chose not to increase our market share in the year under review. However, seeing as considerably more opportunities to participate are open to us than we are able to act on in the prevailing soft market, we should be able to further expand our portfolio in a hard market phase.

Rates in property business were satisfactory, although modest reductions were observed in the course of the year. The absence of any appreciable catastrophe losses was a contributory factor here. In the casualty sector it was possible to avoid any further premium erosion. Our premium volume in standard casualty business was maintained on a constant level in light of good results.

All in all, we are satisfied with the development of our business in North America. Gross premium remained stable in the original currency.

The combined ratio for our business in North America stood at 101.0% (106.4%).


Investors love the *ups* and *downs* …

… but only on the roller coaster.

The best volatility is no volatility

Nobody likes sharp fluctuations in results – least of all our investors. Hannover Re has applied profit-stabilising measures to three sensitive points:

We have scaled back our underwriting volume for natural catastrophe risks both overall and in peak zones while at the same time extending it in non-peak zones. What is more, growth in other lines has caused the relative weight of catastrophe business within our portfolio to diminish. As a matter of principle, our investment portfolio is very prudently structured. We have categorised significant positions such that they are recognised at cost and hence reduce volatility in the income statement. This new investment strategy will stabilise our returns, thereby smoothing volatility and soothing nerves. Thirdly, we continue to boost the share of life and health reinsurance in our total portfolio. It now generates almost 50% of premiums and around one-third of the operating result (EBIT). Since these earnings are very stable our Group net income will be less volatile in the future.

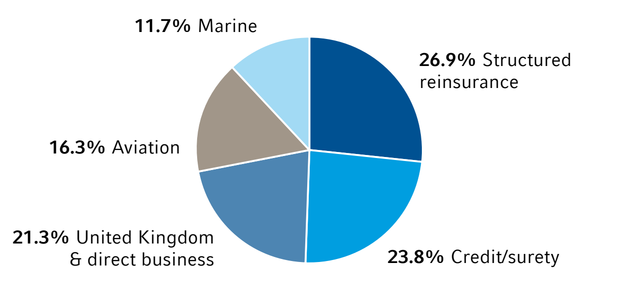
Going forward, as in the past, we shall make the most of our opportunities – always with an eye to stable results and dividends. Investors seeking a long-term involvement will particularly value this strategy of sustainable growth.

ROLAND VOGEL
CHIEF FINANCIAL OFFICER

Specialty lines

The development of our specialty lines was thoroughly satisfactory. This segment of non-life reinsurance includes marine and aviation business, credit/surety, structured reinsurance, ILS (insurance-linked securities), the London market and direct business. The premium volume climbed from EUR 2,233.9 million to EUR 2,371.9 million. The combined ratio improved to 91.4% (96.5%). The specialty lines segment delivered an operating profit (EBIT) of EUR 369.6 million (EUR 256.4 million).

Breakdown of gross written premium in specialty lines



Marine

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

The recession triggered by the financial market crisis continued to affect global trade in 2010. Although the premium volume in cargo insurance reflected the economic recovery, this has merely taken the form of stabilisation to date. Cargo volumes and premiums are still well below the level prior to the financial and economic crisis. Improvements were also evident in freight charges and the values of vessels, with a flattening trend and even increases in some areas.

Demand on the reinsurance side was largely stable, although softening tendencies were noticeable at the beginning of the year. This prompted us to consolidate our existing business and write new business only where it served to further enhance the diversification of our portfolio. Emerging markets may be mentioned here by way of example.

Our underwriting policy focuses first and foremost on more profitable non-proportional business. The primary objective for 2010 was to defend the price level of the previous year – which could be assessed as good owing to the repercussions of Hurricane "Ike" in 2008. In the year under review, as in 2009, we further reduced our limits of liability in the Gulf of Mexico and had thus already scaled back our exposure prior to the loss of the "Deepwater Horizon" drilling rig.

Along with a number of basic losses in hull insurance as well as cargo claims resulting from the earthquake in Chile, 2010 was dominated by the explosion on the "Deepwater Horizon" drilling rig; in addition to the direct loss of the oil platform this caused very extensive environmental damage. Given the uncertainties still surrounding possible liability claims and the complexity of this loss event, it will be years before it is settled.

The combined ratio stood at just 89.5% (78.1%) despite the aforementioned loss expenditure.

Aviation

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

Despite partial limitations on flight operations caused by snow chaos and cancellations due to the volcanic ash cloud over Europe, the economic situation for airlines improved in the year under review. Passenger numbers rose, ultimately with favourable implications for (re)insurers too. The entry into service of the Airbus 380 "super jumbo" served to push up the indemnity limits purchased by airlines.

It was also noticeable that insurers raised their retentions on account of improved capital resources. As a result, the year under review was notable for a number of basic losses, albeit without major repercussions for reinsurers because for the most part they remained within the retention carried by primary insurers. For this reason, and also due to a further rise in reinsurance capacities, the pressure on prices increased as the year under review progressed. Against this backdrop our goal was essentially to maintain our current market shares. We are a market leader for non-proportional treaties in the airline market, whereas in proportional business we write our business opportunistically and concentrate for the most part on niche segments. We maintained our involvement in non-proportional reinsurance on a stable level; our gross premium in the aviation line contracted marginally.

After the unusually heavy loss expenditure incurred in the previous year, the major loss experience in the year under review was on the moderate side. The largest single loss was a fire at a spare parts storage facility of a Saudi Arabian airline, for which we have set aside net reserves of around EUR 13 million.

The combined ratio improved to 75.3% (86.3%).

Credit and surety

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

While the situation in credit and surety insurance had been challenging in the previous year, it eased in the year under review. Although most of the industrial nations have put the recession behind them, the environment remains volatile. Countries with high levels of sovereign debt recorded significantly slower growth, whereas emerging markets – in particular – returned to their strong growth rates. Export-oriented nations such as Germany profited from this development.

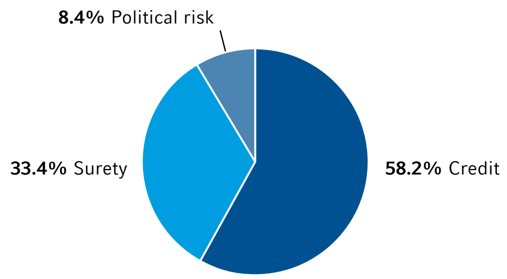
Claims rates in credit insurance, which had been driven up sharply by the economic crisis, reached their peak at the beginning of 2010. They then subsided appreciably; since mid-2010 claims rates have reverted to pre-crisis levels or in some cases even lower. In the surety and political risk lines claims rates remained on a good level. Most notably, results in surety business escaped the crisis virtually unscathed.

The economic crisis had prompted many competitors either to heavily curtail their involvement or entirely withdraw from credit business in 2009 and 2010. Hannover Re, on the other hand, made the most of the capacity squeeze and the accompanying substantial price increases to selectively enlarge its portfolio. This brought about further expansion of our already robust market position. Our premium growth in the year under review amounted to around 20%; the bulk of this derived from the reinsurance of trade credit business.

The picture in credit reinsurance was a similar one to that in the primary sector: here too claim rates improved markedly. Reinsurance rates were also very pleasing, rising significantly for 2009 and 2010. From the middle of the year under review onwards rates held stable, only coming under pressure in isolated cases.

In surety reinsurance the situation remains favourable; claims rates were stable on a good level. Rates increased only slightly here on account of a favourable loss experience.

Breakdown of gross written premium in credit/surety



The experience of our political risks business was also satisfactory. Rates in this segment peaked at the beginning of 2010; modest rate erosion then ensued over the course of the year, albeit still on a good level.

All in all, the development of credit and surety reinsurance was satisfactory. The decision to selectively enlarge our portfolio in the challenging crisis year of 2009 proved to be correct: in non-proportional business the portfolio was virtually loss-free. On the proportional side claims rates improved markedly in the credit line, while in surety and political risks business the claims situation was also highly gratifying. Once again, we did not incur any major losses – i.e. losses in excess of EUR 5 million – in the year under review.

The combined ratio moved back under 100% in the year under review. It stood at 97.8%, after 104.2% in the previous year.

Structured reinsurance

We are satisfied with the development of structured reinsurance products, which offer our cedants risk equalisation over time and serve to reduce their capital requirements. Whilst the premium income contracted due to our discontinuation of certain high-volume arrangements, the operating profit nevertheless showed a very pleasing increase.

Hannover Re is one of the two largest providers of structured reinsurance solutions in the world and can draw upon many years of experience as regards actuarial balance sheet, accounting and underwriting expertise. Our range of products is geared to optimising our clients' cost of capital.

In the year under review we further intensified cooperation with our treaty departments writing traditional reinsurance, thereby enabling us to offer our clients the full spectrum of our company's products and its extensive range of services.

Demand for structured reinsurance covers remained strong in the year under review, despite the fact that primary insurers were able to rebuild the capital that they had lost in the economic crisis; in the previous year this had served to drive demand for surplus relief contracts.

In keeping with our strategy of regional diversification, we further stepped up our activities in Europe. Yet we were also able to enlarge our client base in Latin America. In the United States we continue to target smaller and mid-sized companies with our surplus relief contracts. Our business opportunities in Asia are improving as some countries have implemented solvency requirements based on a risk-based capital framework.

We do not anticipate any strains on our structured reinsurance covers from major losses occurring or reported in the year under review.

Insurance-linked securities

As anticipated, demand for insurance-linked securities continued to grow in the year under review; this sector, which had contracted in the wake of the financial market crisis, has recovered.

Investor demand thus comfortably outstripped supply when it came to our "K6" transaction. The portfolio assembled for this securitisation consists of non-proportional reinsurance treaties in the property catastrophe, aviation and marine (including offshore) lines. The "K6" quota share, which had originally been launched in 2009, was boosted by USD 152 million in 2010 to the desired volume of more than USD 300 million, specifically, to USD 329 million. The additional shares in the "K6" transaction were written as new three-year treaties, which means that henceforth only a portion of the total volume will be renewed at year-end.

We make use of the capital market not only to protect our own property catastrophe risks, but also to structure and package risks for our cedants. When it comes to innovations and bespoke solutions we are a market pioneer.

Our "FacPool Re" project, which in 2009 for the first time transferred a portfolio of facultative risks to the capital market, was continued. What is more, we significantly expanded our business relations with individual investors by enabling them to enjoy optimised access to (re)insurance risks.

We also continue to take the role of investor by ourselves investing in catastrophe bonds. In this context, the natural disasters recorded in 2010 did not cause any losses.

The declining rate level in large areas of traditional reinsurance business is also causing prices to fall in the ILS market.

The development of our ILS activities in the year under review was very favourable overall.

United Kingdom, London market and direct business

Traditional reinsurance

We are satisfied with the business that we write in the United Kingdom and on the London market. Against a backdrop of broadly stable rates and conditions, developments in the various lines were on the whole gratifying.

The cold spell in January 2010 and poor results in motor business prompted rate increases in the United Kingdom in both homeowners and motor insurance. These did not, however, affect our reinsurance business, since for the most part we write the middle and higher layers of programmes and hence we had not been impacted by the disappointing results of the previous year.

In the casualty sector we again benefited from our very good rating and were able to expand our portfolio. Although we maintain a small number of long-term participations, we generally pursue a strictly profit-oriented underwriting policy in the London market. Our premium volume grew appreciably in the year under review.

Direct business

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

Our expectation of increased premium growth for 2010 was fulfilled: we were able to substantially enlarge our premium volume in direct business. The stepping up of our involvement in professional indemnity lines in the UK, especially in connection with liability policies for the legal profession, was also a factor here. Nevertheless, our premium volume written in South Africa similarly increased in the year under review.

Thanks not least to a new branch of Inter Hannover in Australia we were able to expand our business. Not only did we extend the geographical reach of our involvement in direct business, we also launched new products on the market. In cooperation with a US company, for example, we developed the "Energy Savings Warranty" programme to provide an insurance backstop for energy-saving guarantees in the United States.

We booked rate increases in the UK in the areas of motor own damage insurance and professional indemnity for lawyers. Overall, rates in property and liability business were stable.

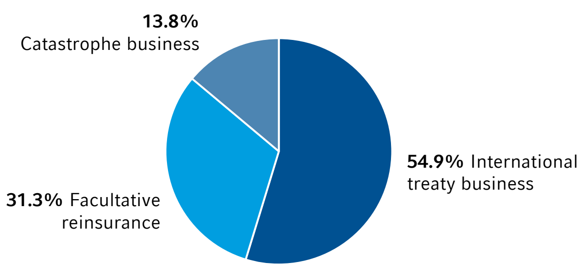
Our second company writing specialty business, namely Compass Insurance Ltd., is one of the leading players in this segment in South Africa. The company's strategic objective, which was successfully accomplished in the year under review, is to expand profitable business with underwriting agencies. The reinsurance of this portfolio is in large measure assumed by Hannover Re Africa. Altogether, agency business accounts for roughly two-thirds of the total non-life reinsurance written by Hannover Re Africa.

Both companies – Compass Insurance and Inter Hannover – generated highly satisfactory results in the year under review.

Global reinsurance

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

Breakdown of gross written premium in global reinsurance



The development of markets in our global reinsurance segment was challenging in the year under review. The premium volume here surged by 24.7% to EUR 2,213.4 million (EUR 1,774.7 million). The combined ratio soared to 106.1% (87.9%) owing to an exceptionally heavy burden of major losses. The operating profit (EBIT) consequently shrank to EUR 111.9 million (EUR 356.2 million).

Western and Southern Europe

France

The 2010 financial year in France was again notable for intense competition. The rate level continues to be unsatisfactory in some areas, and our primary goal therefore was to maintain the profitability of our portfolio. We were largely successful in accomplishing this aim.

Hannover Re is one of the major reinsurance players in the French market and a leader in the builder's risk and personal accident lines. In builder's risk insurance we continued to pursue our strategy of long-term expansion in the year under review. Overall, the premium volume in France contracted slightly.

Netherlands

The higher capital requirements anticipated with the advent of Solvency II prompted further mergers and acquisitions among smaller insurers in the year under review. What is more, the more exacting requirements placed on risk management are giving rise to stronger demand for natural catastrophe covers. According to the standards set down by Dutch insurance regulators, companies must now protect themselves against "200-year-events" under catastrophe covers.

Hannover Re stands by its strategy of expanding the share of its Dutch business deriving from casualty lines. In view of the more attractive rate situation prevailing in non-proportional casualty business, we therefore moderately enlarged our portfolio; property business, on the other hand, is written highly selectively. In motor insurance it would seem that tariffs in original business have now bottomed out.

After the high frequency of property claims incurred in the previous year, the loss situation in the year under review was moderate. The loss ratio consequently improved.

Our premium volume from the Dutch market contracted slightly.

Management report

Northern Europe

In the markets of Northern Europe Hannover Re is a major provider of insurance covers. This is due both to the capacities that we make available and our very good rating. The fact that we are the only reinsurer with a branch in Scandinavia also works to our advantage.

Competition in Northern Europe remains fierce in both the primary and reinsurance sectors. With the markets softening, we have scaled back our portfolio. The mutual insurers segment continues to be a focal point of our underwriting policy.

Several natural disasters occurred in the year under review, causing losses that also affected Hannover Re; the severe rainfall in Denmark may be mentioned by way of example.

Central and Eastern Europe

The primary insurance markets of Central and Eastern Europe, which had been buffeted by the financial and economic crisis, recovered somewhat in the course of the year under review. Rates in original business nevertheless continued to slide on account of increased competition. It can, however, be assumed that markets in this region will grow at a markedly brisker pace than those in Western Europe. Rates and conditions on the reinsurance side were broadly stable in the year under review and in most cases on a level commensurate with the risks.

We have defined the countries of Central and Eastern Europe as strategic growth markets – always assuming that business here remains profitable. In this region Hannover Re ranks among the top three players in the reinsurance industry. We are very well positioned and quote our business in all lines and markets.

In the year under review we again observed a trend towards the increased purchase of non-proportional reinsurance arrangements. A greater awareness of major catastrophic events is prompting stronger demand for additional capacity in the area of natural catastrophe covers. We also observed higher limits in casualty business.

Although the markets of Central and Eastern Europe were affected by a number of natural disasters in 2010, we are satisfied overall with the development of our business. Our premium volume was again boosted in the year under review.

Latin America

The most important Latin American markets for our company are Mexico, Argentina, Brazil, Colombia, Venezuela and Ecuador. Along with the writing of agricultural risks, catastrophe covers are especially interesting here.

The effects of the financial and economic crisis on Latin America were considerably milder than in Europe; the most severe repercussions were felt in Mexico. An adverse factor here – albeit in other countries too – was that workers abroad stopped sending money home. In Venezuela the political situation has created a difficult environment for insurers and reinsurers, and we therefore operate very cautiously in this market.

Our goal for 2010 was to boost premium income; we accomplished this in most markets. Within our underwriting policy we placed a greater emphasis on the casualty sector, because rates here tended to be more stable. On the other hand, the importance of industrial business in our portfolio continues to diminish.

In Brazil, where we have maintained a representative office since 2008, we operate as an "admitted reinsurer". We were able to acquire additional market shares in the year under review. The primary market is growing very rapidly, and considerably more quickly than the reinsurance market. Competition is tending to intensify in this market on both the insurance and reinsurance side, and we therefore practice a highly selective underwriting strategy.

The earthquakes in Haiti and Chile in the year under review not only represented two enormous human disasters – the Chile earthquake also produced an exceptionally heavy burden of major claims for the (re)insurance industry. With an estimated market loss of around USD 12 billion, the Chile earthquake is the largest loss event in Latin America. For Hannover Re, the net strain from this event was EUR 181.9 million; the earthquake in Haiti cost our company EUR 27.2 million.

Japan

Japan is our largest Asian market. Our service company in Tokyo affords us good insight into the Japanese market. Long-term business relations are traditionally of great importance in Japan. Thanks to our very good rating we were again a particularly highly sought-after partner for our cedants in the year under review. We transact business across all segments and enjoy the status of "core reinsurer" with most major primary insurers.

The insurance sector continues to be fiercely competitive and rates in original business consequently remained relatively stable on a low level in the year under review. Modest rate improvements were, however, recorded under some commercial and industrial fire programmes.

The situation on the reinsurance side was largely unchanged year-on-year. Rates for the most part remained stable. Conditions in property business – which is written predominantly on a proportional basis – continued to adequately reflect the risks, and we were able to book stable commissions. On average we obtained slight increases for casualty covers. The most important single line for our company in Japan is natural catastrophe business, where rates were essentially unchanged.

The claims experience in the year under review was moderate, with no major losses recorded. As expected, the premium volume was stable. Overall, we are satisfied with the results of our Japanese business.

Southeast Asia

Hannover Re's main markets in Southeast Asia are Malaysia, the Philippines and Indonesia. Our portfolio here, which we further diversified in the year under review, is composed predominantly of property business. Lines such as personal accident, crop and livestock insurance as well as structured reinsurance products were systematically expanded. We also continued to engage in the field of microinsurance in the year under review. These products enable even low-income individuals to purchase insurance protection.

Given the greater importance attached to risk-based models in Malaysia, we observed a surge in demand in proportional motor business – both in traditional reinsurance and in terms of structured solutions. We are supporting our clients here with an eye to the increased capital requirements and in the year under review we wrote the largest contract to date – measured by premium volume – in the region.

It remains the case that rates in the primary insurance sector are scarcely adequate in Southeast Asian markets, and hence reinsurance conditions also deteriorated in 2010 relative to the previous year.

Our premium volume grew substantially in the year under review.

In terms of major losses, the region of Southeast Asia came under strain in 2010. Particularly devastating for the local population were the flood events in Pakistan. What is more, losses also resulted from the political unrest in Thailand. Overall, the major loss expenditure in Southeast Asia remained within the low double-digit million euro range.

China

The Chinese insurance market again generated strikingly vigorous growth in the year under review. Special reference should be made to the more stringent requirements adopted by the China Insurance Regulatory Commission with respect to the equity resources of insurance companies. Demand for reinsurance solutions that could serve as equity substitutes was therefore marked. Overall, the industry generated a good underwriting result. Similarly, reinsurers generated very healthy growth rates and good results in 2010. Government-sponsored subsidy programmes have again sharply driven up sales of domestically built motor vehicles. Consequently, further substantial growth in motor insurance – the dominant line in China – was recorded in the year under review.

Rates for non-proportional covers were stable in 2010 and – more importantly given the dominance of proportional business – insurance terms and conditions were maintained largely unchanged.

Competition in the (re)insurance market is also very fierce in view of the enormous growth opportunities. In our assessment, China offers particularly attractive prospects in the areas of facultative business and agricultural risks as well as in the marine and aviation lines.

As forecast, our premium volume in China increased appreciably. Our Shanghai branch, which commenced operations in the year under review, improved our business opportunities as we had expected. As a "local" reinsurer, we now also enjoy access to treaties in the domestic currency.

Although China was affected by a number of (natural) disasters in the year under review, the insured losses remained moderate. We did not incur any major losses.

We are satisfied with the development of our portfolio from the Chinese market.

Australia/New Zealand

Hannover Re still ranks third in the Australian non-life reinsurance market. Our underwriting strategy is geared strictly towards profitability and we therefore relinquished unprofitable business in the year under review. We write the entire spectrum of reinsurance business in Australia and New Zealand. Our offerings in Australia are complemented by a primary insurance license held by our subsidiary Inter Hannover. We continue to be a leading provider for catastrophe business and also maintain our involvement in the liability lines.

The pressure on prices for insurers and reinsurers licensed in Australia is growing on account of more exacting capital requirements with respect to the risk capital that has to be kept available.

The rate trend was unsatisfactory in some areas due to the highly competitive environment in Australia and New Zealand. The hail events in March, for example, had no appreciable positive effects on prices; against this backdrop we withdrew from a number of programmes. Similarly, the severe earthquake in New Zealand in September failed to trigger the expected rate increases. The region around Christchurch suffered severe devastation. This loss event produced a net strain of EUR 113.8 million for Hannover Re. Another major loss was caused by the flooding in Queensland in December, for which we have reserved an amount of EUR 16.1 million.

The loss ratio increased in the year under review.

Global catastrophe business

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

2010 was a difficult year for catastrophe business around the world; in the first place, a large number of catastrophe losses were recorded, and secondly, the forecast rate reductions for the most part materialised. Following a relatively untroubled major loss experience in 2009 and with primary insurers enjoying an improved capital base, prices for catastrophe covers declined in the year under review. The reductions were particularly marked in the United States. The pressure on rates increased still further during the US mid-year treaty renewals in June and July. Price increases could only be obtained under programmes that had suffered losses.

Whilst the severe earthquake in Chile led to price increases in the affected region, it did not usher in a general trend reversal in prices for natural catastrophe risks.

The strains caused by catastrophe losses were sharply higher in the year under review than in 2009. The costs to the global insurance industry from natural disasters and man-made losses rose by more than 30% to approximately USD 37 billion. The most expensive natural disaster in 2010 was the severe earthquake in Chile; for Hannover Re, too, this was the largest single loss in the year under review with a cost of EUR 181.9 million. Hurricane events were again the exception in the year under review and had no bearing on our technical account.

Our gross premium volume from global catastrophe business increased slightly. The result fell well short of the previous year's very good performance on account of the heavy loss expenditure. The combined ratio for global catastrophe business came in at 121.3% and was thus significantly higher than in the previous year (31.5%).

Agricultural risks

Since the coverage of agricultural risks has taken on considerably greater importance in recent years, a steady rise in demand for reinsurance capacities was observed in the year under review. With this in mind, we again significantly boosted our premium volume.

In many countries multi-risk covers attract government subsidies, with the state paying a certain percentage of the applicable insurance premium. This form of subsidy is also tolerated by the World Trade Organisation. In economically underdeveloped countries the state assumes a share of up to 100% in these covers, while in the United States for example the level of subsidy is 50%.

Even in the emerging markets insurance products for agricultural land or livestock are increasingly gaining hold. This trend is similarly reflected in our portfolio: while our initial focus was on South America, we are now also growing in other regions such as India and China. In Eastern Europe, too, we have enlarged our portfolio. In the aftermath of the devastating fires seen in Russia in the year under review the government is now increasingly looking at boosting its spending on measures to support farmers; legislation is currently in the pipeline.

In addition to cementing our involvement in traditional markets such as the United States or Western Europe, we added new market shares – including for example in Brazil following the deregulation of the local insurance market. We were also able to expand our business in Peru.

The strains for our account were caused by claims associated with drought conditions in Russia, flood damage in Pakistan and severe rainfall in Mexico.

Retakaful business

We write retakaful business – that is to say, insurance transacted in accordance with Islamic law – in both Southeast Asia and on the Arabian Peninsula. With the Bahrain-based Hannover ReTakaful we maintain a subsidiary that bears exclusive responsibility for transacting this line of business; we also have a local branch that writes traditional reinsurance in the Arab world.

The economic crisis led to an overall slowdown in construction work and put a stop to infrastructure measures. The premium volume generated by primary insurers consequently grew less strongly. This, in turn, had implications for reinsurers. We nevertheless succeeded in boosting our gross premium volume. Yet our company does not aspire primarily to growth targets or market shares; rather, our focus is on the profitability of the business. Our largest single market is Saudi Arabia.

The year under review passed off very well for our company: despite rising competition we were able to increase our premium volume in casualty business and the engineering lines. The successful growth of our retakaful business can be attributed to the very good relations that we cultivate with our clients, our quick response times and the financial standing of Hannover Re.

Even though the result of our retakaful business in the year under review fell somewhat short of the previous year's performance, we are not dissatisfied with its development.

Facultative reinsurance

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

Here, too, our strategy is to grow only in those areas that we believe offer adequate profitability. As planned, our premium volume in the facultative sector increased considerably in the year under review. We further improved our market position and continue to see considerable potential for profitable growth in facultative reinsurance going forward.

We were able to particularly strengthen our position in Latin America, the United States and the Middle East; this was also true of Asia, where we are benefiting from our new branch in Shanghai.

Rates in energy business continued to move lower in the year under review. The "Deepwater Horizon" loss did, however, have positive implications for reinsurance prices in the offshore energy line.

In North America we enlarged our portfolio in both property and casualty business – and here most notably in professional indemnity. Although rates were certainly under strain, conditions remained relatively stable.

In common with our obligatory business, our facultative portfolio was also impacted by the severe earthquakes in Chile and Haiti and the loss of the "Deepwater Horizon" drilling rig. Our shares in this case were, however, relatively moderate. The combined ratio in facultative reinsurance stood at 99.4% (94.9%).

Life and health reinsurance

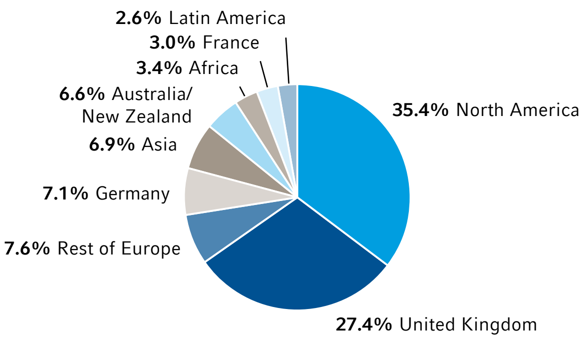
Business development

As expected, the repercussions of the international financial market crisis continued to reverberate beyond 2009. On the one hand, consumers in many markets showed caution when it came to demand for long-term life insurance products; on the other hand, the persistency of older in-force portfolios deteriorated owing to an increased lapse rate.

What is more, in the important US mortality market and in the Australian disability market we noted an increase in the biometric claim frequencies; in some cases they were significantly higher than the comparative historical values. After detailed analysis of the data it is our assumption that these are temporary phenomena. Despite this sometimes difficult environment, we were again able to generate a highly satisfactory result in our life and health reinsurance business group.

We selectively strengthened our position in our relevant focus markets of the United States, United Kingdom, Germany, Australia and France.

Geographical breakdown of gross premium



In view of the extremely competitive market climate, we wrote new mortality and critical illness/trauma risks in the UK and Australian markets only with considerable restraint. In large parts of these markets we no longer consider the reinsurance conditions to be commensurate with the risks.

On the other hand, following on from the acquisition of the ING life reinsurance portfolio in 2009, we again significantly expanded our position in the US mortality market in the course of the year under review. We revived reinsurance relations with several ceding companies and are now well on track in the medium term to becoming a relevant market player in the US mortality market with a 10% – 15% share of new business.

We were similarly able to build on our leading role in the UK longevity market. We have a strong presence in new business involving personal annuities for individuals with a reduced life expectancy; in this area we support a number of particularly dynamic providers through quota share reinsurance models.

What is more, we are expanding activities relating to the reinsurance of sizeable pension funds in the United Kingdom through so-called longevity swaps – under which the reinsurer assumes the biometric risk of longevity associated with a portfolio (normally only the part of the portfolio on which benefits are already being paid) in exchange for payment of a regular fixed premium.

In the second half of 2010 we received requests from a number of international pension funds in Denmark, the Netherlands, Canada and South Africa to implement similar solutions outside the United Kingdom; we are confident of closing the first transaction of this type in the first half of 2011. The currently emerging, increasingly international dimension of demand for such covers promises outstanding potential for the future.

In the German life insurance market single-premium products enjoyed strong growth in the year under review. Since these products are for the most part oriented towards the capital market, opportunities for traditional reinsurance are scarce. In the coming years, too, we expect to see hardly any changes on the demand side at primary insurers.

In several emerging markets, on the other hand, we were able to make significant progress in the year under review.

In South Africa we continue to be the leading life reinsurer, based on our extensive support for innovative, customer-oriented insurance companies. In the Indian market, in which we only established a footing in 2008 with a service office in Mumbai, we moved forward with our strategic life cooperation with GIC Re and were able to acquire a number of Indian primary insurers as new clients.

In the Chinese market (Greater China) we are currently represented by three offices: the branch in Hong Kong serves both the market comprised of locally-based life insurers and the regional centres of large multinational insurance groups. It also operates as a regional service centre for East Asia. Our service office in Taipei serves the local Taiwanese market. The branch in Shanghai concentrates on business from China, where – in close cooperation with the CIRC and its express approval – we were able to close the first two liquidity-related financing transactions.

The development of our business in the Islamic insurance sector (takaful), which we write through our subsidiary Hannover ReTakaful in Manama/Bahrain, was also highly gratifying. Our retakaful cedants are located predominantly in Saudi Arabia, Bahrain and the United Arab Emirates.

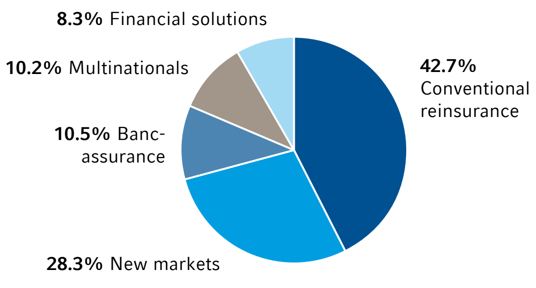
In the year under review we moved a significant step closer towards attaining our longer-term goal of becoming the number three in the worldwide life reinsurance market. Outside the US we already rank third by a wide margin.

The business model

Our worldwide activities in the reinsurance of the life, annuity and health lines are brought together under the Hannover Life Re brand name. We also write the accident line in this business group, to the extent that it is transacted by life insurers, as well as some Islamic insurance products, the so-called family takaful products.

The core business policy of Hannover Life Re is given concrete shape in our tried and trusted Five Pillar model. It consists of the pillars of conventional reinsurance, new markets, multinationals, bancassurance and financial solutions.

Breakdown of gross written premium according to the Five Pillar model



We are able, on the one hand, to selectively tap into attractive business potential in the traditional market through conventional reinsurance offerings, while at the same time working systematically on the development of special product and sales solutions through our four specialist segments. To a significant extent Hannover Life Re is thus able to decouple itself from developments on the standard reinsurance markets.

In many instances Hannover Life Re has been able to operate as a pioneer for new markets and has played a crucial role in shaping the dynamic growth of these markets – our entry into the UK private annuity sector with enhanced annuities in the years 1994/95 may be cited as a well-known example of this approach.

At the present time conventional reinsurance accounts for the lion's share of our portfolio. In the medium term, however, we anticipate stronger growth from the pillars of new markets and bancassurance; it should therefore be possible to restore the desired long-term balance between conventional reinsurance (at around 40% of our portfolio) and the other four pillars (at around 60% of our portfolio) in the next few years.

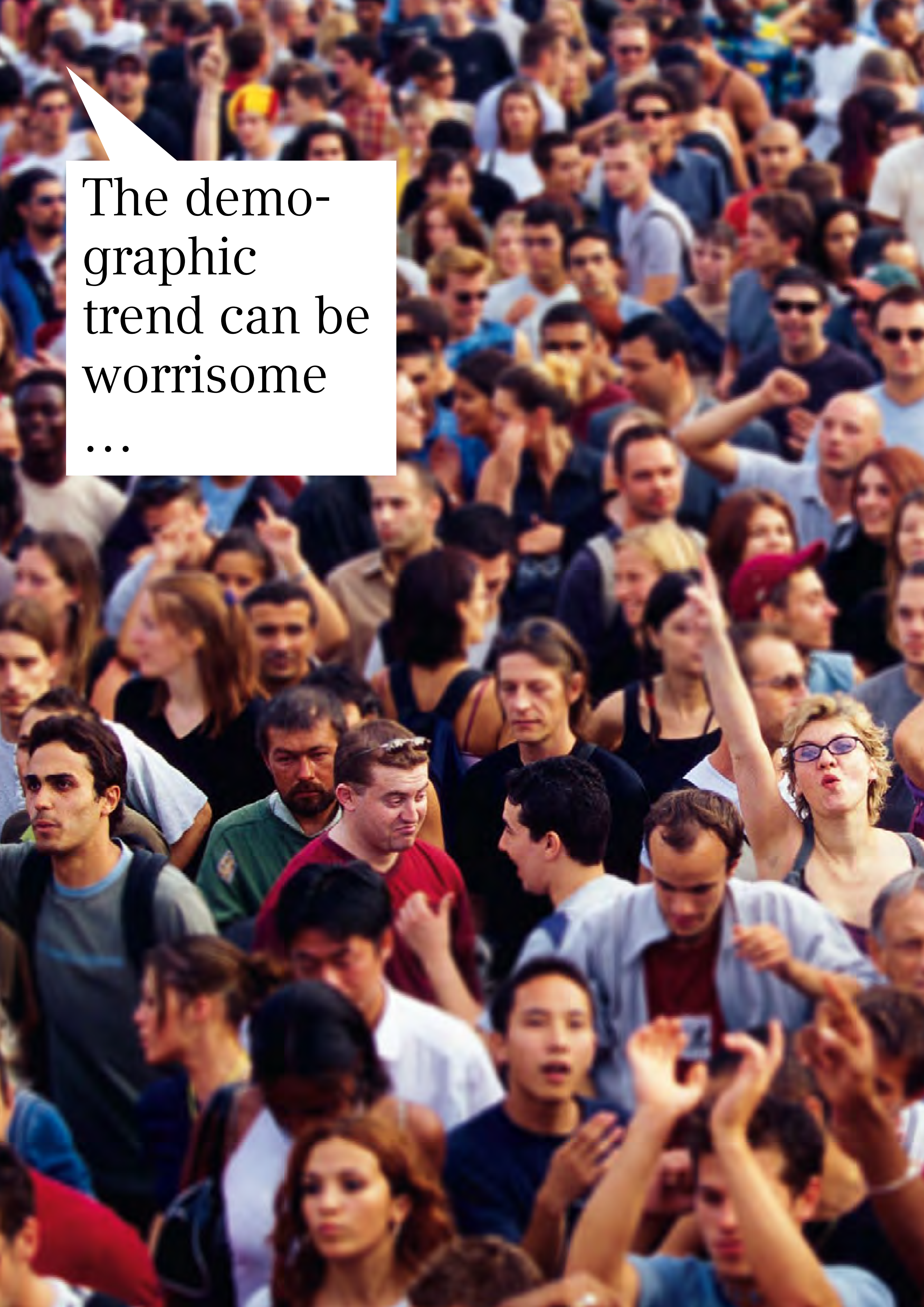
We devote particularly close attention to optimal risk diversification – something which is also evident in the relevant risk models under Solvency II. The negative correlation between the biometric components of mortality and longevity plays a special role here.

The growth in longevity business diversifies our mortality risk, while the growth on emerging markets in Asia, Africa and Latin America serves to improve the geographical spread of our portfolio from the major markets of the United States, United Kingdom and Germany; financial solutions provide an additional element of structural diversification.

All in all, we consider Hannover Life Re to be a superbly diversified reinsurer that optimally combines the prospects for long-term growth and profitability over the next 20 to 30 years.

Certain risks that enjoy occasional demand as growth drivers in the international reinsurance markets have been considered unreinsurable by our company for quite some years. We include here derivative financial options and guarantees deriving from variable annuity products, the longevity risk for affluent socio-economic groups and life-long guarantees for morbidity products.

Our business model is founded on a concept of organic growth, although we are open to acquisitions. Going forward, as in the past, we expect to maintain our growth on an average level of 10% – 12% per year through appropriate portfolio acquisitions, thereby systematically gaining market shares in the global market without this detrimentally impacting the quality of our acceptances.


The demo-graphic trend can be worrisome …

> … Hannover Life Re's solutions can alleviate these concerns.

Ageing creates markets

In Germany the traditional target group for life insurance products aged between 25 and 40 will shrink by around 20% over the coming 30 years. At the same time, new target groups such as best agers are forming with different and more extensive insurance needs.

Hannover Life Re has an eye on both these developments. One example is enhanced annuities in the United Kingdom, a market segment that emerged in the mid-1990s with our support. The idea: immediate life annuities for soon-to-be pensioners are written with medical underwriting. Depending upon the severity of pre-existing conditions, the resulting annuities may be considerably higher. In Germany, on the other hand, long-term care insurance is a major market. The over-sixties see this as an important and necessary safeguard for their existential risk.

Increased life expectancy has made clear to many companies the potential for losses inherent in their pension benefits. In the United Kingdom, for example, pension funds have more than GBP 1,000 billion in defined benefit liabilities. These benefits are guaranteed by the retirees' former employers. For several years Hannover Life Re has been successfully offering longevity swaps that hedge the risk associated with annuity portfolios.

JENS BLOHM
MANAGING DIRECTOR
HANNOVER LIFE RE GERMANY I

Development of premium income

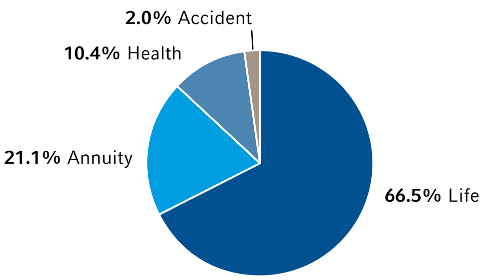
The gross premium income booked in the year under review totalled EUR 5.1 billion, an increase of 12.4% relative to the previous year's figure of EUR 4.5 billion. At constant exchange rates – especially against the US dollar – growth would have come in at 6.8%. Net premium earned amounted to EUR 4.7 billion; this represents a slightly higher level of retained premium of 91.7% than in the previous year.

In geographical terms, growth impetus in the year under review derived from the United States, United Kingdom, South Africa, Latin America and East Asia – particularly noteworthy is the rapid growth witnessed in China.

The core of our activities is in the life and annuity lines, which accounted for altogether 87.6% of worldwide premium income in the year under review.

The various covers associated with the biometric risk segment of morbidity, such as disability covers, critical illness/trauma covers and health covers, accounted for 10.4%, while the modest but highly profitable portfolio of accident business contributed a share of 2.0%.

Breakdown of gross written premium by lines of business



Our wide-ranging business model and the high degree of diversification of our international portfolio inevitably give rise to a broad spectrum of factors that can influence the operating result (EBIT).

As a general principle, a distinction must be made between the following profit components:

- Biometric risks 1: development of the biometric risks of mortality and morbidity, which are reflected in the area of conventional reinsurance and in bancassurance
- Biometric risks 2: development of the biometric risk of longevity, which has a special influence on results in new markets
- Structural risk associated with the persistency of the business in force, which influences the performance of financial solutions
- Development of the specific client-related counterparty risk, which is of relevance to financial solutions business
- Investment risk 1: investment performance of the assets under own management that cover the shareholders' equity and our non-deposited reserves
- Investment risk 2: Investment performance of the deposits with ceding companies
- Movements in exchange rates between our reporting currency (EUR) and the most relevant foreign currencies (USD, GBP, AUD and ZAR)
- Cost trend for letters of credit (LOCs) in connection with US mortality contracts
- Development of our own administrative expenses

The experience of the biometric risks of mortality and morbidity was extremely mixed in the year under review and less favourable overall than in the two previous years.

Irregularities were observed in the mortality risk in some sub-segments of the US portfolio, which – especially in the second half of the year – was impacted by an unusually large number of claims with high sums insured. In total, additional expenditure in the mid-double-digit million euro range was incurred.

The claims experience in Australian disability annuity business was similarly unusual: the period during which annuity recipients remained in the disability phase was longer by market standards. This prompted a strengthening of the IBNR reserves and the provision for claims already being paid out. Altogether, additional expenditure in the low-double-digit million euros was incurred.

We continued to enjoy very favourable claims experiences in the United Kingdom, Germany and France as well as in the emerging markets of South Africa, Latin America and Asia. The results of the longevity risk, which at the present time we write primarily in the United Kingdom, are inconspicuous and currently in line with our actuarial assumptions.

We subjected the risk associated with the persistency of the business in force – a risk which for our company was particularly evident in financing arrangements in continental Europe for unit-linked products – to a stress test in the year under review. In the case of some clients we noted substantially increased lapse rates in the reinsured portfolios, which have an influence on repayment of the previously provided pre-financing.

Key figures for life and health reinsurance							Figures in EUR million
	2010	+/- previous year	2009[1]	2008	2007	2006
Gross written premium	5,090.1	+12.4%	4,529.3	3,134.4	3,082.9	2,793.6
Premium deposits	1,617.9	–30.6%	2,331.8	2,181.2	854.5	1,166.2
Gross premium incl. premium deposits	6,708.0	–2.2%	6,861.0	5,315.6	3,937.4	3,959.8
Net premium earned	4,653.9	+14.1%	4,078.7	2,784.9	2,795.3	2,373.4
Premium deposits	1,414.7	–33.5%	2,125.9	2,126.9	783.6	1,084.4
Net premium incl. premium deposits	6,068.6	–2.2%	6,204.5	4,911.8	3,579.0	3,457.8
Investment income	508.2	–2.3%	520.1	245.5	293.9	313.2
Claims expenses	3,135.8	+14.3%	2,743.0	1,674.7	1,672.2	1,495.3
Change in benefit reserves	653.5	+15.9%	563.7	421.3	397.9	192.8
Commissions	1,022.8	+10.4%	926.2	743.4	780.5	831.7
Own administrative expenses	118.7	+20.7%	98.3	70.1	61.2	50.0
Other income/expenses	53.0	–50.6%	107.1	(0.2)	52.7	22.7
Operating result (EBIT)	284.4	–24.1%	374.7	120.7	229.8	139.5
Net income after tax	219.6	–26.3%	298.1	78.3	187.7	102.6
Earnings per share in EUR	1.82	–26.3%	2.47	0.65	1.57	0.85
Retention	91.7%		90.7%	89.3%	90.8%	85.4%
EBIT margin[2]	6.1%		9.2%	4.3%	8.2%	5.9%

1 Adjusted on the basis of IAS 8
2 Operating result (EBIT)/net premium earned

With this in mind, we wrote off an amount in the low double-digit million euros for several European financing arrangements in respect of the deferred acquisition costs.

The client-specific counterparty risk was unremarkable. Based on our insights, none of our ceding companies is in financial difficulties and in no case are regulators expected to intervene.

The portfolio of assets under own management is invested within the scope of the Hannover Re Group's investment policy and is thus subject to the usual requirements as regards matching (currency, duration), quality and diversification. In the first half of 2010 we made limited use of developments on capital markets for the tactical realisation of investment income.

To a large extent we do not carry any investment risk with respect to the investments that we deposit with ceding companies under reinsurance contracts financed from premiums; this is because the reinsurer is credited with fixed interest income irrespective of whether or not the primary insurer generates this rate of return.

The situation is different in the US reinsurance market, where we are exposed to a volatility risk through the market-oriented measurement of the securities deposited under ModCo reinsurance treaties. For 2010 this risk – the development of which is reflected on the accounting side through unrealised gains/losses – showed a slightly positive experience, compared with the profit running into the low triple-digit million euros that had been recognised in the previous year.

Total investment income came in at EUR 508.2 million (EUR 520.1 million); of this amount, EUR 204.1 million derived from assets under own management and EUR 304.2 million was attributable to amounts credited on deposits with ceding companies.

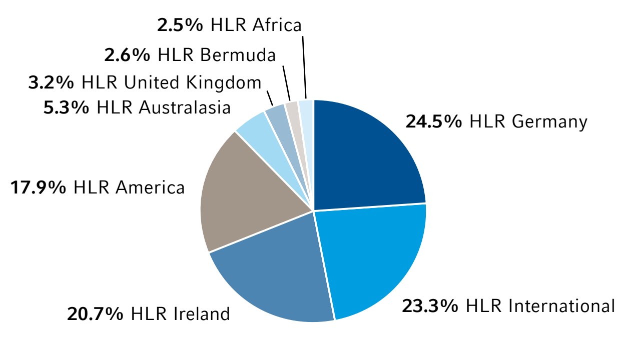
Internal administrative expenses in life and health reinsurance amounted to EUR 118.7 million; this corresponds to an expense ratio of 2.3% of gross written premium. Our lean processes, quick decision-making structures and our focus on relevant client relationships in the context of a detailed CRM strategy are key factors in the efficiency of our business model.

The operating profit (EBIT) for the year under review totalled EUR 284.4 million. The previous year, which produced a record result of EUR 374.7 million, had been influenced by special effects associated with the acquisition of the US ING life reinsurance portfolio as well as fair value adjustments on reinsurance deposits in the US and UK. The EBIT margin came in at 6.1% and was thus within the bounds of our expectations.

Our specialty segments of financial solutions and bancassurance are currently delivering above-average returns; this contrasts with the new markets segment, which for some years to come will tend to generate a below-average return owing to the structural dominance of the longevity risk and the conservative recognition of profit on accounting grounds. From a longer-term perspective, it is nevertheless our assumption that earnings from longevity business will make a significant contribution to profitability.

With an average tax ratio of 21.4% and after allowance for minority interests, consolidated net income in life and health reinsurance amounted to EUR 219.6 million (EUR 298.1 million). This was equivalent to earnings of EUR 1.82 per share.

Breakdown of gross premium by business centers before consolidation



Germany

For the German life and annuity insurance market the year under review posed a number of challenges. These can be attributed to the changes in business conditions: the low interest rate level for euro-denominated government bonds, in conjunction with the ongoing debate about the credit risk of peripheral Eurozone countries, the discussions surrounding the implementation of Solvency II and the evident shift in demand which, as was already the case in 2009, is giving precedence to annuity and capitalisation products with a single premium payment.

The low level of interest rates for fixed-income securities, which account for by far the largest share of the assets held by German life insurers, has both short- and long-term implications. In the second half of 2010, for example, a vigorous debate raged among German actuaries – in consultation with the Federal Financial Supervisory Authority (BaFin) – about the level of the future actuarial interest rate, which currently stands at 2.25% per year. While the regulator suggests a reduction to 1.75% per year, the actuaries and the German Insurance Association take the view that 2.0% constitute an appropriate guaranteed level.

The behaviour of consumers is also noteworthy: in new business single-premium products, coupled with shorter policy periods, are preferred. The lapse rates for in-force business, which compared to the previous year have stabilised on a high level, point to a shift in loyalty patterns that in future will have considerable implications for the financial strength of life insurers.

Tax-privileged products for individual retirement provision (so-called "Riester" and "Rürup" pensions), which are offered in a number of variants, continue to enjoy broad popularity. Variable annuities, which were heavily pushed by some providers in recent years, have seen a sharp decline, while risk-oriented covers intended for individual provision (such as disability covers) or to provide for surviving dependants (e.g. mortality protection) still exert a broad market appeal.

Within the Hannover Re Group the German market is served from Hannover by our subsidiary E+S Rückversicherung AG.

A focus of our activities on the life and annuity side is the customer group consisting of German mutual insurers and those life insurers with a close affinity to product distribution through banks (bancassurance). With a portfolio of more than 40 clients we have achieved a pleasing degree of market penetration and were able in recent years to acquire several new accounts despite a fiercely competitive environment.

Premium income in the year under review totalled EUR 343.0 million (EUR 389.8 million). The experience of the biometric risks of mortality and morbidity was very good, thereby enabling us to generate an attractive operating profit despite taking a write-down on deferred acquisition costs in connection with certain financing arrangements.

United Kingdom

In the UK market, which remains Europe's largest life reinsurance market, we have operated for many years on two levels: our subsidiary HLR United Kingdom in Virginia Water/London handles the conventional reinsurance market with a comprehensive range of services in the areas of underwriting, claims management and administration, while the parent company Hannover Re in Hannover concentrates on the rapidly expanding longevity segment.

The hallmark of the traditional reinsurance market in the United Kingdom continues to be extremely fierce competition for new business. Against this backdrop HLR UK maintained its prudent underwriting policy.

The gross premium booked by HLR UK totalled EUR 197.6 million (EUR 182.5 million), corresponding to growth of 8.3%. The risk experience and investment performance were gratifying, as a consequence of which the operating profit (EBIT) of EUR 26.7 million surpassed the previous year's level by 35.6%. The EBIT margin in the year under review stood at 18.4% in relation to the net premium earned of EUR 144.7 million. The result amounted to EUR 19.9 million after allowance for taxes on income.

Since the mid-1990s Home Office in Hannover has taken the lead responsibility for writing private pension business, an area in which we have focused on immediate annuity products for individuals with a reduced life expectancy (enhanced annuities). This market segment is showing consistent growth, and our clients rank among the leading providers of this type of product.

For some years now we have been working together with a number of specialist insurers and investment banks to reinsure the longevity risk of selected UK pension funds. When it comes to structuring and quoting these transactions, we are able to draw upon the risk expertise that we have gathered since 1995 as well as the data available from the private pension sector.

In the first quarter of 2010 we concluded a significant transaction through a European investment bank which covers the longevity risk for annuity recipients of a large pension fund. As lead reinsurer, Hannover Re has a share of almost 50% in this transaction. On this basis we are able to generate a premium in the order of EUR 89.8 million. In addition, we wrote a number of smaller transactions of this type in the second half of 2010.

The two longevity segments booked a premium volume of EUR 944.3 million, corresponding to growth of 47.2% relative to the previous year's figure of EUR 641.6 million.

Ireland

Established in 1999, our Irish subsidiary HLR Ireland operates worldwide and offers tailored reinsurance solutions for primary insurers and reinsurers in numerous markets. They range from a full risk transfer to limited transactions effected as deposit accounting contracts.

The profitability of the ING life reinsurance portfolio is determined by a complex combination of biometric risks, investment income and cost structures. Owing to numerous major claims in the second half of the year, the biometric experience of this portfolio was not satisfactory in the year under review – even though the statistical deviation on an annual basis was within the standard deviation and to this extent can be regarded as entirely normal performance volatility. Developments on the investment side, on the other hand, were pleasing, and the collateral costs were also lower than budgeted. All in all, the operating profit came in slightly below expectations.

The premium income generated by HLR Ireland totalled EUR 1,267.2 million, of which EUR 1,174.6 million was retained for own account. The operating profit (EBIT) amounted to a healthy EUR 96.7 million, producing an EBIT margin of 8.2%. Net income after tax of EUR 84.5 million was reported.

France, Maghreb and Arab countries

This market area is served by our life branch in Paris. The focus of activities in these regions is on bancassurance.

Due to a decline in single-premium business the gross volume contracted quite sharply and came in at EUR 452.0 million (EUR 494.1 million). Profitability was nevertheless highly gratifying: the operating profit (EBIT) amounted to EUR 49.2 million, corresponding to an EBIT margin of 11.6% on the net premium earned of EUR 425.8 million.

The reinsurance business of Islamic insurance companies (takaful operators) is written through our composite subsidiary Hannover ReTakaful in Manama, Bahrain. Growth in this market is extremely vigorous, and we were able to substantially expand our client relationships.

The main markets are Saudi Arabia, Bahrain and the United Arab Emirates. The premium volume surged by almost 60% to EUR 12.6 million (EUR 7.9 million); profitability was also thoroughly satisfactory.

Italy, Spain and Southeastern Europe

Responsibility for our client relationships in this region traditionally rests with our service offices in Milan and Madrid; we concentrate here on conventional risk-oriented covers, which are complemented by reinsurance solutions with financing characteristics.

The premium volume of EUR 82.6 million climbed by 8.0% in the year under review relative to the previous year's figure of EUR 76.5 million. Profitability in these markets remains favourable.

Scandinavia, Eastern Europe, Turkey and Israel

Our Stockholm branch is responsible for relations with ceding companies in the Scandinavian markets – including the three Baltic states – as well as for Turkey and Israel. The markets of Central and Eastern Europe (CEE/Russia/CIS), on the other hand, are served by a team of native-speaker actuaries and underwriters based in Hannover.

As a market-leading reinsurer in Sweden and Norway, we focus on the reinsurance of unit-linked products in Sweden and on bancassurance relationships in Norway. The premium volume from Scandinavia, Turkey and Israel showed satisfactory growth of 17.0% to reach EUR 78.0 million. The biometric risk experience was very good, and as in previous years a sizeable operating profit was therefore recorded.

We are still in the development phase in Eastern European markets, where our focus is on bancassurance and unit-linked products. The premium volume from this region – with concentrations on Poland, Russia and Hungary – surpassed the EUR 5 million mark for the first time and results were satisfactory.

North America incl. Bermuda

Our US subsidiary HLR America is headquartered in Orlando/Florida, with local offices in Denver/Colorado, Charlotte/North Carolina and Long Island/New York. It bears responsibility for our US business in the segments of mortality solutions, financial solutions and senior and special markets.

The mortality solutions segment, which experienced considerable growth in 2009 following the acquisition of the ING life reinsurance portfolio, was shaped in the year under review by moves to revitalise the former US clientele of Scottish Re US. In this context the retention limit of Hannover Life Re for US business was also increased to USD 10 million. These efforts proved successful in numerous instances, and for many sizeable US primary insurers HLR America thus ranks for the first time among the group of obligatory life reinsurers. The market share for new business is in the range of 4% – 5%; we consider our goal of obtaining a market share of at least 10% in the medium term to be attainable.

The development of the financial solutions segment was also gratifying, while we tended to reduce our acceptances in the US senior health market owing to the uncertainties in connection with health reform in the United States. We continue to be active in the area of group covers.

The premium income booked by HLR America totalled EUR 1,090.7 million (EUR 1,020.6 million), of which EUR 266.6 million was retained for own account. The risk experience for own account and the investment income were in line with expectations, enabling us to post an operating profit of EUR 13.0 million. Net income after tax came in at EUR 5.8 million.

Our subsidiary HLR Bermuda, which was established in 2007, is active worldwide; it offers tailored reinsurance solutions with a focus on bancassurance as well as the emerging markets of Africa and Asia.

This company's business developed favourably. The written premium amounted to EUR 155.8 million (EUR 113.2 million), of which EUR 146.8 million was retained for own account. The operating profit came in at EUR 15.5 million (EUR 15.9 million), corresponding to an EBIT margin of 10.5%. The company's net income after tax is identical to the operating profit.

Other international markets

Africa

Our Johannesburg-based subsidiary HLR Africa writes life business in South Africa as well as in the region of English-speaking southern Africa, i.e. in countries such as Botswana, Namibia and Kenya. It concentrates on traditional individual mortality and morbidity business, although it also supports some rapidly growing primary insurers with financially oriented solutions. We maintain only a highly selective presence in group life business.

In addition, we have developed special expertise for alternative distribution channels in South Africa, most notably direct sales and Internet sales. It is our expectation that not only in South Africa will these distribution methods help to provide large parts of the rural population with suitable life and health insurance products for the first time.

The premium income of HLR Africa showed vigorous growth of 35.3%, in part due to the strength of the South African rand; it totalled EUR 149.5 million (EUR 110.5 million). The underwriting result remained good. This produced an operating profit (EBIT) of EUR 11.9 million, corresponding to an EBIT margin of 9.5%.

The rating agency Standard & Poor's has awarded the company a rating of "A" (stable outlook), which is higher than that of the country of South Africa.

Central and South America

The markets in this region are served directly from Hannover, although our offices in Mexico City (for Central America) and Rio de Janeiro (for Brazil) are assigned an important service role.

Whereas in Central America we support a broad range of primary insurers first and foremost through services in the areas of underwriting and claims management, our focus in South America is on bancassurers. We moved forward with our strategic cooperation in Brazil with Malucelli Re.

By carefully selecting our ceding companies we enlarged our business volume to EUR 131.4 million, after EUR 101.5 million in the previous year. Of this amount, roughly EUR 30 million was attributable to the markets of Central America (incl. Mexico) and EUR 102.1 million to South America (incl. Brazil). Profitability again proved to be highly satisfactory.

Asia

Within the Hannover Life Re network the major growth region of Asia is served by a number of branches and service offices of Hannover Re. In this context the life branches in Kuala Lumpur and Hong Kong take on regional coordination and service functions in addition to their own direct market responsibilities.

Business in ASEAN markets – with a focus on Malaysia, Singapore, Thailand and Vietnam – is written in Kuala Lumpur, while our service office in Mumbai handles the Indian market and the strategic cooperation with GIC Re.

For the region of South Asia/Southeast Asia we booked premium of EUR 21.4 million in the year under review; results were thoroughly gratifying.

Business in East Asia is coordinated through our regional centre in Hong Kong, which also bears direct responsibility for the markets of Hong Kong, Macau and Taiwan. Responsibility for the Chinese and Korean markets rests with our branches in Shanghai and Seoul respectively, while the Japanese market is served by our Tokyo office.

Business in the entire East Asian region is growing at a very dynamic pace. Particularly in China, we were able to extend our position as one of the two leading foreign life reinsurers. A groundbreaking development occurred in this regard in the first half of 2010 with the first-ever completion of a financing arrangement for the in-force portfolio of a mid-sized primary insurer in the local currency – a transaction that we executed in close cooperation with and with the explicit consent of the China Insurance Regulatory Commission (CIRC). In the second half of the year we were able to close another transaction of this type and we anticipate further potential in the years ahead.

Total premiums from the East Asian region (Greater China, Korea and Japan) amounted to EUR 201.6 million, an increase of more than 60% compared to the previous year.

Premium income for the entire Asian region thus surpassed the EUR 200 million mark for the first time to reach EUR 223.0 million (EUR 147.2 million). Despite fierce competition, most notably in Korea and Hong Kong, the technical results were again quite satisfactory.

Australia and New Zealand

Both these markets are served by our Sydney-based subsidiary HLR Australasia, which we acquired in 1993. The company writes traditional risk-oriented business from Australia and New Zealand, with an emphasis on mortality and critical illness covers as well as disability annuity business.

In addition, in the role of primary insurer, we assume the biometric risks of Australian funds for occupational retirement provision (superannuation funds) and cooperate with a major Australian direct sales organisation to offer a range of risk-oriented products. We see both these activities as an important source of diversification.

Although the Australian reinsurance market showed scarcely any growth potential, HLR Australasia succeeded in significantly expanding its business volume overall. Premium income rose to EUR 324.4 million after EUR 251.3 million in the previous year, due in part to the strength of the Australian dollar against the euro.

The highly unsatisfactory biometric risk experience in some areas was largely cushioned by quota share retrocessions, leaving an attractive operating profit of EUR 23.7 million for the net retention. This was equivalent to an EBIT margin of 15.4%.

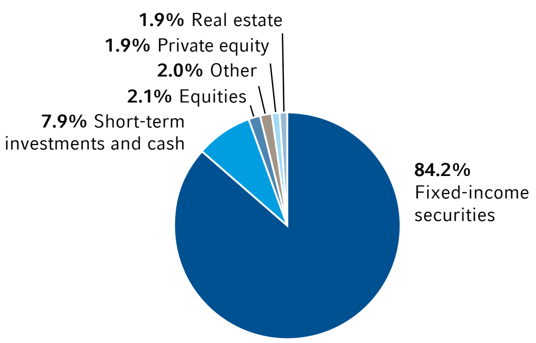
Investments

Market development

Risk premiums on corporate bonds increased for the most part in both US and European markets as the year progressed. The resulting negative fair value effects were, however, more than offset by the yield declines during the year on US treasuries and debt securities issued by semi-governmental entities across virtually all maturity segments. Overall, this had positive implications for the development of the fair values of the fixed-income portfolio, hence also causing unrealised gains to rise in the course of the year. Both the US Federal Reserve and the European Central Bank left their key interest rates unchanged during the period under review at 0% to 0.25% and 1.00% respectively.

The return on ten-year US treasury bonds fell from 3.8% to 3.3% in the course of the year. A comparable trend was also observed for German government bonds, with the decrease from 3.4% to 3.0% in this case only marginally more moderate. The risk premiums on government bonds from a small number of European countries rose in some instances substantially during the year, leading to a patchy and volatile yield environment in Europe.

Breakdown of investments



Having begun to move back into listed equities in the third quarter of the year, we have already been able to profit from the pleasing market trend in most areas since then – as reflected in an increase of EUR 30.2 million in fair values.

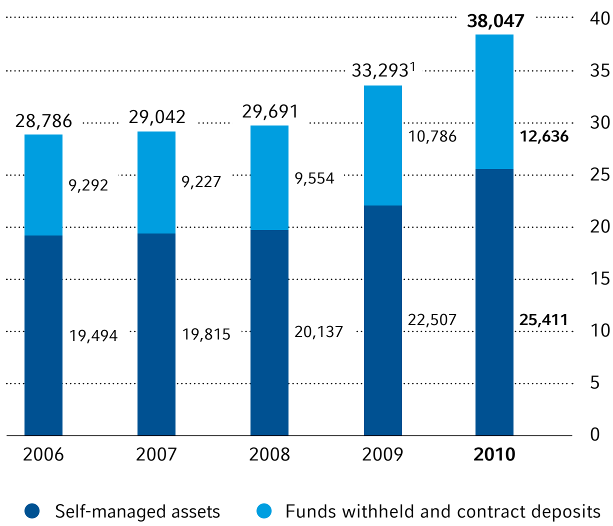
The euro slipped back against the US dollar and pound sterling, but lost ground particularly heavily against the Canadian and Australian dollar.

Investment policy

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

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

Investments in EUR million

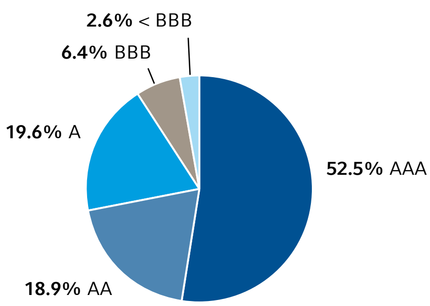


1 Adjusted on the basis of IAS 8

With these goals in mind we engage in active risk management on the basis of balanced risk/return analyses. In this context we observe centrally implemented investment guidelines and are guided by the insights of dynamic financial analysis. These measures are intended to safeguard the generation of an appropriate level of return while at the same time staying within our clearly defined risk appetite. In so doing, it must be ensured that we are able to meet our payment obligations at all times.

Thanks to a positive cash flow from the technical account and the investments, and assisted by the development of our fixed-income investments, our portfolio of assets under own management grew to EUR 25.4 billion (EUR 22.5 billion).

Rating of fixed-income securities



Investment performance

Ordinary investment income surpassed the previous year at EUR 880.5 million (EUR 810.5 million) even though interest rates were lower overall. This was due to the growth in assets under own management, which was attributable to both positive cash flows from the technical account and the development of the market.

Impairments of just EUR 16.6 million (EUR 141.4 million) had to be taken on investments. They decreased sharply on fixed-income assets to EUR 7.9 million (EUR 45.4 million). A volume of EUR 7.7 million (EUR 92.6 million) was attributable to alternative investments – principally private equity funds. Owing to the broadly upward market trend, write-downs of a mere EUR 0.6 (EUR 3.2 million) were taken on equities.

Thanks to increased fair values, these write-downs contrasted with write-ups of EUR 24.1 million (EUR 9.3 million) on fixed-income securities and funds that had been written down in prior periods. The attractive market climate enabled us to realise net gains of EUR 162.0 million (EUR 113.0 million) on disposals. Unrealised losses on our asset holdings measured at fair value through profit or loss amounted to EUR 39.9 million, contrasting with an unrealised gain of EUR 100.6 million in the previous year. The bulk of this amount (EUR 31.2 million) derived from the performance of inflation swaps taken out to hedge inflation risks associated with the loss reserves in our technical account. The balance of our deposit interest and expenses was sharply higher at EUR 316.4 million (EUR 276.8 million).

We were thus able to boost our net investment income by 12.4% to EUR 1.3 billion (EUR 1.1 billion) – first and foremost thanks to the increased current investment income and the considerably lower volume of write-downs.

The portfolio of fixed-income securities excluding short-term investments climbed again to EUR 21.4 billion (EUR 19.7 billion), principally due to inflows of cash from the technical account and the market development. New investments were made predominantly in corporate bonds and public-sector covered bonds (Pfandbriefe) as well as asset-backed securities. Hidden reserves for available-for-sale fixed-income securities recognised in shareholders' equity totalled EUR 268.4 million (EUR 252.3 million). The spread of asset classes shifted as planned towards corporate bonds, while the share of

Net investment income — Figures in EUR million

	2010	+/- previous year	2009	2008	2007	2006
Ordinary investment income[1]	880.5	+8.6%	810.5	829.8	859.0	792.6
Result from participations in associated companies	3.9	–177.6%	(5.0)	4.2	11.0	6.3
Realised gains/losses	162.0	+43.4%	113.0	(113.6)	174.3	217.4
Appreciation	27.2	+35.5%	20.1	–	–	–
Impairments on investments[2]	23.8	–83.3%	142.5	480.4	72.0	19.0
Unrealised gains/losses[3]	(39.9)	–139.7%	100.6	(119.7)	(18.8)	19.2
Investment expenses	67.4	+26.9%	53.1	41.4	52.0	49.5
Net investment income from assets under own management	942.5	+11.7%	843.6	78.9	901.6	967.0
Net investment income from funds withheld	316.4	+14.3%	276.8	199.6	220.1	221.9
Total investment income	1,258.9	+12.4%	1,120.4	278.5	1,121.7	1,188.9

1 Excluding expenses on funds withheld and contract deposits
2 Including depreciation/impairments on real estate
3 Portfolio at fair value through profit or loss and trading

government and semi-government bonds was reduced. The quality of the bonds – measured in terms of rating categories – was maintained on a consistently high level. The proportion of securities rated "A" or better stood at 91.0% (91.7%) in the year under review.

We held a total amount of EUR 2.0 billion (EUR 1.8 billion) in short-term assets and current assets at the end of the year under review. Funds withheld by ceding companies amounted to EUR 12.6 billion (EUR 10.8 billion).

Holdings of alternative investments remained on a broadly stable level. As at 31 December 2010 an amount of EUR 469.3 million (EUR 375.3 million) was invested in private equity funds, a further EUR 155.0 million (EUR 353.2 million) in high-return bond funds and loans as well as CDOs, and altogether EUR 149.7 million (EUR 108.6 million) in structured real estate investments. The uncalled capital with respect to the aforementioned alternative investments totalled EUR 272.6 million (EUR 328.8 million).

In the year under review we consistently pursued our strategy of investing more heavily in real estate. To this end, various properties were acquired in Germany and the United States, and further projects are under review; the real estate allocation will therefore keep rising steadily as planned, and currently stands at 1.9% (1.2%).

Human resources

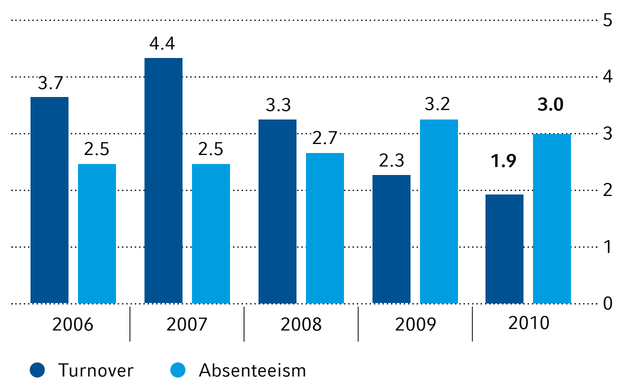
Our staff

A reinsurer's success is crucially dependent on the skills and expertise of its staff and their willingness to assume responsibility. Hannover Re is well aware of this performance factor and took a number of steps in 2010 to ensure its continued success going forward. For the fifth time we surveyed our employees on their attitude towards their company in 2010. We were delighted to find that they are highly satisfied overall with their own workplace; nine out of ten described Hannover Re as a very good employer. Compared to the level in 2007 (90%), overall satisfaction (93%) has thus further increased.

Key personnel ratios

The Hannover Re Group employed 2,192 (2,069) staff as at 31 December 2010. The turnover ratio at Home Office in Hannover of 1.9% was lower than in the previous year (2.3%). The rate of absenteeism – at 3.0% – was slightly lower than in the previous year (3.2%). The turnover ratio and rate of absenteeism thus continued to be below the industry average.

Staff turnover/absenteeism Hannover Home Office (in %)



Trainee programme for mathematicians

For many years Hannover Re has been offering a practice-tested trainee programme focused on graduates in economics (business administration and economics) and (commercial) law as well as graduates in cultural studies. The purpose of this cross-divisional programme is to systematically train young talents for our core business, namely underwriting.

In 2009 Hannover Re launched another special training programme for (business) mathematicians. This reflects, in the first place, the continuous and marked growth in the need for qualified mathematicians in recent years; secondly, we have recognised the advantage of this highly tailored internal form of further training and now applied it to graduates in the field of mathematics. So far, we have already recruited four trainees to this programme since 2009.

Lasting roughly a year and a half, the programme offers trainees the opportunity – through five to six placements – to get to know the various mathematically oriented departments of Hannover Re in a highly structured manner. We offer this programme for both of our business groups, i.e. life and health reinsurance and non-life reinsurance; what is more, participants also experience the areas of risk management and quotation, Hannover Re Advanced Solutions Germany and the Insurance-Linked Securities unit. In some instances trainees are already able to participate in projects, but they also familiarise themselves with line functions from the ground up. Along with internal opportunities for further training, including for example language courses, programme participants are able to begin studying towards certification as an actuary DAV just a year after entry. Ideally, their final placement is at one of our locations abroad.

Breakdown of employees by country	2010	2009
Germany	1,089	1,032
United States	340	336
South Africa	171	164
United Kingdom	143	126
Sweden	80	84
Australia	65	58
France	49	43
China	43	35
Ireland	41	36
Bermuda	35	33
Malaysia	33	33
Bahrain	27	22
Colombia	17	14
Italy	13	11
Japan	8	7
Korea	7	8
Spain	7	6
India	7	4
Taiwan	6	5
Canada	5	5
Mexico	4	4
Brazil	2	3
Total	**2,192**	**2,069**

We are delighted that the first trainees will soon have completed their programme and will be able to go on to assume stimulating tasks within our company.

Going forward, Hannover Re intends to continue recruiting trainees not only for reinsurance business but also in the field of mathematics. In this way, dedicated graduates have the chance to familiarise themselves with reinsurance business from many different perspectives – and eighteen months later Hannover Re has at its disposal mathematicians with a specialised background in reinsurance.

Internal training

Nothing is as constant as change: what was true of Heraclitus of Ephesus roughly 2,500 years ago is just as true of our internal training. We know the value attached to solid and state-of-the-art internal training. For this reason, we have continuously expanded and enhanced this system in recent years. The positive feedback received from our staff testifies to its quality.

In 2010 we again dedicated ourselves to this topic. On the one hand, we were driven by the latest areas of knowledge, where the task was to provide more in-depth training within the company (e.g. Solvency II), while at the same time we also seek to rise to the challenges posed by new forms of learning. To date, so-called presence seminars (i.e. training activities offered by experienced members of staff or outside trainers) have formed the backbone of our internal (specialist) training programme; now, however, we have begun to add a second pillar of learning methodology known as "blended learning". This refers to a learning arrangement in which online study phases and presence training are intelligently combined and synthesised into a single unit. Learning thus becomes more self-manageable and, not least, more independent of time and space, enabling us to integrate colleagues at our locations abroad more easily.


Solvency II is crossing the finish line ...

For our company Solvency II means: New opportunities

Despite its long run-up Solvency II has the potential to be a success story. Uniform solvency rules will apply to the European insurance industry from the beginning of 2013 onwards.

The future and already existing (!) implications of a European solvency regime necessitate innovative and bespoke solutions: firstly, with an eye to the volatility of the business transacted by primary insurers and, secondly, as regards protection of the balance sheet and especially coverage of the underwriting risk. Solvency II makes the benefit and value-added of reinsurance more visible and quantifiable. Insurers will calculate their capital needs on the basis of factors such as volatility, exposure to catastrophe risks, premium volume and level of reserves. Hannover Re stands ready as a partner who is optimally prepared to tackle these challenges.

The extended range of reinsurance products required by Solvency II already exists at our company in the form of „structured reinsurance solutions". Capital protection tailored precisely to fit an insurer's individual profile, such as that offered by Hannover Re's „Advanced Solutions", corresponds to the idea at the very heart of Solvency II – namely coverage that is more commensurate with the risk.

… Now it's about winning over the long term.

SILKE SEHM
MANAGING DIRECTOR
HANNOVER RE ADVANCED SOLUTIONS

New approach to applicant management using Talentpool

We also offer applicants a range of helpful functions on our website, including for example a job subscription service that alerts interested candidates immediately when new vacancies are advertised. Through Talentpool, the centrepiece of our online recruitment process, we invite jobseekers to stay in touch with us and trust that the dialogue will be fruitful for both parties.

Employee survey

We conducted a survey of our entire workforce for the fifth time in the year under review. Of the 998 staff contacted, 834 took part in the survey. The response rate of 84% is very pleasing and represents another appreciable improvement on the level of participation in 2007 (76%).

Staff affinity with the company and identification with their employer have also risen. Motivation among staff can similarly be described as very good; eight out of ten employees categorise themselves as exceptionally motivated or highly motivated. The positive overall evaluation in the key target criteria of satisfaction, motivation and affinity reaffirm Hannover Re's considerable appeal as an employer that was already established in 2004 and 2007. Our working time model also continues to be well received: 90% (91%) are satisfied or highly satisfied with it.

Word of thanks to our staff

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

Corporate social responsibility

Enterprise management

Profit and value creation are indispensable prerequisites for sustainable development in the interests of our clients, shareholders, staff and business partners as well as for the fulfilment of our social responsibility. Hannover Re strives to be a reinsurer of above-average profitability, since only in this way can we ensure our long-term survival as an independent company – which also constitutes the basis for the perception of our responsibility in society. In so doing, our premises of financing growth through self-generated profits and avoiding imbalances that could necessitate capital measures continue to apply unchanged. Our operations are thus guided primarily by profitability considerations and we concentrate on attractive segments of reinsurance business. The responsible underwriting of risks and prudent risk management are among the vital conditions for assuring the quality of our business over the long term.

Entrepreneurial success is only sustainable if it is achieved consistently and grounded on ethical behaviour. As an internationally operating company, Hannover Re bears responsibility in various senses. This is true of its compliance with all relevant laws and regulations, but also applies to the company's products and its relationship with staff, shareholders, the public at large and the cultural circles in which the company operates. Hannover Re has adopted an extensive set of rules, adherence to which is constantly monitored by means of an internal control system.

As a company based in Germany, the formal framework that shapes our corporate governance is determined by German law. With few exceptions Hannover Re fulfils all the recommendations of the German Corporate Governance Code. What is more, our Code of Conduct – which we adopted Group-wide in 2003 – serves as a further guide for our day-to-day activities.

Sustainability is a deciding factor for our company above and beyond the purely economic. It is applicable to the further and advanced training of our people, and it is also true of our commitment to social causes. Not only that, it is our stated aim to keep environmental impacts to a minimum and – wherever possible – to reduce them.

Social commitment

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

Sponsorship

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

Research and learning

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

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

With a view to extending its dialogue with universities, Hannover Re assists institutions of higher learning in a variety of ways – including for example the University of Hannover, where it sponsors an endowed professorship in actuarial science. In 2010 our company also lent its support to a more internationally-oriented training in law at the University of Göttingen.

Music and art

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

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

Foundation

In 1991 Hannover Re launched an art foundation that benefits the Sprengel Museum in Hannover. It was launched in 1991 to mark the company's twenty-fifth anniversary. The Sprengel Museum ranks among the foremost German museums of twentieth-century art thanks to its extensive collection and diverse range of temporary exhibitions. The Foundation's mission is to promote Hannover as a centre for the fine arts through the acquisition of contemporary pieces, which are then made available to the Sprengel Museum on permanent loan. The Foundation is further tasked with financing publications and events to accompany the exhibitions.

Donations

In the year under review Hannover Re adopted a new Donations Guideline, under which the company donates a total of EUR 100,000 per year in support of various projects; the funds are shared equally between the following categories:

- social and scientific causes,
- environment and climate protection,
- staff (further and advanced training, compatibility of work and family life),
- protection and welfare of young people,
- advancement of medicine/humanitarian projects.

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

Environment and ecological responsibility

Climate protection and conservation of resources

Although Hannover Re's environmental footprint is comparatively slight as a service company, we attach special importance to the issue of environmental protection. Consequently, Hannover Re is a partner in numerous initiatives for climate and environmental protection and has set itself the goal of reducing emissions as far as possible. In the year under review alone we cut our CO_2 emissions by a further 15%.

Innovations are the key to resource efficiency and the most environmentally compatible mobility. Since 2007 Hannover Re has participated in the Greater Hannover region's "Ecological Project for Integrated Environmental Technology" (Ecoprofit). The basic idea underlying this project is to combine economic profit with ecological benefit through preventive environmental protection. The energy-saving successes already achieved are regularly publicised in the relevant project publications.

Since 2008 the company has also compensated for the CO_2 pollution caused by business flights through voluntary offsetting payments to the international organisation "atmosfair", thereby supporting selected climate protection projects in developing and emerging countries. We pay similar voluntary offsets for the CO_2 emissions from train travel as well. In addition, we have purchased RECS (Renewable Energy Certificate System) certificates from our electricity supplier to promote the use of renewable forms of energy.

Not only that, as part of the "Climate Alliance Hannover 2020", Hannover Re is playing its part in efforts to accomplish the state capital's goal of cutting climate-threatening greenhouse gas emissions to levels 40% lower than in 1990 by the year 2020. Hannover Re's specific contributions will be regularly checked every two years from 2011 onwards.

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

Product responsibility

Through its products Hannover Re plays a general part in enabling many people around the world to enjoy insurance protection. Only thanks to internationally operating reinsurers are primary insurers even able to protect people against potential major losses – such as earthquakes – in exposed regions. Going forward, Hannover Re will dedicate itself with even greater vigour to ensuring that especially the poorest population groups are able to protect themselves by buying so-called micro-insurance products. Furthermore, we intend to increasingly add to our portfolio insurance products that systematically promote some aspect of sustainability. With this in mind, we launched the "Energy Savings Warranty" programme on the market in the year under review. The new insurance product is designed to give US homeowners incentives to invest in energy-saving technologies and energy-efficient construction methods. The programme provides an insurance backstop for energy saving guarantees given by Energy Service Companies that upgrade buildings and commit to deficiency payments if the remediation fails to deliver the promised energy savings.

Environmental data

The CO_2 pollution of 7,685 tonnes caused by Hannover Re in 2010 (calculated for the Hannover Home Office location) was 97% offset. All in all, carbon emissions were reduced by 1,320 tonnes relative to the previous year. In the year under review, as in past years, Hannover Re again participated in the survey conducted as part of the "Carbon Disclosure Project" (CDP). The CDP serves to gather and publish qualitative data on the subject of climate change in order to motivate investors, businesses and countries to contribute actively to climate protection. Through our involvement we receive information on where we stand with our efforts to economise – especially as regards carbon emissions – relative to international standards.

The table breaks down Hannover Re's consumption and emissions and presents the total figures for electricity, heat, water, paper, waste, business trips and CO_2 emissions.

More extensive information on Hannover Re's activities in this regard is provided in the Sustainability Report published on our website at www.hannover-re.com/csr.

Resources consumed at Hannover Home Office	2010	2009[1]	2008[2]	2007	2006
Electricity (in kWh)	8,055,429	8,014,946	7,624,709	6,041,890	4,004,820
Heat (in kWh)	2,383,918	2,314,009	2,051,501	1,749,160	2,205,012
Water (in l)	14,722,000	12,100,000	14,505,000	16,571,000	18,649,175
Paper (in sheets)	9,074,300	8,488,368	9,174,260	8,934,350	9,633,247
Waste (in kg)	297,000	327,000	no data	no data	no data
Business trips (in km)	16,018,500	15,179,745	14,766,598	13,379,064	no data
CO_2 emissions[3] (in kg)	7,685,000	9,005,000	9,838,000	9,917,000	no data

1 Karl-Wiechert-Allee 50 and Roderbruchstraße 26, Hannover
2 Karl-Wiechert-Allee 50, Roderbruchstraße 26 and infant daycare centre, Hannover
3 Radiative Forcing Index: 2.7

Opportunity and risk report

Risk report

Operationalisation of strategy

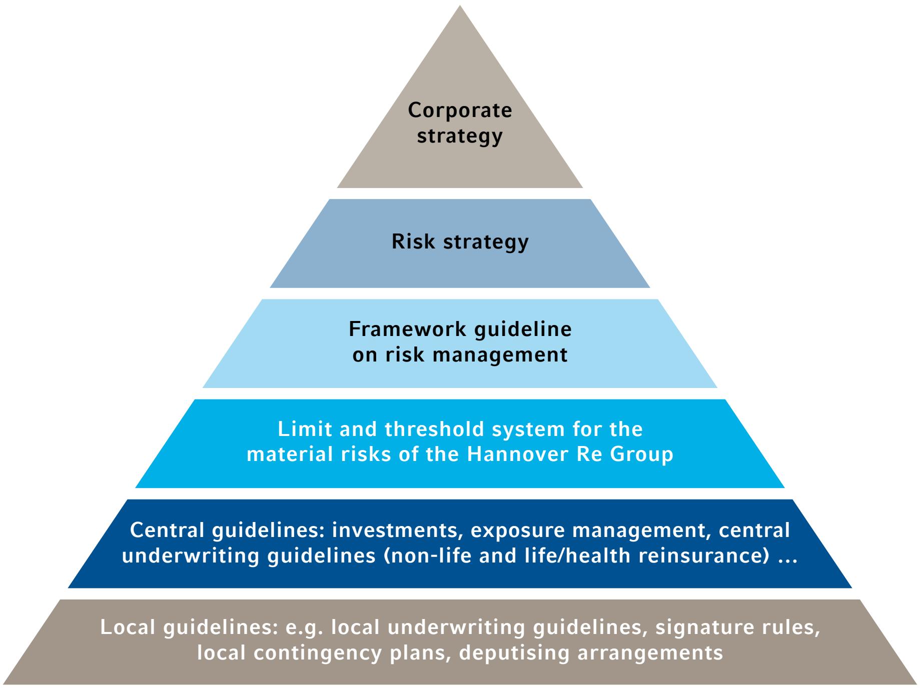
The risk strategy derived from the corporate strategy constitutes the basis for our handling of risks and opportunities. The parameters and decisions of the Executive Board with respect to Hannover Re's risk appetite are fundamental to the acceptance of risks. The risk strategy – as a self-contained set of rules – serves as the foundation for Group-wide risk management. It is an integral component of the guidelines for risk monitoring and risk steering and is reflected on the various levels of risk management and in the operational guidelines. The corporate strategy and risk strategy as well as the guidelines derived from them are subject to regular review. Through this scrutiny of our assumptions and any resulting adjustments, we ensure that our guidelines and hence the principles on which our actions are based are always kept up-to-date. The insights obtained establish a framework for decision-making on all management levels by bringing transparency to the relationship between opportunities and risks.

Overriding goals and organisation of risk management

The overriding goal of our risk management is to adhere to the strategically defined risk positions of the Hannover Re Group which are enshrined in our risk strategy. In order to ensure that our shareholders' equity is protected, we seek to manage and control individual risks such that the total risk remains within the permissible defined tolerances. Divergences may occur as a result of external influencing factors, and the company must always be in a position to immediately initiate appropriate countermeasures. We attach central importance to the following aspects:

- Regular review of the efficiency of systems and, as appropriate, adjustment to the business environment and/or the changed risk situation
- Separation of functions between divisions that manage risks, on the one hand, and those that monitor risks, on the other
- Process-independent monitoring by Internal Auditing
- Systematic and comprehensive monitoring of all conceivable risks from the current perspective that could jeopardise the company's profitability or continued existence with the aid of efficient and practice-oriented management and control systems

Operationalisation of the risk strategy



- Reporting to the Risk Committee and the Executive Board that is counterparty-oriented and encompasses all the various types of risk
- Documentation of the material elements of the system in mandatory instructions
- Good financial strength and risk management ratings from the rating agencies of greatest relevance to our company

The current financial strength rating from Standard & Poor's is "AA–" ("Very strong", stable outlook), while the rating from A.M. Best is "A" ("Excellent", positive outlook). Hannover Re's risk management is assessed by Standard & Poor's as "strong", the second-best S&P rating. This evaluation testifies to the quality of our holistic approach to risk management.

Functions within the risk management system

The interplay of the individual functions and bodies within the overall system is vital to an efficient risk management system. The roles and responsibilities are clearly defined and ensure smooth interaction.

Quantitative risk management methods

Hannover Re has developed an internal capital model for risk quantification as a central risk management tool. The purpose of risk quantification inter alia is to assess the capital resources of the Hannover Re Group and its individual companies. In addition, the model is used to establish the risk contribution made by individual business groups and business segments to the total company risk as well as the risk-appropriate allocation of the cost of capital.

Central elements of the risk management system

Body/function	Key risk management tasks
Supervisory Board	• Advising and supervising the Executive Board in its management of the company, inter alia with respect to risk management, on the basis of the Supervisory Board's Rules of Procedure
Executive Board	• Overall responsibility for Group-wide risk management • Responsibility for the proper functioning of risk management • Definition of the risk strategy • Appointment of the Chief Risk Officer and the members of the Risk Committee • Release and approval of new products and new business areas
Risk Committee	Process-integrated monitoring • Operational risk management, monitoring and coordinating body • Decision-making power is within the bounds of the risk strategy defined by the Executive Board • Implementation and safeguarding of a consistent Group-wide risk management culture
Chief Risk Officer	Process-integrated monitoring • Responsibility for holistic risk monitoring across business groups (systematic identification and assessment, control/monitoring and reporting) of all material assets- and liabilities-side risks from the Group perspective
Group Risk Management	Process-integrated monitoring • Holistic risk monitoring across business groups (identification, assessment, monitoring and reporting of all material assets- and liabilities-side risks from the company perspective) • Methodological expertise in the development of processes and methods for risk analysis, assessment and management as well as for risk limitation and reporting
Business units[1]	Process-integrated controlling • Primary responsibility for risk identification and assessment on the departmental level based on the guidelines of Group Risk Management • Setting up and monitoring of the department's internal control system (ICS)
Internal Auditing	Process-independent monitoring • Process-independent and Group-wide supervision on behalf of the Executive Board • The key aspects of the auditing tasks performed by the internal auditing function are based upon the Rules of Procedure and department strategy approved by the Executive Board

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

Available capital and required risk capital[1] in EUR million	**2010**	2009[2]
Underwriting risks in non-life reinsurance	2,905.3	2,875.3
Underwriting risks in life and health reinsurance	1,961.8	1,940.7
Market risks	2,440.1	1,712.7
Credit risks	406.5	340.3
Operational risks	314.9	319.7
Diversification effect	(2,617.9)	(2,570.2)
Required risk capital of the Hannover Re Group	5,410.7	4,618.5
Available economic capital	8,381.7	7,326.2
Capitalisation ratio	154.9%	158.6%

1 The required risk capital is the Value at Risk for the confidence level of 99.97% of the potential change in value over a period of one year. The risk categories were adjusted in comparison with the previous year to reflect the future requirements of Solvency II. The figures for the previous year are shown accordingly.
2 Adjusted on the basis of IAS 8

The internal capital model of Hannover Re is a stochastic enterprise model. It establishes probability distributions for key performance indicators and balance sheet ratios, such as company profit and shareholders' equity, in light of all material internal and external influencing factors. These include the structure of the insurance and investment portfolio, taxation and capital market developments.

The model draws on statistical, stochastic and actuarial methods and practices in order to ensure the most realistic possible representation of the company and its environment. The risk capital is calculated on the basis of a Value at Risk (VaR) with a confidence level of 99.97% and an observation period of one year. This level of confidence also ensures that future regulatory capital requirements, e.g. the confidence level of 99.5% required under Solvency II, are satisfied or exceeded.

The required risk capital of the Hannover Re Group in connection with business-related risks increased in the year under review by EUR 792.1 million to EUR 5,410.6 million. This increase was attributable principally to the regrouping of investments into a higher-risk portfolio and the growth in the volume of assets due to a positive cash flow. We successively raised our equity allocation in 2010 and moved investments out of government bonds into corporate bonds. The slight increase in the underwriting risks reflects the enlarged business volume in the non-life and life/health reinsurance business groups. The increased credit risk can also be attributed to the larger business volume, above all in life and health reinsurance, since the value of accounts receivable from ceding companies has risen.

The available economic capital is composed of the components of IFRS shareholders' equity (including minority interests), valuation reserves and hybrid capital. The valuation reserves for non-life reinsurance business primarily relate to the difference between the nominal (undiscounted) loss reserves according to IFRS and their discounted value, increased by the cost of capital needed to cover the fluctuation potential of the liabilities. In life and health reinsurance we show the difference between IFRS measurement and market-consistent measurement, which largely follows the principles of Market Consistent Embedded Value. The measurement adjustments for investments derive from the difference between fair value and book value.

Reconciliation (economic capital/IFRS capital) in EUR million	**2010**	2009[1]
IFRS shareholders' equity	5,117.9	4,256.6
Value adjustments for non-life reinsurance	1,490.2	1,600.4
Value adjustments for life and health reinsurance	675.8	843,9
Value adjustments for assets under own management	232.5	186.4
Tax effects and other	(1,003.8)	(926.2)
Economic equity	6,512.6	5,961.1
Hybrid capital	1,869.1	1,365.1
Available economic capital	8,381.7	7,326.2

1 Adjusted on the basis of IAS 8

Management report

The available economic capital grew by EUR 1,055.5 million from EUR 7,326.2 million to EUR 8,381.7 million in the course of the year under review. This was principally due to the rise in the IFRS shareholders' equity. Our hybrid bond issued in the year under review also increased the available capital.

Of special significance to our company is the overarching diversification between our business segments and lines. As a result, we are able to significantly reduce the total capital actually required. We define the cost of capital to be generated per business unit according to the capital required by our business segments and lines as well as their contribution to diversification.

The indicators described above are further tools used to monitor and manage the risks associated with our business activities.

Qualitative risk management methods

Our qualitative methods and practices support our internal risk management and control system. The system is subject to a constant cycle of planning, action, control and improvement. The basic elements of the system, such as risk identification and risk reporting, are closely interlinked.

Our mandatory practices, such as the Risk Management Framework Guideline, govern inter alia the handling of new products, monitoring of the risk-bearing capacity, risk reporting and risk responsibilities within Hannover Re's overall system. Our risk reporting is geared to providing systematic and timely information about risks and their potential implications as well as ensuring adequate communication within the company about all material risks as a basis for decision-making.

Regular quarterly reporting to the Risk Committee and Executive Board is supplemented as necessary by immediate internal reporting on material risks that emerge at short notice.

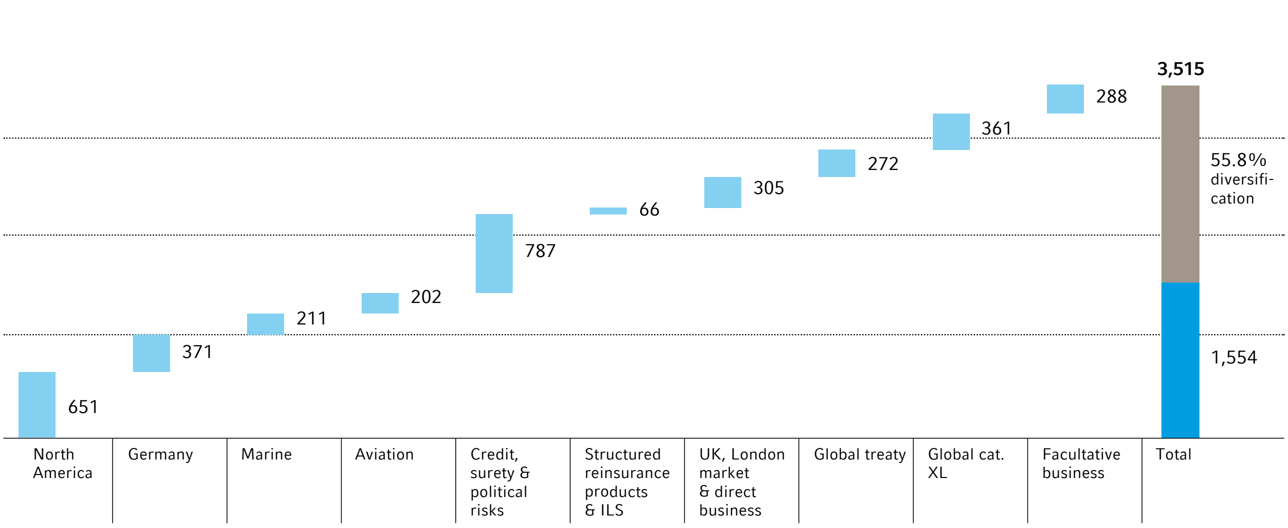
Within our central system of limits and thresholds for the material risks of the Hannover Re Group, key ratios have been specified for steering and monitoring – within the meaning of the materiality concept defined in the risk strategy. Risk steering and monitoring is operationalised through the specification of suitable limits and thresholds for quantitatively measurable material risks. Material risks that cannot be quantified or are difficult to quantify (such as operational risks or reputational risks) are primarily steered and monitored using appropriate processes and practices (e.g. contingency and crisis communication plans).

Internal control system

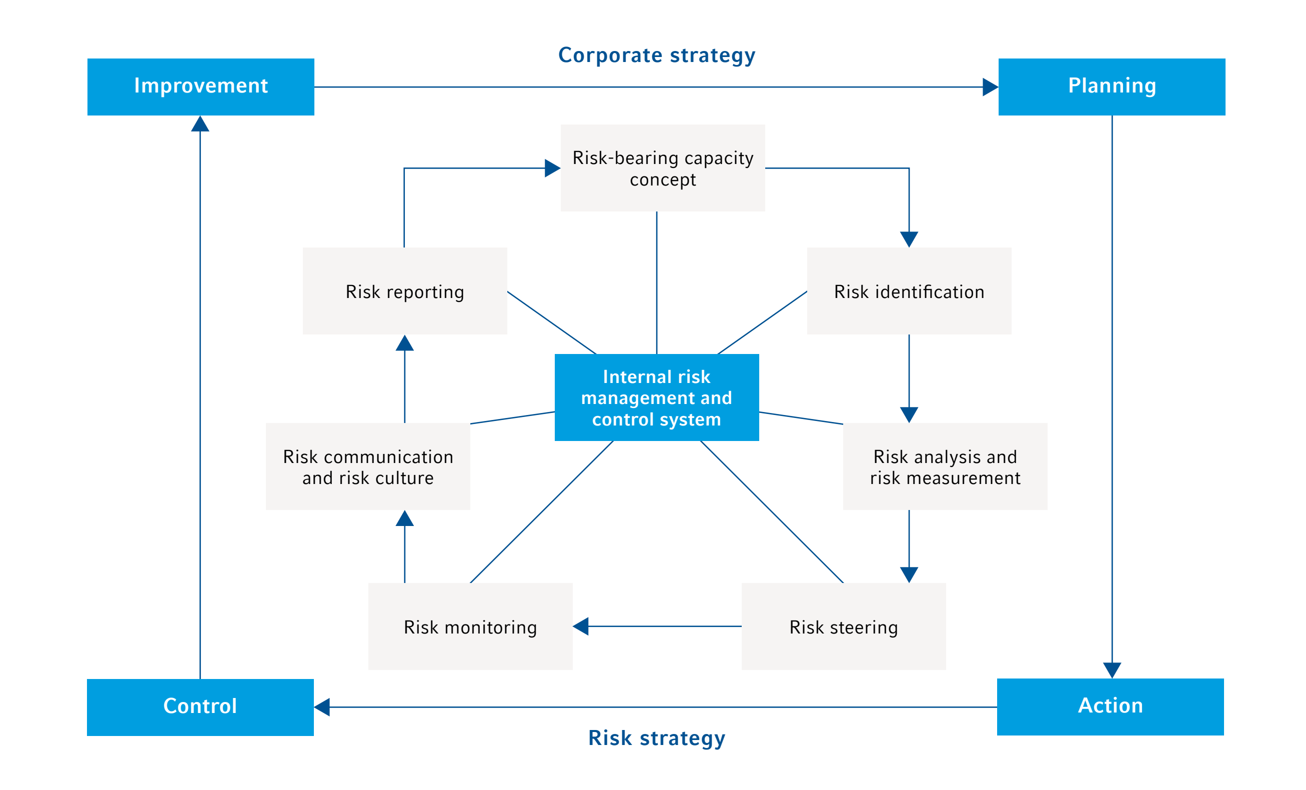
Another key element of the overall system is the Framework Guideline on the Internal Control System (ICS). The purpose of this set of rules is to ensure systematic execution of our corporate strategy with a special eye to capital protection. In accordance with these principles, the Framework Guideline puts in place a consistent understanding of controls as well as a uniform procedure and standards for implementation of the ICS across all organisational units of Hannover Re.

The Framework Guideline defines concepts, stipulates responsibilities and provides a guide for the description of controls. In addition, it forms the basis for the accomplishment of internal objectives and the fulfilment of external requirements imposed on Hannover Re. The ICS consists of systematically structured organisational and technical measures and controls

Diversification effect within the non-life reinsurance business group Risk capital per line of business for the 99.5% VaR in EUR million



Internal risk management and control system



within the enterprise. It serves, inter alia, to safeguard compliance with guidelines and to reduce risks in the interests of secure execution of corporate strategy. This includes, among other things:

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

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

Certified by independent auditors, the IFRS reporting of the entities included in the consolidated financial statement is carried out using a Web-based IT application. The individual items of the balance sheet, statement of income, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and the relevant data for the segmental reporting, notes and consolidation are stored in a database; this data is uploaded via automatic interfaces to a consolidation system, where it can be edited. Depending upon the results of preceding checks made on internal transactions within the Group, these values are reviewed and – as necessary – corrected. Provision is made for manual bookings in the case of extraordinary or unusual transactions. The control measures described above – among other checks – are performed in order to avoid false statements.

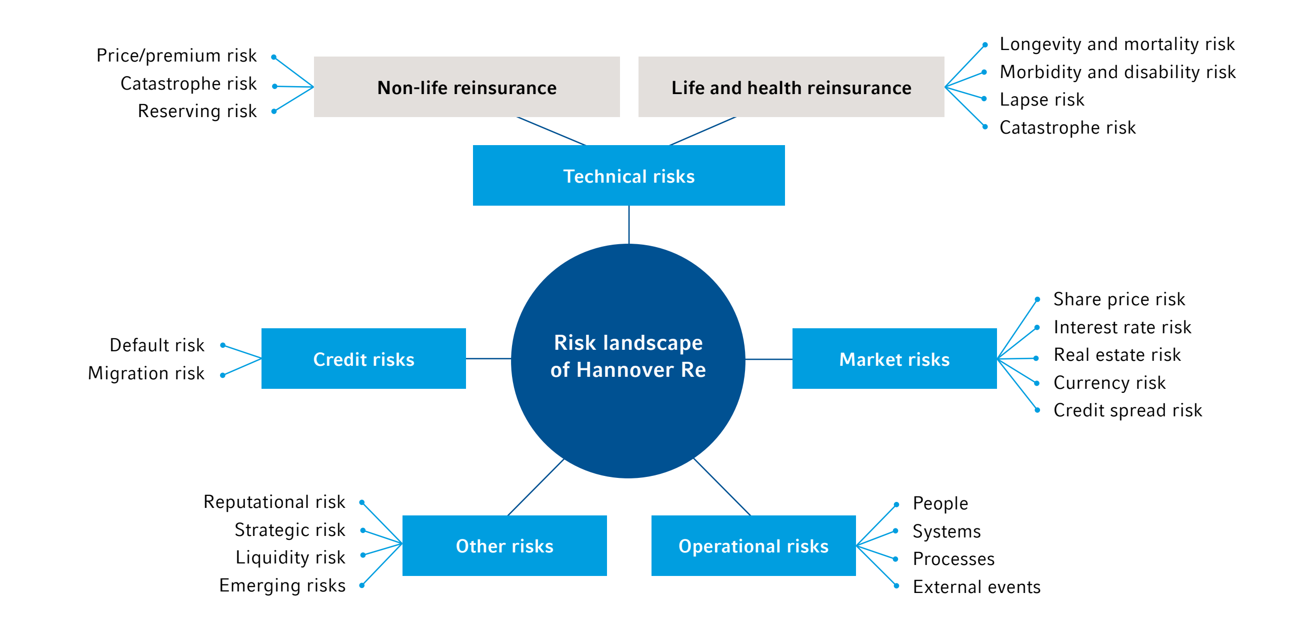
Risk landscape of Hannover Re

The risk landscape of Hannover Re encompasses technical risks, market risks, credit risks, operational risks and other risks. The specific risk characteristics and the principal monitoring and steering mechanisms are described in the following sections.

Technical risks in non-life reinsurance

Risks emanating from non-life reinsurance are of crucial significance to our business operations. We make a fundamental distinction here between risks that result from business operations of past years (reserving risk) and those stemming from activities in the current or future years (price/premium risk). A significant technical risk is the reserving risk, i.e. the

Risk landscape of Hannover Re



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

Liability claims are a key influencing factor for the IBNR reserve. The IBNR reserve is calculated on a differentiated basis according to risk categories and regions. The IBNR reserve established by the Hannover Re Group amounted to EUR 4,249.6 million in the year under review. Asbestos- and pollution-related claims involve complex calculation methods. The adequacy of these reserves can be estimated using the so-called "survival ratio". This ratio expresses how many years the reserves would cover if the average level of paid claims over the past three years were to continue.

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

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

	2010			2009		
	Individual loss reserves	IBNR reserves	Survival ratio in years	Individual loss reserves	IBNR reserves	Survival ratio in years
Asbestos-related claims/ pollution damage	29.1	182.5	22.8	26.2	171.4	24.3

The table below lists the catastrophe losses and major claims that occurred in the 2010 financial year.

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

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

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

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

Catastrophe losses and major claims[1] in EUR million	Date	gross	net
Earthquake in Chile	27 February	193.6	181.9
Earthquake in New Zealand	4 September	164.5	113.8
"Deepwater Horizon" drilling rig, Gulf of Mexico	20 April	155.2	84.7
6 aviation claims		72.1	48.2
Flooding in Eastern Europe	13 – 25 May	32.6	32.6
Earthquake in Haiti	12 January	27.2	27.2
4 marine claims		34.3	26.3
3 fire claims		23.3	23.3
Winter storm "Xynthia" in Southern and Central Europe	27/28 February	27.4	20.8
Flooding in Queensland, Australia	23 December 2010 – 10 January 2011	20.5	16.1
Windstorm in Perth, Australia	22 March	19.9	14.2
Flooding in France and Spain	12 – 16 June	17.4	11.3
Political unrest in Bangkok, Thailand	16 April – 24 May	10.3	10.3
Thunderstorms in Copenhagen, Denmark	14 – 19 August	14.4	9.4
1 liability claim		8.1	8.1
Windstorm in Melbourne, Australia	5/6 March	10.6	7.1
Flooding in Eastern Europe	6 – 8 August	7.5	7.0
Flooding in Southern Thailand	30 October – 2 November	6.7	6.7
Tornados and hail damage in the United States	16 – 18 June	5.1	5.1
Windstorm and rain in the United States	30 April – 4 May	6.5	3.9
Thunderstorm in Stuttgart, Germany	4 July	6.0	3.9
Total		**863.2**	**661.9**

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

Limits and thresholds for the 100- and 200-year aggregate annual loss as well as utilisation thereof			
Natural catastrophes and aggregate annual losses in EUR million	**Limit 2010**	**Threshold 2010**	**Actual utilisation (July 2010)**
All natural catastrophe risks, net exposure			
100-year aggregate annual loss	1,010	909	883
200-year aggregate annual loss	1,209	1,088	1,072

The development of the combined ratio in non-life reinsurance is shown in the table below.

Technical risks in life and health reinsurance

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

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

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

The Market Consistent Embedded Value (MCEV) is a ratio used for the valuation of life insurance and reinsurance business; it is calculated as the present value of the future shareholders' earnings from the worldwide life and health reinsurance portfolio plus the allocated capital. The calculation makes allowance as far as possible for all risks underlying the covered business. The Market Consistent Embedded Value is established on the basis of the principles of the CFO Forum published in October 2009. Based on the latest available data

Stress tests for natural catastrophes after retrocessions in EUR million	**2010**	2009
	Effect on forecast net income	
100-year loss European windstorm	(146,5)	(114,7)
100-year loss US windstorm	(259,8)	(281,8)
100-year loss Japanese windstorm	(189,4)	(204,3)
100-year loss Tokyo earthquake	(195,1)	(201,4)
100-year loss California earthquake	(233,1)	(244,9)
100-year loss Sydney earthquake	(72,5)	(150,6)

Combined and catastrophe loss ratio over the past ten years in %	**2010**	2009	2008	2007	2006	2005[1]	2004[1,2]	2003[1,2]	2002[1,2]	2001[1,2]
Combined ratio (non-life reinsurance)	98.2	96.6	95.4	99.7	100.8	112.8	97.2	96.0	96.3	116.5
Thereof catastrophe losses[3]	12.3	4.6	10.7	6.3	2.3	26.3	8.3	1.5	5.2	23.0

1 Incl. financial reinsurance and specialty insurance
2 Based on US GAAP figures
3 Natural catastrophes and other man-made major losses > EUR 5 million gross for the share of the Hannover Re Group as a percentage of net premium earned

Sensitivity analysis of the Market Consistent Embedded Value (MCEV)[1,2]		
Base values in EUR million	2009	2008
Base value	3,390.3	2,421.6
Interest rate curve +100 basis points	2.2%	0.5%
Interest rate curve –100 basis points	–2.2%	–0.3%
Costs –10%	1.3%	1.1%
Lapse +10%	–5.5%	+0.6%
Lapse –10%	10.2%	–1.4%
Mortality +5%	–15.5%	–9.6%
Mortality –5%	21.6%	13.2%

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

2 Before consolidation, excluding minority interests

published on 4 May 2010 (valid as of 31 December 2009), the table shows the MCEV 2009 and its sensitivity to selected scenarios in comparison with the corresponding sensitivities of the MCEV 2008.

The change in the MCEV under the scenarios shown captures the low volatility in this area and reflects our portfolio's high degree of diversification. The consolidated MCEV before minority interests amounted to EUR 2,210.8 million (2008: EUR 1,652.0 million) as at 31 December 2009. This represents an increase of 33.8% (4.3%). The operating MCEV earnings totalled EUR 178.5 million (EUR 172.4 million), while the value of new business stood at EUR 83.9 million (EUR 150.5 million). The increase in the mortality sensitivities can be attributed to the business with a high mortality exposure written in 2009. This new business also reacts sensitively to changes in the lapse rate, hence additionally causing lapse sensitivities to rise. For more detailed information please see the Market Consistent Embedded Value Report 2009. We shall publish the MCEV for the 2010 financial year on our Internet website at the same time as the quarterly report for the first quarter of 2011.

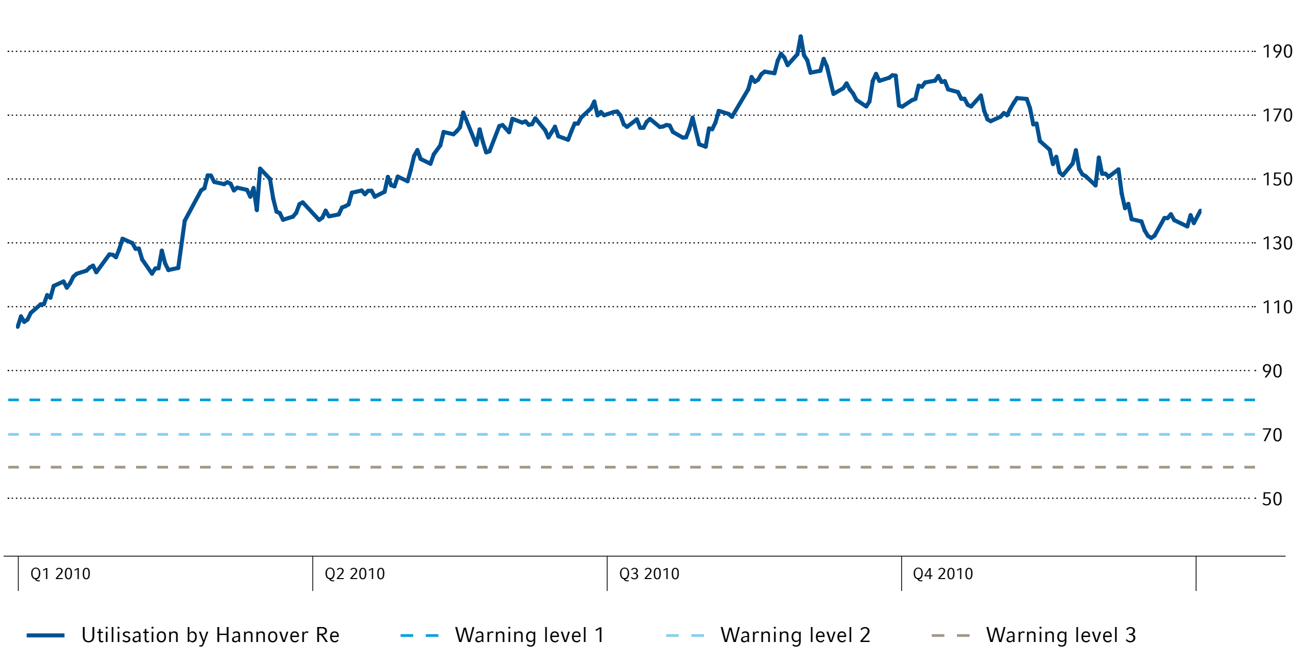
Market risks

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

With a view to preserving the value of our assets under own management, we constantly monitor adherence to a trigger mechanism based on a clearly defined traffic light system that is applied across all portfolios. This system puts the accumulated fluctuations in fair value and realised gains/losses on investments since the beginning of the year in relation to a maximum loss amount, with an eye to clearly graduated trigger values. These are unambiguously defined in conformity with our risk appetite and trigger specified actions if a corresponding fair value development is overstepped. Owing to the favourable capital market environment in the year under review, the trigger utilisation in the 2010 financial year was consistently above the escalation levels – as shown by the graph on the following page.

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

Utilisation of the trigger system in %



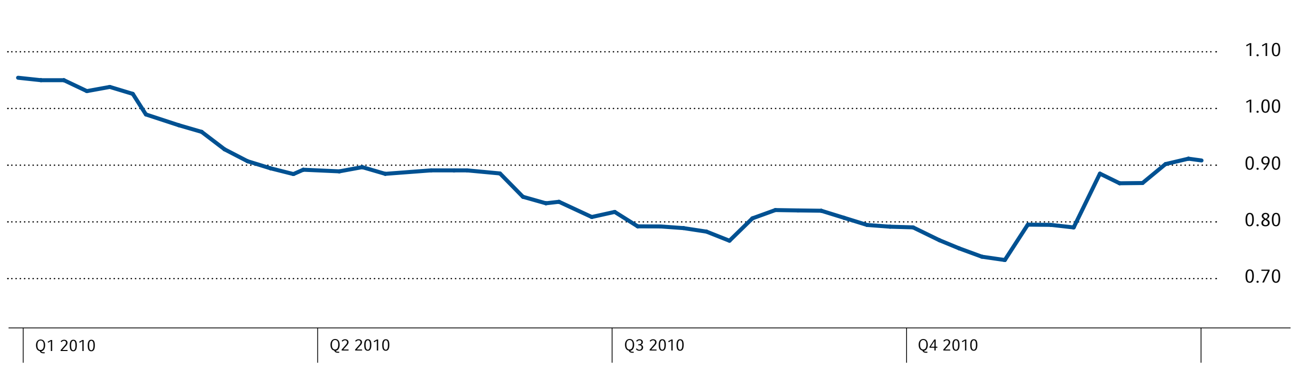
The model takes into account the following market risk factors:

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

As part of ongoing refinements, we optimised our VaR calculation halfway through the reporting period, thereby enabling us to make more precise allowance for certain scenarios from market price risks associated with credit spreads. The values for the period prior to this recalibration were adjusted accordingly in the graph. In general terms, the market price risks continued to decrease in the year under review as a consequence of reduced volatility, and despite the move back into equities the Value at Risk in relation to the portfolio of investments under own management decreased year-on-year to around 0.7% as at the balance sheet date.

Stress tests are conducted in order to be able to map extreme scenarios as well as normal market scenarios for the purpose of calculating the Value at Risk. In this context, the loss potentials for fair values and shareholders' equity (before tax) are simulated on the basis of already occurred or notional extreme

Value at Risk[1] for the investment portfolio of the Hannover Re Group in %



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

events. Further significant risk management tools – along with various stress tests used to estimate the loss potential under extreme market conditions – include sensitivity and duration analyses and our asset/liability management (ALM). The internal capital model provides us with quantitative support for the investment strategy as well as a broad diversity of VaR calculations. In addition, tightly defined tactical duration ranges are in place, within which the portfolio can be positioned opportunistically according to market expectations. The parameters for these ranges are directly linked to our calculated risk-bearing capacity.

Further information on the risk concentrations of our investments can be obtained from the tables on the rating structure of fixed-income securities as well as on the currencies in which investments are held. Please see our comments in Section 5.1 of the notes, "Investments under own management".

Share price risks derive from the possibility of unfavourable changes in the value of equities, equity derivatives or equity index derivatives held in the portfolio. In the second half of the year under review we began to invest again in listed equities. The scenarios for changes in equity prices consequently have implications again for our portfolio. We spread the risks through systematic diversification. Please see also our comments in Section 5.1 of the notes, "Investments under own management".

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

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

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

Scenarios for changes in the fair value of material investment positions — in EUR million

	Scenario	Portfolio change on a fair value basis	Change in equity before tax
Equity securities	Share prices –10%	–53.7	–53.7
	Share prices –20%	–107.4	–107.4
	Share prices +10%	+53.7	+53.7
	Share prices +20%	+107.4	+107.4
Fixed-income securities	Yield increase +50 basis points	–411.3	–321.2
	Yield increase +100 basis points	–809.9	–632.1
	Yield decrease –50 basis points	+422.2	+330.3
	Yield decrease –100 basis points	+856.9	+670.8
Real estate	Real estate market values –10%	–48.6	–9.1
	Real estate market values +10%	+48.6	+9.1

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

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

Credit risks

The credit risk consists primarily of the risk of complete or partial failure of the counterparty and the associated default on payment. Also significant here is the so-called migration risk, which results from a deterioration in the counterparty credit quality and is reflected in a change in fair value. Since the business that we accept is not always fully retained, but instead portions are retroceded as necessary, the credit risk is also material for our company in non-life reinsurance. Our retrocession partners are carefully selected and monitored in light of credit considerations in order to keep the risk as small as possible. This is also true of our broker relationships, under which risks may occur inter alia through the loss of the premium paid by the cedant to the broker or through double payments of claims. We minimise these risks, inter alia, by reviewing all broker relationships once a year with an eye to criteria such as the existence of professional indemnity insurance, payment performance and proper contract implementation. A Security Committee continuously monitors the credit status of retrocessionaires and approves measures where necessary to secure receivables that appear to be at risk of default. This process is supported by our "Cession Limits" Web-based risk management application, which specifies cession limits for the individual retrocessionaires participating in protection cover programmes and determines the capacities still available for short-, medium- and long-term business (cession management). Depending on the type and expected run-off duration of the reinsured business, the selection of reinsurers takes into account not only the minimum ratings of the rating agencies Standard & Poor's and A. M. Best but also internal and external expert assessments (e.g. market information from brokers). Overall, retrocessions conserve our capital, stabilise and optimise our results and enable us to act on opportunities without restriction, e.g. following a catastrophe loss event. Regular visits to our retrocessionaires give us a reliable overview of the market and put us in a position to respond quickly to capacity changes. Through these close contacts with our retrocessionaires we are consistently able to provide a stable renewals forecast. The determination of our gross capacity is based on this forecast. Our assumptions are continuously updated during each renewal phase and also include a built-in safety margin. Not only that, additional capacities are kept available for potential defaults – although they are not normally required. The table on the following page shows how the proportion of assumed risks that we do not retrocede (i.e. that we run in our retention) has changed in recent years.

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

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

- 92.4% of our retrocessionaires have an investment grade rating ("AAA" to "BBB"),
- 91.8% are rated "A" or better.
- Since 2006 we have reduced the level of recoverables by altogether 66%.
- 31.7% of our recoverables from reinsurance business are secured by deposits or letters of credit. What is more, for the majority of our retrocessionaires we also function as reinsurer, meaning that in principle recoverables can potentially be set off against our own liabilities.
- In terms of the Hannover Re Group's major companies, EUR 246.7 million (8.7%) of our accounts receivable from reinsurance business totalling EUR 2,841.3 million were older than 90 days as at the balance sheet date.
- The average default rate over the past three years was 0.1%.

Retrocession gives rise to claims that we hold against our retrocessionaires. These reinsurance recoverables – i.e. the reinsurance recoverables on unpaid claims – amounted to EUR 1,025.3 million (EUR 1,748.0 million) as at the balance sheet date.

Gross written premium retained					in %
	2010	2009	2008	2007	2006
Hannover Re Group	90.1	92.6	89.1	87.4	76.3
Non-life reinsurance	88.9	94.1	88.9	85.3	72.4
Life and health reinsurance	91.7	90.7	89.3	90.8	85.4

Ratios used to monitor and manage our credit risks					
Management ratios	2010	2009	2008	2007	2006
Solvency margin[1]	69.5%	60.4%	66.7%	72.6%	68.8%
Debt leverage[2]	36.5%	32.1%	41.3%	35.0%	39.1%
Interest coverage[3]	13.8x	14.9x	1.9x	12.0x	10.5x
Reserves/premium[4]	275.1%	270.1%	312.4%	291.3%	305.2%
Combined ratio (non-life reinsurance)	98.2%	96.6%	95.4%	99.7%	100.8%

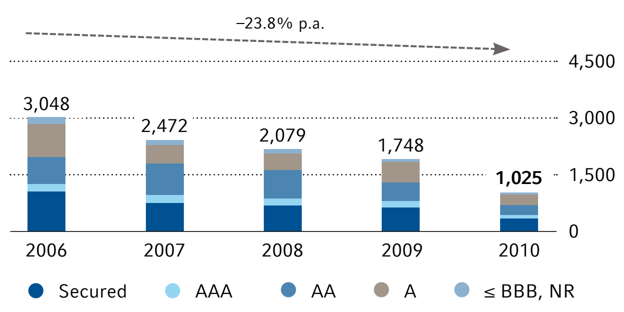
1 (Shareholders' equity + minority interests + hybrid capital)/net written premium
2 Hybrid capital/(shareholders' equity + minority interests)
3 EBIT/interest on hybrid capital
4 Net reserves/net premium earned

The chart shows the development of our reinsurance recoverables – split by rating quality – due from our retrocessionaires. The decrease in the 2010 financial year was largely due to the balance sheet reclassification of the Clarendon Group as held for sale.

For further remarks on technical and other assets which were unadjusted but considered overdue as at the balance sheet date as well as on significant impairments in the year under review please see Section 5.4 "Technical assets ", Section 5.6 "Other assets" and Section 6.2 "Investment result".

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

Reinsurance recoverables as at the balance sheet date in EUR million



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

In order to limit the risk of counterparty default we define various limits on the issuer and issue level as well as in the form of dedicated rating quotas. A comprehensive system of risk reporting ensures – as with all other investment risks – timely reporting to the persons involved within the scope of risk management.

The measurement and monitoring mechanisms that have been put in place result in a prudent, broadly diversified investment strategy. This is reflected inter alia in the fact that within our portfolio of assets under own management the exposures to government bonds or instruments backed by sovereign guarantees issued by the so-called PIIGS states amount to altogether just EUR 316.2 million on a fair value basis. This corresponds to a proportion of just 1.2%. The individual countries account for the following shares: Spain EUR 171.6 million, Ireland 63.8 million, Portugal 37.5 million, Italy 26.8 million and Greece EUR 16.6 million. No impairments had to be taken

Rating structure of our fixed-income securities[1]								
Rating classes	Government bonds		Securities issued by semi-governmental entities		Corporate bonds		Covered bonds/asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	83.9	4.830.5	61.2	3.261.6	3.3	207.2	72.9	2.951.8
AA	4.4	249.6	34.8	1.852.1	21.0	1.326.1	15.5	626.9
A	5.9	340.6	3.4	183.6	57.5	3.625.6	1.3	51.6
BBB	5.2	298.9	0.5	25.7	14.8	934.9	2.9	116.1
< BBB	0.6	35.3	0.1	6.0	3.4	214.0	7.4	299.5
Total	**100.0**	**5,754.9**	**100.0**	**5,329.0**	**100.0**	**6,307.9**	**100.0**	**4,045.9**

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

on these holdings. There is no risk of default here on account of bailout mechanisms existing on the European level (Eurozone safety net).

On a fair value basis EUR 3,097.5 million of the corporate bonds held by our company were issued by entities in the financial sector. Of this amount, EUR 2,648.0 million was attributable to banks. The vast majority of these bank bonds (almost 91.3%) are rated "A" or better. Our investment portfolio under own management does not contain any directly written credit derivatives.

Operational risks

In our understanding, this category encompasses the risk of losses occurring because of the inadequacy or failure of internal processes or as a result of events triggered by employee-related, system-induced or external factors. The operational risk also extends to legal risks. Operational risks exist, inter alia, in relation to the risk of business interruptions or failures of technical systems or they may derive from unlawful or unauthorised acts. Given the broad spectrum of operational risks, there is a wide range of different management and monitoring measures tailored to individual types of risk.

Core elements of risk management – for example with an eye to business interruptions and the failure of technical systems – are our contingency plans. These are designed to ensure the continuity of mission-critical enterprise processes and systems (recovery plans, back-up computer centre). The flexible working model of alternating telecommuting adopted by Hannover Re is, among other things, also a risk-minimising measure inasmuch as alternative workplaces and the requisite infrastructure are kept available on a decentralised basis. At the same time, we are thus able to offer the possibility of a healthy work/family balance. An important element of our human resources management policy, teleworking also reduces the risk of potentially losing key personnel by facilitating an attractive working environment.

As far as possibly unlawful or unauthorised acts are concerned, we enable our staff and partners to report serious breaches of the law pertaining to Hannover Re anonymously through our electronic whistleblower system. The information provided is brought to the attention of Hannover Re's Compliance Office so that it can investigate potentially suspicious circumstances. All tips are handled in the strictest confidence.

The range of tools is rounded off with external and internal surveys of clients and staff, the line-independent monitoring of risk management by Internal Auditing and the internal control system.

Other risks

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

The hallmark of emerging risks (such as in the field of nanotechnology or in connection with climate change) is that the content of such risks cannot as yet be reliably assessed – especially with respect to our treaty portfolio. Such risks evolve gradually from weak signals to unmistakable tendencies. It is therefore vital to detect these risks at an early stage and then determine their relevance. For the purpose of early detection we have developed an efficient process that spans divisions and lines of business and ensured its linkage to risk management, thereby making it possible to pinpoint any necessary measures (e.g. ongoing observation and evaluation, the implementation of contractual exclusions or the development of new reinsurance products). This interdivisional and cross-line process is handled by an expert working group assembled specially for this task.

Strategic risks derive from the risk of an imbalance between the corporate strategy and the constantly changing general business environment. Such an imbalance might be caused, for example, by incorrect strategic policy decisions or a failure to consistently implement the defined strategies. We therefore regularly review our corporate strategy and risk strategy and adjust our processes as and when required.

A good corporate reputation is an indispensable prerequisite for our core business as a reinsurer. It often takes decades to build up a positive reputation, yet this reputation can be damaged or even destroyed within a very brief space of time. Management of this risk is made possible by our set communication channels, a professional approach to corporate communications, tried and tested processes for defined crisis scenarios as well as our established Code of Conduct.

The liquidity risk refers to the risk of being unable to convert investments and other assets into cash in order to meet our financial obligations when they become due. The liquidity risk consists of the refinancing risk, i.e. the necessary cash cannot be obtained or can only be raised at increased costs, and the market liquidity risk, meaning that financial market transactions can only be completed at a poorer price than expected due to a lack of market liquidity. Our regular liquidity planning and the liquid asset structure of our investments are core elements of our ability to manage this risk. These mechanisms ensure that Hannover Re is able to meet its payment obligations at all times. We manage the liquidity risk inter alia by allocating a liquidity code to every security. Adherence to the limits defined in our investment guidelines for each liquidity class is subject to daily control. The spread of investments across the various liquidity classes is recorded in the monthly investment reports and managed/monitored by way of appropriate limits. Roughly half of our investment holdings under own management can be liquidated on any trading day without a mark-down, a reflection of the high liquidity of our portfolio.

Assessment of the risk situation

The above remarks describe the diverse spectrum of risks to which we, as an internationally operating reinsurance company, are exposed as well as the steps taken to manage and monitor them. The specified risks can potentially have a significant impact on our assets, financial position and net income. Yet consideration solely of the risk aspect does not fit our holistic conception of risk, since risks always go hand-in-hand with opportunities. Our effective management and monitoring tools as well as our organisational and operational structures ensure that we are able to identify our risks in a timely manner and maximise our opportunities. For additional information on the opportunities and risks associated with our business please see the Forecast contained in the management report.

The implementation of Solvency II effective 1 January 2013 will, among other things, place more exacting regulatory demands on risk management. Hannover Re has long adopted a risk-based and value-based management approach of the type which regulators will then require. We began to make our preparations for the requirements of Solvency II at an early stage: this includes participation in all Quantitative Impact Studies (QIS) and entering the pre-application phase for approval of an internal capital model. We see Solvency II as an opportunity for the convergence of international regulatory and internal corporate approaches.

Solvency II will also result in considerably increased compliance costs, principally in connection with extensive reporting and documentation requirements. Just how high these additional costs will be depends upon the interpretation of the Framework Directive by regulators.

In the previous year we reported that, contrary to a very clear opinion expressed by tax attorneys, the revenue authority was of the view that not inconsiderable investment income generated by the Hannover Re Group's reinsurance subsidiaries domiciled in Ireland was subject to taxation of foreign sourced income at the parent companies in Germany on the basis of the provisions of the Foreign Transactions Tax Act. Insofar as tax assessments to this effect had already been received, appeals were filed – also with respect to the amounts already recognised as a tax expense. After our opinion had been confirmed in full by the court of the first instance in 2009, we regarded as slight the risk that tax assessments containing taxation of foreign sourced investment income generated by Irish companies at the parent companies would be upheld.

In October 2010 the Federal Fiscal Court (BFH) subsequently confirmed the lower-court decision. In the first quarter of 2011 we received amended tax assessments from the revenue authority for some years; further amended tax assessments have been announced.

Based on our currently available insights arrived at from a holistic analysis of the risk situation, the Executive Board of Hannover Re cannot at present discern any risks that could jeopardise the continued existence of our company in the short or medium term or have a material and lasting effect on our assets, financial position or net income.

Value-based management

Our overriding strategic objective is to be one of the three most profitable reinsurers in the world and to increase our profit and the value of the company by a double-digit percentage every year.

In order to achieve this objective we have developed tools that enable us, on the one hand, to measure in light of value-based considerations how close we are to accomplishing our objective and, on the other, to break down the goals and value contributions to the level of individual profit centres.

In non-life reinsurance we have many years of positive experience using a ratio based on underwriting years, namely "DB 5": level 5 of our contribution margin accounting method constitutes the clear profit after earning the discounted claims expenditure (level 1) plus all direct (level 2) and indirect costs (level 3), including the cost of capital (level 4). We apply DB 5 to the non-life reinsurance treaty departments as part of the fine tuning of portfolios down to the level of individual contracts.

In life and health reinsurance we use the Market Consistent Embedded Value (MCEV). The MCEV is defined as the intrinsic value of an enterprise, measured as the discounted profit flow until final run-off of the in-force portfolio – from the standpoint of the shareholder and after taxes.

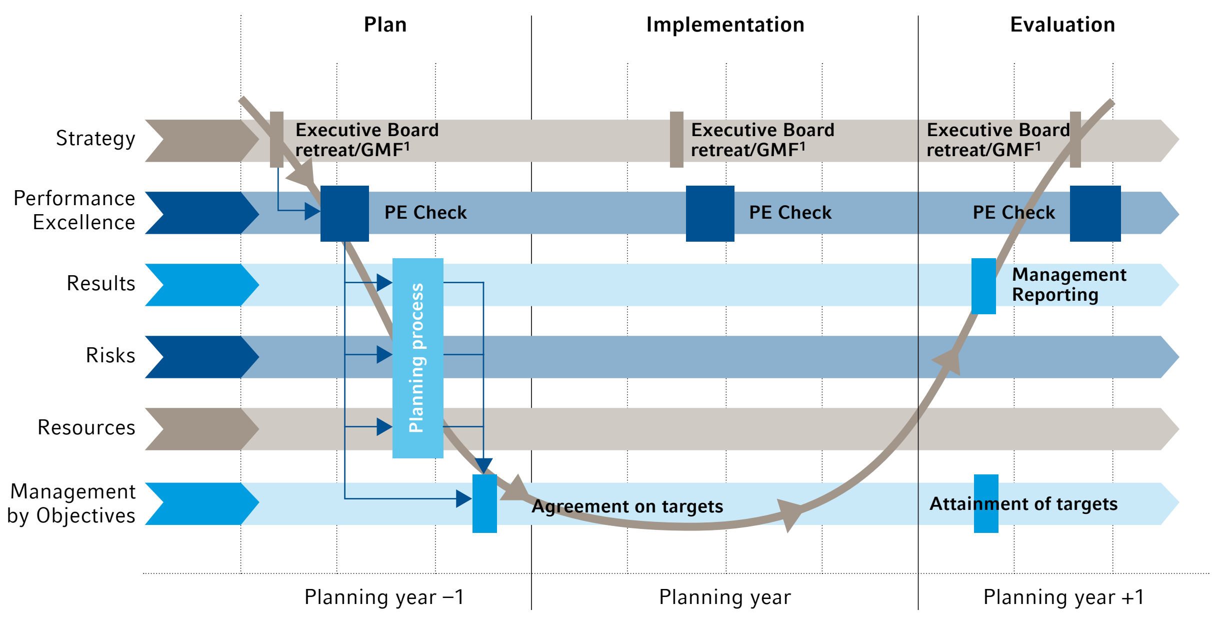
Both concepts reflect the specific characteristics of the individual segments. Together, they constitute the basis for our central management tool: Intrinsic Value Creation (IVC).

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

- optimise the allocation of capital and resources,
- identify opportunities and risks and
- use IVC – as the core business result within the scope of our holistic management system Performance Excellence (PE) – to measure the extent to which we are able to execute our strategy.

With Performance Excellence (PE) we have at our disposal a consistent method Group-wide that enables us to steer the development of the company and measure the extent to which we have achieved our strategic objectives, while at the same time accommodating the specific conditions of the various treaty departments and service units. The decentralised approach used by PE is of special importance in this context: every single organisational unit continuously examines its value contribution to the Hannover Re Group and develops improvement initiatives. At the same time, though, the "big picture" is never overlooked.

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



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

Performance Excellence Check

The PE Check (consisting of Output, Strategy and Input Checks as well as Activity Planning) is used by the treaty departments and service units to develop – making allowance for the strategic parameters – detailed strategies and activity plans. These central documents also serve as a basis for the planning cycle – both for the operational planning and for the planning of resources and costs. The PE Check is carried out annually as part of the strategic discussions conducted by individual units.

Planning process

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

Management by Objectives

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

Management Reporting

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

IVC – our key ratio

We use the following formula to calculate the IVC (Intrinsic Value Creation):

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

Targets until 2010

Business group	Key data	Strategic targets	2010	2009[1]	2008	2007	2006
Non-life reinsurance	Combined ratio	≤ 100%	98.2%	96.6%	95.4%	99.7%	100.8%
	Net cat. loss expectancy	≤ 500	662	240	458	285	107
	EBIT margin[2]	≥ 10%	16.3%	14.0%	0.1%	14.6%	14.2%
	IVC margin[3]	≥ 2%	n. a.	1.7%	(10.7%)	4.1%	5.1%
Life and health reinsurance	Gross premium growth	10–12%	12.4%	44.5%	1.7%	10.4%	15.2%
	EBIT margin[2]	6–7%	6.1%	9.2%	4.3%	8.2%	5.9%
	MCEV increase[4]	≥ 10%	n. a.[5]	33.8%	6.0%	20.1%	16.8%
	Increase in the value of new business	≥ 10%	n. a.[5]	(44.2%)	41.4%	65.7%	(24.2%)[6]
Group	Investment return	≥ 3.5[7]%	3.9%	4.0%	0.4%	4.6%	5.0%
	Minimum return on equity	≥ 11.1%[8]	18.2%	22.4%	(4.1%)	23.1%	18.7%
Triple-10 targets	EBIT growth	≥ 10%	2.7%	> 100%	(84.0%)	13.2%	> 100%
	Growth in earnings per share	≥ 10%	2.1%	> 100%	(117.6%)	8.3%[9]	> 100%
	Growth in book value per share	≥ 10%	21.4%	31.2%	(15.5%)	15.6%	11.4%

1 Adjusted on the basis of IAS 8
2 Operating profit (EBIT)/net premium earned
3 IVC/net premium earned
4 MCEV increase on the basis of the adjusted MCEV of the previous year after elimination of capital changes and changes from currency effects.
5 The MCEV as at 31 December 2010 will be published on our website at the same time as the quarterly financial report for the first quarter of 2011.
6 The decrease in the value of new business was due to three special effects. Details are provided in the EEV report for 2006 published on our website.
7 Risk-free interest rate + cost of capital
8 750 basis points above the risk-free return
9 Excluding tax effect

Intrinsic Value Creation and excess return on capital allocated										
	2009		2008		2007		2006		2005	
	IVC in EUR million	xRoCA in %	IVC in EUR million	xRoCA in %	IVC in EUR million	xRoCA in %	IVC in EUR million	xRoCA in %	IVC in EUR million	xRoCA in %
Non-life reinsurance	87.1	+1.6	(458.7)	–8.0	185.6	+3.2	242.4	+4.4	(101.1)	–1.9
Life and health reinsurance[1]	215.5	+17.9	105.9	+11.2	193.0	+28.8	174.9	+40.1	149.1	+35.7
Consolidation	21.3		14.4		34.9		(11.1)		(13.4)	
Group	324.0	+4.9	(338.3)	–5.0	413.5	+6.4	406.2	+6.8	34.7	+0.6

1 From 2005 to 2007 the present value components are based on the European Embedded Value (EEV), from 2008 onwards they are based on the Market Consistent Embedded Value (MCEV).

The adjusted operating profit (EBIT) consists of the recognised Group net income after tax and the change in the balancing items for differences between economic present values and amounts stated in the balance sheet (one adjustment for non-life and one for life/health reinsurance). In addition, the interest on hybrid capital, minority interest in profit and loss and extraordinary gains and losses are eliminated. We consider the allocated capital to be the shareholders' equity plus minority interests, the balancing items for differences between present values and carrying amounts as well as the hybrid capital. Capital is allocated to the profit centres according to the risk content of the business in question. In order to be able to distinguish in future on the Group level between the value contribution from investments and from the technical account, a separate IVC is shown for the functional area of investments from 2010 onwards.

In calculating the cost of capital, our assumption – based on a Capital Asset Pricing Model (CAPM) approach – is that the investor's opportunity costs are 450 basis points above the risk-free interest rate, meaning that value is created above this threshold. Our strategic return on equity target of 750 basis points above "risk-free" thus already contains a not insignificant target value creation. We allocate equity sparingly and make efficient use of equity substitutes to optimise our average cost of capital. At 7.4%, we can point to a very attractive average cost of capital – not only in absolute terms but also relative to our competitors.

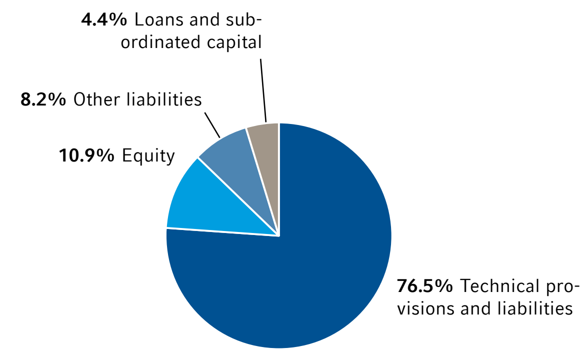
Since comparison of absolute amounts is not always meaningful, we have introduced the xRoCA (excess return on capital allocated) in addition to the IVC. This describes the IVC in relation to the allocated capital and shows us the relative excess return generated above and beyond the weighted cost of capital.

Financial position

Analysis of our capital structure

The overall capital structure and composition of Hannover Re's liabilities are essentially shaped by our activity as a reinsurer. By far the largest share is attributable to technical provisions and liabilities. Further elements are equity and equity substitutes, which help to substantially strengthen our financial base. We also use the latter with the goal of optimising our cost of capital. The following chart shows our capital structure as at 31 December 2010, split into equity, loans and subordinated capital, technical provisions and other liabilities, in each case as a percentage of the balance sheet total.

Capital structure



The technical provisions and liabilities shown above, which include funds withheld/contract deposits and reinsurance payable, make up 76.5% (80.7%) of the balance sheet total and are more than covered by our investments, (assets-side) funds withheld/contract deposits, accounts receivable and reinsurance recoverables.

The equity including minorities at 10.9% (10.4%) of the balance sheet total as well as the loans and – especially – subordinated capital at 4.4% (3.6%) of the balance sheet total represent our most important sources of funds.

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

Asset/liability management

Within the scope of our asset/liability management (ALM) the allocation of investments by currencies and maturities is determined by the technical liabilities. The modified duration of our bond portfolio – at 3.5 (3.7) – is geared largely to the average maturity of the technical liabilities. We thereby adjust the maturity pattern of the fixed-income securities to the expected payment patterns of our liabilities and reduce the economic exposure to the interest rate risk. In addition, through active and regular management of the currency spread in our fixed-income portfolio we bring about extensive matching of currencies on the assets and liabilities sides of the balance sheet, as a consequence of which fluctuations in exchange rates have no significant influence on our result. At year-end 2010 we held 44.6% (44.6%) of our investments in euro, 35.4% (37.9%) in US dollars and 6.8% (6.5%) in pound sterling.

Management of policyholders' surplus

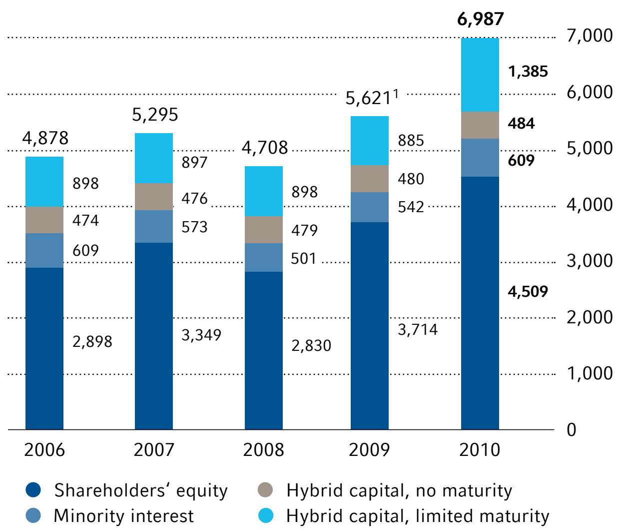
The preservation and consistent enhancement of its capital is a key strategic objective for Hannover Re. In recent years and in the year under review hybrid capital was issued as an equity substitute in order to keep the cost of capital on a low level. The policyholders' surplus is a key management ratio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

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

The policyholders' surplus totalled EUR 6,987.0 million (EUR 5,621.6 million) as at the balance sheet date, an increase of 24.3% in the year under review.

Hannover Re uses "Intrinsic Value Creation" (IVC) as its central value-based management tool. With the aid of this tool we apply the principles of economic allocation of equity and efficient use of debt as an equity substitute in order to achieve the lowest possible weighted cost of capital. This concept as well as the objectives and principles in accordance with which we conduct our enterprise management and capital management are described in greater detail in our remarks on value-based management on page 70 et seq. of this report.

Development of policyholders' surplus in EUR million



1 Adjusted on the basis of IAS 8

Hannover Re is guided in its capital management by the requirements and expectations of the rating agencies that assess the Group with an eye to its targeted rating. Furthermore, while making appropriate allowance for business policy considerations and factors that influence market presence, the allocation of capital to the Group's operational companies is based upon the economic risk content of the business group in question. Some Group companies are subject to additional national capital and solvency requirements. All Group companies met the applicable local minimum capital requirements in the year under review. Adherence to these capital requirements is continuously monitored by the responsible organisational units at the parent company on the basis of the latest actual figures as well as the corresponding planned and forecast figures. If, despite the capital allocation mechanisms described above, a scenario occurs in which there is a danger of minimum capital requirements being undershot, suitable options are immediately discussed and measures set in motion to counteract such an eventuality. From the Group perspective we manage Hannover Re's solvency using our internal capital model, which is described in greater detail on page 57 et seq. of the risk and opportunity report.

Group shareholders' equity

In view of the thoroughly favourable result, the development of the shareholders' equity of the Hannover Re Group was highly gratifying. Compared to the position as at 31 December 2009, it increased by EUR 861.3 million in the year under review to EUR 5.1 billion. After adjustment for minorities, it increased by EUR 794.5 million to EUR 4.5 billion. The book value per share increased accordingly by 21.4% to EUR 37.39. The changes in shareholders' equity were shaped chiefly by the following movements:

The Group net income for 2010 attributable to the shareholders of the Hannover Re Group climbed to EUR 748.9 million (EUR 733.7 million).

Net unrealised gains on investments recognised in the other reserves reached EUR 372.1 million, a figure EUR 130.5 million higher than at the beginning of the year under review. This rise derived in particular from the positive development of markets for alternative investments and the decline in yields, especially on US treasuries and some non-EU government bonds.

The reserve for currency translation adjustment improved appreciably by EUR 171.1 million to –EUR 53.0 million as a consequence of exchange rate fluctuations of foreign currencies against the euro in the year under review. The rise in the reserve for currency translation adjustment resulted above all from the appreciation of the Australian dollar (AUD) and US dollar (USD).

Minority interests in Group shareholders' equity grew by EUR 66.8 million to EUR 608.9 million as at 31 December 2010. This increase derived primarily from the minority interest in profit of EUR 82.0 million generated in the year under review.

Development of Group shareholders' equity in EUR million

1 Adjusted on the basis of IAS 8

Financing and Group debt

In addition to the financing effect of the changes in shareholders' equity described above, debt financing on the capital market is a key component of Hannover Re's financing. It was essentially composed of subordinated bonds issued to ensure lasting protection of our capital base in observance of rating requirements. The total volume of debt and subordinated capital stood at EUR 2,056.8 million (EUR 1,481.3 million) as at the balance sheet date.

Our subordinated loans and bonds supplement our equity with the aim of reducing the cost of capital and also help to ensure liquidity at all times. In the 2010 financial year we again placed subordinated debt of nominally EUR 500.0 million on the European capital market through our subsidiary Hannover Finance (Luxembourg) S.A. It has a term of 30 years and carries a fixed coupon of 5.75% p.a. in the first ten years. The bond has a first scheduled call option after ten years, after which the coupon steps up to a floating rate of three-month EURIBOR +4.235%.

In addition, unsecured syndicated guarantee facilities exist with a number of financial institutions as collateral for our technical liabilities as letters of credit. For detailed information on existing contingent liabilities please see the notes, Section 5.12 "Debt and subordinated capital" and 7.7 "Contingent liabilities and commitments".

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

Furthermore, several Group companies have taken up long-term debt – principally in the form of mortgage loans – amounting to EUR 187.6 million (EUR 116.2 million).

For further explanatory information please see our remarks in the notes to this report, Section 5.12 "Debt and subordinated capital" and 5.13 "Shareholders' equity, minority interests and treasury shares".

Analysis of the consolidated cash flow statement

Liquidity

We generate liquidity primarily from our operational reinsurance business, investments and financing measures. Regular liquidity planning and a liquid investment structure ensure that Hannover Re is able to make the necessary payments at all times. Hannover Re's cash flow is shown in the consolidated cash flow statement on page 105 et seq.

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

Subordinated bonds in EUR million	Issue date	Coupon in %	2010	2009
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 350 million; 2001/2031[1,2]	14.03.2001	6.25	138.1	137.9
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 750 million; 2004/2024	26.02.2004	5.75	746.9	746.1
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 500 million; 2005/undated	01.06.2005	5.00	484.1	481.1
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 500 million; 2010/2040	14.09.2010	5.75	500.0	–
Total			**1,869.1**	**1,365.1**

1 This bond was exchanged in an amount of EUR 211.9 million in 2005
2 Repayment of the outstanding volume of this debt in an amount of EUR 138.1 million is planned for 14 March 2011

Cash flow from operating activities

The cash flow from operating activities, which also includes inflows from interest received and dividend receipts, amounted to EUR 1.7 billion in the year under review as opposed to EUR 1.8 billion in the previous year. Despite higher claim payments in the financial year, the net inflow was thus only slightly lower than that of the previous year – principally due to the improvement in investment income over the previous year.

Cash flow from investing activities

The net cash outflows from investing activities amounted to altogether EUR 2.0 billion in 2010, as against EUR 1.8 billion in the previous year. Along with the move back into equities and the acquisition of real estate, predominantly in the United States and Germany, the funds were used primarily to further enlarge the portfolio of high-quality fixed-income securities. Investments were made principally in corporate bonds and asset-backed securities, while the share of government bonds and debt securities of semi-governmental entities was reduced.

Regarding the development of the investment portfolio please see also our remarks in the "Investments" section of the management report.

Cash flow from financing activities

Compared to the previous year, the cash inflows from financing activities increased from EUR 57.7 million to EUR 283.3 million. This rise was due first and foremost to the inflow from placement of the subordinated debt 2010/2040 in an amount of nominally EUR 500.0 million. This increase was in turn reduced accordingly by the dividend of EUR 253.3 million paid by the parent company Hannover Re in the year under review.

Overall, the cash and cash equivalents thus increased by EUR 17.8 million year-on-year to EUR 475.2 million.

For further information on our liquidity management please see page 69 et seq. of the risk report.

Consolidated cash flow statement — in EUR million

	2010	2009
Cash flow from operating activities	1,681.3	1,751.9
Cash flow from investing activities	(1,993.7)	(1,786.3)
Cash flow from financing activities	283.3	57.7
Exchange rate differences on cash	46.9	3.9
Change in cash and cash equivalents	17.8	27.2
Cash and cash equivalents at the beginning of the period	457.4	430.2
Change in cash and cash equivalents according to cash flow statement	17.8	27.2
Cash and cash equivalents at the end of the period[1]	**475.2**	**457.4**

1 Thereof attributable to disposal groups: EUR 27.5 million (previous year: none)

Financial strength ratings

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

Financial strength ratings of the Hannover Re Group

	Standard & Poor's	A.M.Best
Rating	AA– (very strong)	A (excellent)
Outlook	stable	positive

Financial strength ratings of subsidiaries		
	Standard & Poor's	A.M. Best
Clarendon America Insurance Co.[1]	–	A–
Clarendon National Insurance Co.[1]	–	A–
Clarendon Select Insurance Co.[1]	–	A–
E+S Rückversicherung AG	AA–	A
Hannover Life Reassurance Africa Ltd.	A	–
Hannover Life Reassurance Bermuda Ltd.	AA–	A
Hannover Life Reassurance Company of America	AA–	A
Hannover Life Reassurance (Ireland) Ltd.	AA–	A
Hannover Life Reassurance (UK) Ltd.	AA–	A
Hannover Life Re of Australasia Ltd	AA–	–
Hannover Reinsurance Africa Ltd.	A	–
Hannover Re (Bermuda) Ltd.	AA–	A
Hannover Reinsurance (Ireland) Ltd.	AA–	A
Hannover ReTakaful B.S.C. (c)	A	–
Harbor Specialty Insurance Co.[1]	–	A–
International Insurance Company of Hannover Ltd.	AA–	A

1 Subsidiaries of Clarendon Insurance Group, Inc., Wilmington/USA

Issue ratings of issued debt

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

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

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

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

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

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

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

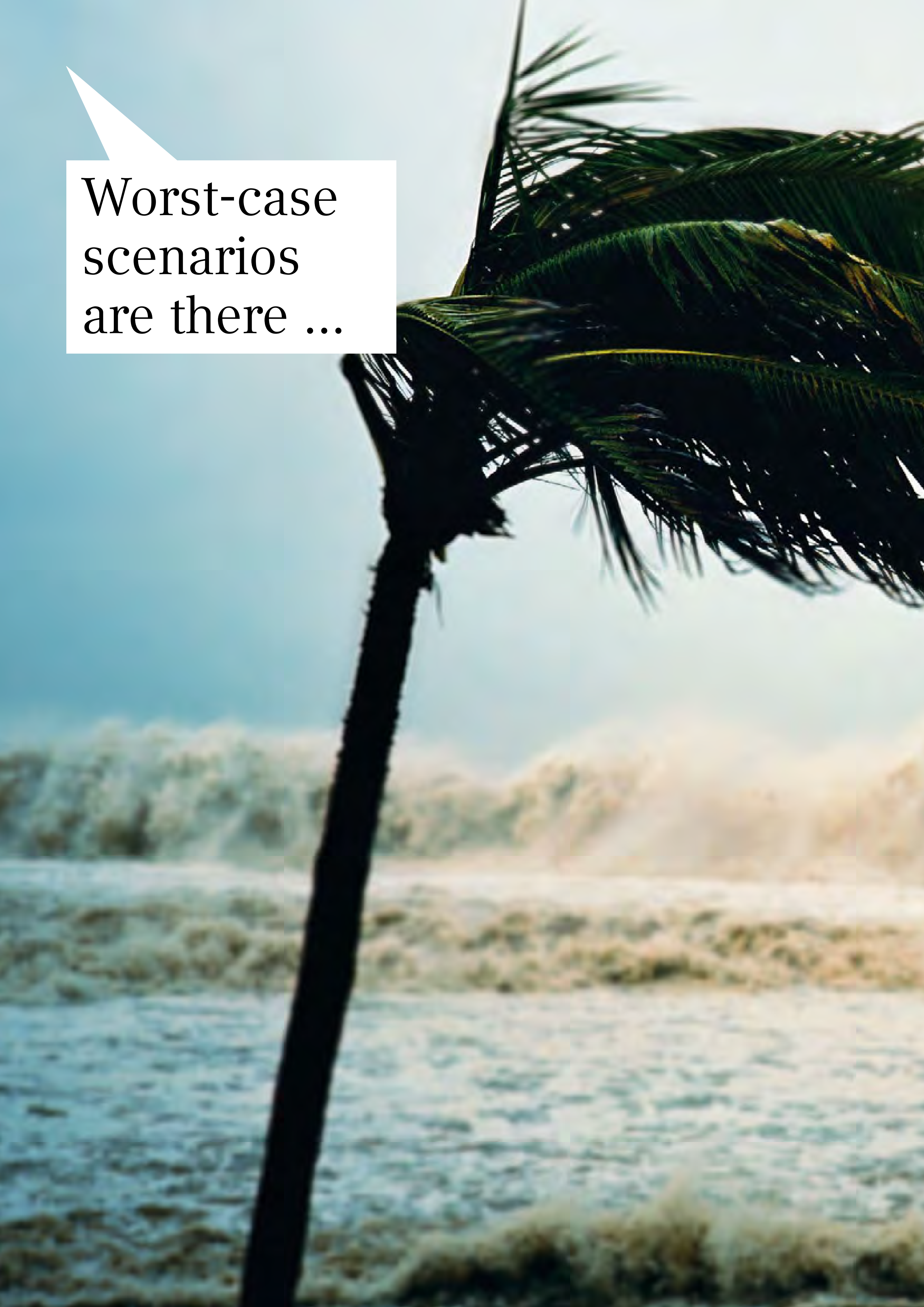
The appointment and recall of members of the Executive Board are determined by §§ 84 et seq. Stock Corporation Act. Amendment of the Articles of Association is governed by §§ 179 et seq. Stock Corporation Act in conjunction with § 16 Para. 2 of the Articles of Association of Hannover Re.

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

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

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

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


Worst-case scenarios are there ...

Natural catastrophes are insurable if …

The insurability of natural disasters is an issue that regularly rears its head whenever catastrophe losses of a new magnitude are recorded. The answer nevertheless continues to be: yes, natural perils are insurable – if the solvency of the insurance and reinsurance market as well as the premiums were calculated on a risk-appropriate basis and are sufficient.

The actual question is therefore: how should premiums react to the new magnitude of catastrophe losses produced inter alia by increasing accumulations of values in peak zones? As long as rising damages are matched by higher premiums, even hurricanes, typhoons and earthquakes are insurable. Similarly, the reinsurance industry has a grip on the climate-related natural disasters – storms, floods and hail events – that are noticeably on the increase against a backdrop of climate change, always assuming the „if“ has not been overlooked!

Our underwriters are assisted in their acceptances by sophisticated risk management processes. Not only that, we invest heavily in the development of mathematical methods and software models in order to be able to evaluate and manage all risks from a qualified standpoint. Our own scientists in-house support us with the assessment of natural perils. In a nutshell: we trust to our expertise.

… to be factored in.

JÖRG STEFFENSEN
GENERAL MANAGER
GROUP RISK MANAGEMENT MODELLING

Enterprise management

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

German Corporate Governance Code

In the previous year Hannover Re was not in compliance with one recommendation of the German Corporate Governance Code (DCGK); this year, the company's implementation of the recommendations of the Code as amended 18 June 2009 and 26 May 2010 again diverges in one respect. In each case the recommendation in question refers to the inclusion of a cap on severance payments when concluding or renewing an Executive Board contract. The reason for this divergence is set out in the following Declaration of Conformity pursuant to § 161 Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code. The present and all previous Declarations of Conformity of the company are published on its website (http://www.hannover-re.com/about/corporate/declaration/index.html).

Declaration of Conformity

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

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

The Executive Board and Supervisory Board declare pursuant to § 161 Stock Corporation Act (AktG) that in its implementation of the German Corporate Governance Code as amended 18 June 2009 Hannover Rückversicherung AG diverged in one respect from the Code recommendations (Code Item 4.2.3 Para. 4; Caps on severance payments in management board contracts). In its implementation of the version of the Code dated 26 May 2010 Hannover Rückversicherung AG again diverges from the recommendations in one respect:

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

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

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

Hannover, 8 November 2010

Executive Board Supervisory Board

Statement of enterprise management practices

Hannover Re's objective continues to be the further expansion of its position as a major, well diversified reinsurer of above-average profitability with a fast, flexible and undogmatic business approach. With motivation, power of innovation and the quality of our services we strive to be one of the three most profitable reinsurers in the world by boosting our profit and the value of the company by a double-digit percentage every year. All other goals, such as profitable growth, the protection of capital, motivated staff and a lean organisation, are derived from this overriding objective (http://www.hannover-re.com/about/strategy/index.html).

Corporate Governance

The principles of responsible and good enterprise management and supervision constitute the core of our Corporate Governance principles (http://www.hannover-re.com/resources/cc/generic/CGprinciples-e.pdf). Our efforts in the field of Corporate Governance are driven by the goal of achieving sustainable growth in the value of the company and consolidating the trust placed in the enterprise through integrity at all times in our dealings with business partners, staff, shareholders and the general public. On this basis Hannover Re supports the principles of value-based and transparent enterprise management and supervision as defined in the German Corporate Governance Code (DCGK) and recognises their importance in guiding its activities.

In the year just-ended, as in previous years, the company again had to adapt to a variety of new laws and regulations in the area of Corporate Governance. Purely with regard to management board remuneration, various laws, regulations and recommendations were adopted on the national and international level (e.g. the Act and Regulation on the Prudential Requirements for the Remuneration Systems of Institutions and Insurance Companies, the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (VersVergV) as well as statements released by the Financial Stability Board and the Basel Committee on Banking Supervision). In addition, the German Corporate Governance Code (DCGK) was amended and its recommendations and suggestions revised.

The Code Report for 2010 published by the independent Berlin Center of Corporate Governance on acceptance of the Code's recommendations and suggestions found that Hannover Re once again – as in previous years – ranked as one of the leaders among DAX- and MDAX-listed companies when it came to compliance with the provisions of the Code. Based on the version of the German Corporate Governance Code as amended 18 June 2009 which was used in the survey, Hannover Re fulfilled the recommendations to a level of 98.8% with one divergence and thereby comfortably surpassed the degree of fulfilment of both DAX- and MDAX-listed enterprises. On average, companies listed on the DAX and MDAX satisfied 79 and 74.7 respectively of the 82 recommendations, hence achieving acceptance levels of 96.3% and 90.9%.

The above-average level of compliance alone testifies to the considerable importance that Hannover Re attaches to good enterprise management and supervision in the spirit of state-of-the-art Corporate Governance. It continues to be enshrined in the company's business practices as a matter of course and is not limited to rigid adherence to formal rules. The Executive Board and Supervisory Board consistently address changes in the relevant legal framework conditions in a timely manner and the latest legal developments are promptly codified in internal corporate standards. With this in mind, the Rules of Procedure of the Supervisory Board underwent a thorough revision in the year under review with an eye to the amendments of the German Corporate Governance Code; the Code recommendations concerning the composition of the supervisory board (Item 5.4.1) were a special focus of discussion in this context. The Supervisory Board consequently specified in its Rules of Procedure its intention that at least two members of the Supervisory Board should be women. In addition, the requirements for membership of the Supervisory Board were clarified with respect to the necessary knowledge, skills and specialist experience (expert knowledge). In this context, expert knowledge is taken to mean "sound industry know-how combined with a fundamental understanding of the company's international business activities as well as specialist and methodological expertise". Furthermore, the members of the Supervisory Board undertake to ensure that they have sufficient time at their disposal to discharge their mandate and to engage in the (further) training measures required for their tasks at their own responsibility. They shall be appropriately supported by the company in this regard. The Code recommendation concerning the reduction of the maximum number of supervisory board mandates at non-group listed companies from five to three was also included in the Rules of Procedure.

The full Supervisory Board further deliberated for the first time on the concrete measurement of the performance bonuses of the members of the Executive Board and defined the total remuneration of individual members of the Executive Board. The revision of the system of Executive Board remuneration and the adjustment of contracts of employment with members of the Executive Board were also considered at length. These revisions were essential on account of the aforementioned changes in the legal framework conditions.

The findings of a written survey conducted among the members of the Supervisory Board regarding the efficiency of the Supervisory Board's work were presented to the Supervisory Board in anonymised and aggregated form at its meeting held on 10 March 2010 in strict confidentiality. One outcome of this survey that should be noted is that reporting by the Supervisory Board committees to the full Supervisory Board is to be stepped up. Henceforth, such reporting is to be provided on a regular basis as a separate item on the agenda.

Compliance

The Executive Board adopted the revised Code of Conduct in November 2010 (http://www.hannover-re.com/resources/cc/generic/codeofconduct-e.pdf). The rules defined therein reflect the high ethical and legal standards that guide our actions worldwide. Integrity in dealings with business partners, staff, shareholders and the general public constitutes the foundation of a successful enterprise. In both our strategic planning and our day-to-day business activities, we aspire to consistently apply the highest ethical and legal standards; for our actions and the way in which every single one of us presents and conducts himself or herself – whether a member of the Executive Board or a member of staff – are crucial in shaping the image of the Hannover Re Group.

Grounded on our corporate strategy and our Corporate Governance principles, our Code of Conduct enshrines on a sustainable basis the key rules governing integrity in our dealings with business partners, staff, shareholders and the general public. The Executive Board is expressly committed to observance of these rules, which are also binding upon all employees of the Hannover Re Group worldwide. They are intended to help us cope with the ethical and legal challenges that we face as part of day-to-day work. Each of us is jointly responsible for upholding the reputation of our company and Group in the eyes of the public at large, avoiding conflicts of interest and fostering trust through correct and value-based conduct.

The compliance report for the 2009 calendar year setting out the structure and diverse range of activities of Hannover Re in this regard was submitted to the Finance and Audit Committee in March 2010. After in-depth examination of topics such as directors' dealings, ad hoc and other reporting requirements, the insider register, adherence to internal guidelines, consulting agreements, data protection, international sanctions and the Group-wide whistleblower system, the report concludes that two circumstances have been identified which point to breaches of relevant compliance standards. After detailed exploration of these incidents, the necessary safeguards were put in place to ensure that in future the Hannover Re Group will be in full compliance with the material external requirements for its business activities. Compliance with statutory provisions – not only in terms of their letter but also their spirit – is our overriding priority.

Risk monitoring and steering

The risk management system applicable throughout the entire Hannover Re Group is based on the risk strategy, which in turn is derived from the company strategy. A core component is the systematic and comprehensive recording of all risks that from the current standpoint could conceivably jeopardise the company's profitability and continued existence. Further details in this regard may be obtained from the risk report contained in the Annual Report on page 55 et seq.

Working practice of the Executive Board and Supervisory Board

The Executive Board and Supervisory Board of Hannover Re work together on a trusting basis to manage and monitor the company. In accordance with the Rules of Procedure of the Executive Board, matters of fundamental importance such as the approval of strategic principles and objectives, the planning of the annual results or the adoption/modification of investment guidelines require the consent of the Supervisory Board. In addition, the Supervisory Board is kept informed on a regular and timely basis of the business development, the execution of strategic decisions, material risks and planning as well as relevant compliance issues. The Chairman of the Supervisory Board stays in regular contact with the Chairman of the Executive Board in order to discuss with him the company's strategy, business development and risk management. The composition of the Executive Board (including areas of responsibility) as well as of the Supervisory Board and its committees is set out on pages 8 and 192 respectively of the present Annual Report.

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

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

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

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

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

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

For further details of the activities of the Supervisory Board committees please see the explanations provided in the Supervisory Board Report from page 188 onwards.

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

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

Information on share-based payment pursuant to Item 7.1.3 of the German Corporate Governance Code is provided in section 7.3 "Share-based payment" of the notes and in the remuneration report with respect to the members of the Executive Board.

Remuneration report

The remuneration report summarises the principles used to determine the remuneration of the Executive Board of Hannover Re and explains the amount of income received by the Executive Board in the 2010 financial year on the basis of the Board members' work for Hannover Re and its affiliated companies.

In addition, the amount of remuneration paid to the Supervisory Board on the basis of its work for Hannover Re and its affiliated companies and the principles according to which this remuneration is determined are described.

The remuneration report is based on the recommendations of the German Corporate Governance Code and contains information which forms part of the notes to the 2010 consolidated financial statement as required by IAS 24 "Related Party Disclosures". The provisions of the Act on the Adequacy of Management Board Remuneration (VorstAG) and of the Insurance Supervision Act in conjunction with the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (VersVergV) – which entered into force on 13 October 2010 – have been observed. In addition, we took into account the more specific provisions of GAS 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 this remuneration report. Consequently, no further explanation of the information discussed in this remuneration report is provided in the notes.

Remuneration of the Executive Board

Responsibility

The Act on the Adequacy of Management Board Remuneration stipulates that the full Supervisory Board shall determine the amount of remuneration of the Executive Board of Hannover Re. In the previous year the Supervisory Board had therefore already amended the Rules of Procedure of the Standing Committee with immediate effect. Pursuant to Item 3.2 of the Rules of Procedure, the committee shall decide in lieu of the Supervisory Board on the content, formation, modification and termination of employment contracts with the members of the Executive Board with the exception of remuneration-related content. The latter shall be decided upon at a full meeting of the Supervisory Board.

Objective

The purpose of the remuneration system for the Executive Board is to recompense the members of the Executive Board according to their scope of activity and responsibility and in proportion to their tasks and performances as well as the position of the company. In this context, an appropriate variable portion of the total remuneration directly recognises the joint and individual performance of the Executive Board as well as the performance of the company. The variable remuneration components have a multi-year assessment basis and thereby support the sustainable development of the company.

Structure of the remuneration received by the Executive Board up to and including 2010

With this objective in mind, the remuneration system consists of three components: fixed emoluments, a variable bonus as well as a share-based remuneration component based on a virtual stock option plan with a longer-term incentive effect and risk element.

The fixed emoluments, paid in twelve monthly instalments, are guided by the professional experience and area of responsibility of the Board member in question.

The variable bonus is cash compensation geared to the result of the financial year; half is based on the individual Board member's specific profit contribution (performance bonus) and half on the net income generated by the Group as a whole (profit bonus). With respect to the determination of the profit bonus for the 2010 financial year, the Supervisory Board approved inter alia the calculation of the earnings per share (EPS) on a rolling three-year average, the capping of the profit bonus to a maximum 1.5 times the average target EPS of the last three financial years and the elimination of the guaranteed portion of the profit bonus.

The members of the Executive Board are also entitled to receive stock appreciation rights under the virtual stock option plan implemented in 2000 for certain members of the Group's management.

The content of the stock option plan is based solely on the Conditions for the Granting of Stock Appreciation Rights. Under these conditions, stock appreciation rights are awarded separately for each financial year provided the internal and external performance criteria defined in advance by the Supervisory Board are met.

The internal performance criterion is satisfied upon achievement of the target diluted earnings per share (EPS) calculated in accordance with IAS 33 "Earnings per Share". The external performance criterion is the relative increase in the value of the Hannover Re share. The benchmark used to measure this increase in value is the weighted RBS Global Reinsurance Index. The benchmarks cannot be retrospectively altered.

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. 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. With the aim of making greater allowance for the long-term effect in the remuneration structure, the Supervisory Board decided to extend the waiting period from two to four years for the Executive Board with respect to stock appreciation rights granted from the 2010 allocation year onwards.

Upon expiry of this waiting period a maximum 60 percent of the stock appreciation rights awarded for an allocation year may be exercised. The waiting period for each additional 20 percent of the stock appreciation rights awarded for this allocation year is one year. Stock appreciation rights lapse if they are not exercised within ten years of the date when they were awarded.

The previous conditions apply to stock appreciation rights granted in the financial year for the 2009 allocation year.

For further details of the virtual stock option plan please see the explanatory remarks in the notes to this Group Annual Report, Section 7.3 “Share-based payment”.

The following table summarises the structure of Executive Board remuneration applicable from 1 January 2010 onwards.

At its meeting on 8 November 2010 the Supervisory Board – at the recommendation of the Standing Committee – approved revisions to the system of Executive Board remuneration effective 1 January 2011 in order to respond to the amended legal framework as well as to bring the split into fixed and variable

Structure and system of Executive Board remuneration

Component	Measurement basis/parameter	Condition of payment	Paid out
Basic remuneration, non-cash remuneration, fringe benefits			
Basic remuneration, non-cash remuneration/fringe benefits (company car, insurance)	Function, responsibility, length of service on the Executive Board	Contractual stipulations	Monthly
Short-term remuneration components			
Performance bonus	Individual contribution to the overall performance, leadership skills, innovative skills, entrepreneurial skills, accomplishment of personal objectives	Accomplishment of objectives	Annually in following year
Medium-term remuneration components			
Profit bonus	Earnings per share (EPS), calculated on a rolling three-year average, x individual EPS basic amount (graduated according to area of responsibility and professional experience), capped to at most 1.5 times the average target EPS of the last three financial years	Contractual stipulation	Annually in following year
Stock option plan			
Long-term incentive plan (stock appreciation rights)	Internal performance criterion (target performance defined by the Supervisory Board, expressed in „diluted earnings per share“ according to IAS 33) External performance criterion (movement in the share price in the allocation year relative to the RBS Global Reinsurance Index)	Exercise of the stock appreciation rights	In the third year after the end of the 2009 allocation year (max. 40%), in each of the fourth, fifth and sixth years max. 20% In the fifth year after expiry of the 2010 allocation year (max. 60%), in each of the sixth and seventh years max. 20%
Retirement provision			
Pension entitlement (contracts prior to 2009: defined benefit system geared to the fixed annual remuneration; contracts from 2009 onwards: defined contribution system)	Basic remuneration, years of service on the Executive Board	Retirement, insured event, premature termination or non-extension of employment contract under certain circumstances	–

remuneration more closely into line with market standards and make it more competitive. This future system of Executive Board remuneration is summarised under the heading "Structure and system of Executive Board remuneration from 2011 onwards".

Amount of remuneration received by the Executive Board

The total remuneration received by the Executive Board of Hannover Re on the basis of its work for Hannover Re and its affiliated companies is calculated from the sum of all components that resulted in a charge in the financial year concerned, irrespective of whether they accrued to the relevant Board member. Pecuniary advantages from non-cash compensation are also included. The stock appreciation rights awarded for the financial year in question have also been included in the total remuneration at their fair value on the date when they were awarded.

In the 2010 financial year 234,905 stock appreciation rights with a value of EUR 1.5 million were granted to active members of the Executive Board for the 2009 allocation year; in the previous year no stock appreciation rights were granted for the 2008 financial year because the internal performance criterion was not satisfied. Of the stock appreciation rights granted in previous years to active and former members of the Executive Board, an amount of EUR 0.14 million (EUR 0.15 million) was exercised.

As at 31 December 2010 the members of the Executive Board had at their disposal a total of 547,901 (318,170) granted, but not yet exercised stock appreciation rights with a fair value of EUR 4.7 million (EUR 2.1 million).

The remuneration (excluding pension payments) received by former members of the Executive Board totalled EUR 0.9 million (EUR 0.7 million).

Total remuneration received by active members of the Executive Board pursuant to GAS 17 — in EUR thousand

	2010	2009
Fixed emoluments	1,672.5	1,674.2
Variable bonuses[1]	2,449.8	2,383.3
Remuneration from Group companies netted with the bonus	60.9	116.7
Stock appreciation rights awarded (for 2009)[2]	1,461.2	–
Taxable amount from non-cash compensation	111.5	144.7
Total	**5,755.9**	**4,318.9**
Change in the value of stock appreciation rights already awarded but not exercised	1,119.4	704.2
Stock appreciation rights exercised	42.6	146.8
	6,917.9	**5,169.9**

1 As at the balance sheet date no Board resolution was available regarding the amounts to be paid out for 2010. The variable bonuses are recognised on the basis of estimates and the provisions constituted accordingly.

2 Since the Supervisory Board decides upon the final allocation of the number of stock appreciation rights at the March meeting after the balance sheet date and given that the period of the stock appreciation rights commences in each case on 1 January of the following year, the stock appreciation rights awarded for the financial year are expensed in subsequent years.

Remuneration actually accruing to active members of the Executive Board in the financial year — in EUR thousand

	2010	2009
Fixed emoluments	1,672.5	1,674.2
Variable bonuses	2,394.0	1,804.1
Stock appreciation rights exercised	42.6	146.8
Total	**4,109.1**	**3,625.1**

The Annual General Meeting of Hannover Re held on 12 May 2006 resolved by a voting majority of 85.5% to avail itself until 31 December 2010 of the option contained in the Act on the Disclosure of Management Remuneration (VorstOG) not to specify the remuneration of the Executive Board on an individualised basis by name.

Retirement provision

The pension agreements between members of the Executive Board and Hannover Re with a contract date prior to 2009 contain commitments to an annual retirement pension calculated as a percentage of the fixed annual remuneration (defined benefit). Depending upon the contract date, the target pension is at most 50% or 65% of the monthly fixed salary payable on reaching the age of 65. For contracts from 2009 onwards commitments exist on the basis of a defined contribution scheme. The annual funding contribution for these contracts is paid by the company in an amount of 25% of the pensionable income (fixed annual emoluments as at 1 July of each year). Under both contract variants (defined benefit and defined contribution) income received from other sources while the pension is being drawn is taken into account pro rata or in full in certain circumstances (e.g. in the event of incapacity for work or termination of the contract of employment prior to age 65, receipt of disability benefits or previously earned pension payments).

There were eight (five) individual commitments to active Board members in the year under review. An amount of EUR 2.9 million (EUR 1.5 million) was allocated to the provision for pensions in the year under review. The provision stood at EUR 11.3 million (EUR 8.4 million) as at 31 December 2010. In addition, contributions to a pension fund in an amount of EUR 0.06 million (EUR 0.05 million) were paid.

The pension payments to former members of the Executive Board and their surviving dependants, for whom thirteen (thirteen) pension commitments existed, totalled EUR 1.3 million (EUR 1.3 million) in the year under review. Altogether, an amount of EUR 15.5 million (EUR 13.8 million) has been set aside for these commitments.

Sideline activities of the members of the Executive Board

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

Structure and system of Executive Board remuneration from 2011 onwards

The remuneration model for the Executive Board of Hannover Re was subject to further revision as a consequence of regulatory developments. These amendments, which were undertaken with the assistance of an independent firm of consultants specialising in the field of remuneration systems, ensure that the total remuneration and the split into fixed and variable components conform to regulatory requirements – especially the provisions of the Act on the Adequacy of Management Board Remuneration (VorstAG) and the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (VersVergV) – and are both competitive and in line with market standards.

The revised remuneration model for the Executive Board comes into effect on 1 January 2011 and contains the following new features worthy of special note:

- measurement of the profit bonus according to the return on equity generated by Hannover Re (instead of the previous measurement based on EBIT and EPS), giving due consideration to the cost of capital,
- explicit allowance for the business group development in the performance bonus in the form of the business group IVCs (Intrinsic Value Creation being a tool of value-based management used to measure the accomplishment of long-term objectives),
- integration of a bonus bank for the partial deferment of payment over three years
- issue of virtual Hannover Re Share Awards as a participation component with a deferment in payment of four years (instead of the previously used virtual stock option plan).

The following tables provide an overview of the structure of the Executive Board's remuneration applicable from 1 January 2011 onwards, as approved by the Supervisory Board at its meeting on 8 November 2010 on the recommendation of the Standing Committee.

Fixed remuneration (40% of total remuneration upon 100% goal accomplishment) from 2011 onwards

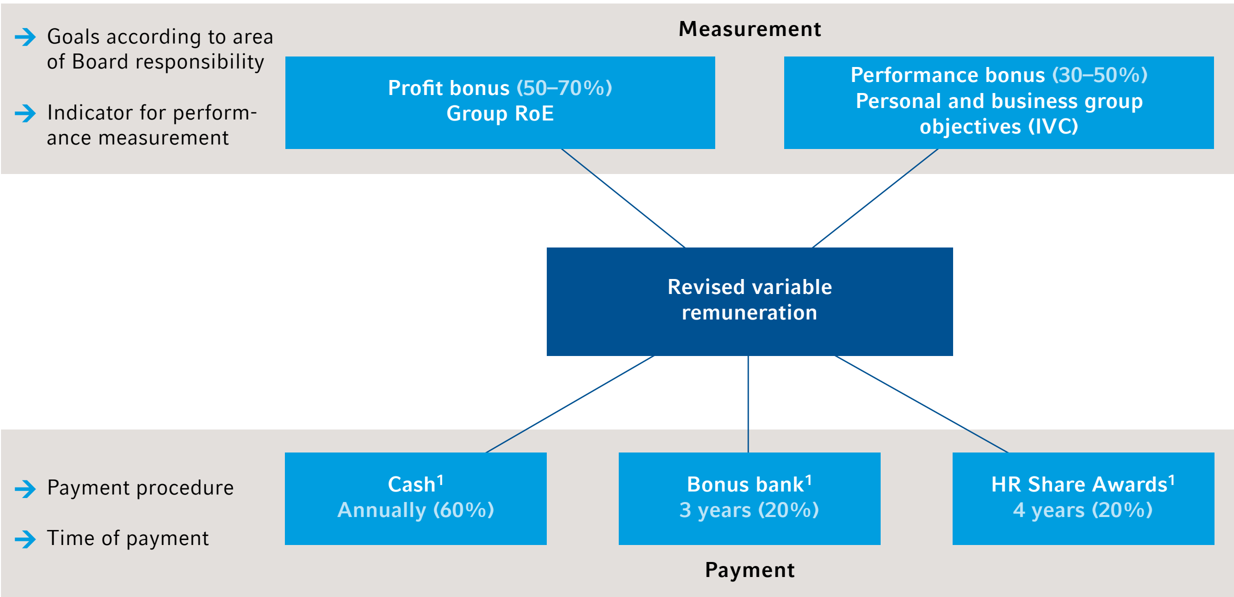
Measurement basis and payment procedures for fixed remuneration

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

Variable remuneration (60% of total remuneration upon 100% goal accomplishment) from 2011 onwards

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

Revised remuneration model (variable components)



1 Split defined by legal minimum requirements

Measurement bases/conditions of payment for variable remuneration from 2011 onwards		
Component	Measurement basis/parameter	Condition of payment
Profit bonus (medium-term)		
Proportion of variable remuneration: Chief Executive Officer/ Chief Financial Officer: 70%; Board members except for CEO/CFO: 50%	Group return on equity (RoE); x individual basic amount (graduated according to area of responsibility and professional experience) for each 0.1 percentage point by which the average RoE of the past three financial years exceeds the risk-free interest rate; 100% = 11.6% RoE Cap max: 200% Cap min: –100% (penalty); Change in the risk-free interest rate by 1 percentage point or more necessitates adjustment of the bonus calculation; RoE calculation: IFRS Group net income (excluding minority interests) ./. arithm. mean of IFRS Group shareholders' equity (excluding minority interests) at the beginning and end of the financial year.	Contractual stipulation Attainment of three-year targets
Performance bonus (short-term)		
Business group bonus Proportion of variable remuneration: Board members except for CEO/CFO: 25%	Measurement of the Intrinsic Value Creation (IVC) of the business groups in the respective area of responsibility; Primary IVC criteria: relative change year-on-year, absolute amount, comparison with target value, dividend payout or profit transfer ratio, general market environment; 100% = amount x = targets achieved in full Cap max: 200% Cap min: EUR 0; Initial application in 2013, until then refinement of the IVC concept and resolution of the Supervisory Board according to its best judgement.	Attainment of annual targets Until 2013: The Supervisory Board determines degree of goal accomplishment according to its best judgement From 2013 onwards: Attainment of the IVC
Individual bonus Proportion of variable remuneration: Chief Executive Officer/ Chief Financial Officer: 30%; Board members except for CEO/CFO: 25%	Personal qualitative, quantitative objectives; individual contribution to the overall performance, leadership skills, innovative skills, entrepreneurial skills, special factors. 100% = amount x = targets achieved in full Cap max: 200% Cap min: EUR 0	Attainment of annual targets The Supervisory Board determines degree of goal accomplishment according to its best judgement

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

Retirement provision from 2011 onwards

A non-pensionable fixed remuneration component is to be introduced for members of the Executive Board with a defined benefit commitment.

Remuneration of the Supervisory Board

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

In accordance with § 12 of the Articles of Association as amended on 9 August 2010, the members of the Supervisory Board receive fixed annual remuneration of EUR 10,000 per member in addition to reimbursement of their expenses. Furthermore, each member of the Supervisory Board receives variable remuneration of 0.03‰ of the operating profit (EBIT) reported by the company in the consolidated financial statement drawn up in accordance with International Financial Reporting Standards (IFRS). Variable remuneration is not paid if the EBIT is negative.

In addition, the members of the Finance and Audit Committee (previously: "Balance Sheet Committee") formed by the Supervisory Board receive an emolument of 30% of the previously described fixed and variable remuneration for their committee work. The members of the Standing Committee formed by the Supervisory Board receive an additional emolument of 15% of the previously described fixed and variable remuneration for their committee work.

The Chairman of the Supervisory Board or of a Committee receives three times the aforementioned amounts, while a Deputy Chairman receives one-and-a-half times the said amounts.

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

No remuneration was approved for the members of the Nomination Committee.

Individual remuneration received by the members of the Supervisory Board in EUR thousand			**2010**	2009
Name	Function	Type of remuneration		
Herbert K. Haas	Chairman of the – Supervisory Board – Standing Committee – Finance and Audit Committee – Nomination Committee	Fixed remuneration	40.0[1]	33.2
		Variable remuneration	153.4	198.8
		Remuneration for committee work	72.1	53.9
		Attendance allowances	7.0	7.5
			272.5	293.4
Dr. Klaus Sturany	Deputy Chairman of the – Supervisory Board Member of the – Standing Committee	Fixed remuneration	15.0[1]	15.0
		Variable remuneration	51.4	57.2
		Remuneration for committee work	10.0	6.3
		Attendance allowances	3.0	3.0
			79.4	81.5
Wolf-Dieter Baumgartl	Member of the – Supervisory Board – Standing Committee – Finance and Audit Committee – Nomination Committee	Fixed remuneration	15.0[1]	21.8
		Variable remuneration	59.6	106.0
		Remuneration for committee work	19.9	32.0
		Attendance allowances	6.5	7.0
			101.0	166.8
Uwe Kramp[2]	Member of the Supervisory Board	Fixed remuneration	10.0	10.0
		Variable remuneration	34.3	36.7
		Remuneration for committee work	–	–
		Attendance allowances	2.0	2.5
			46.3	49.2
Karl Heinz Midunsky	Member of the – Supervisory Board – Nomination Committee	Fixed remuneration	10.0	10.0
		Variable remuneration	34.3	36.7
		Remuneration for committee work	–	–
		Attendance allowances	2.0	2.5
			46.3	49.2

Individual remuneration received by the members of the Supervisory Board in EUR thousand			2010	2009
Name	Function	Type of remuneration		
Ass. jur. Otto Müller[2]	Member of the Supervisory Board	Fixed remuneration	10.0	10.0
		Variable remuneration	34.3	36.7
		Remuneration for committee work	–	–
		Attendance allowances	2.0	2.5
			46.3	49.2
Dr. Immo Querner	Member of the Supervisory Board	Fixed remuneration	15.0[1]	15.0
		Variable remuneration	59.6	55.5
		Remuneration for committee work	–	–
		Attendance allowances	3.5	4.5
			78.1	75.0
Dr. Erhard Schipporeit	Member of the – Supervisory Board – Finance and Audit Committee	Fixed remuneration	10.0	10.0
		Variable remuneration	34.3	37.2
		Remuneration for committee work	13.3	12.7
		Attendance allowances	4.0	3.5
			61.6	63.4
Gert Wächtler[2]	Member of the Supervisory Board	Fixed remuneration	10.0	10.0
		Variable remuneration	34.3	36.7
		Remuneration for committee work	–	–
		Attendance allowances	2.0	2.5
			46.3	49.2
Total			777.8	876.9

1 Including supervisory board remuneration from affiliated companies
2 Employee representatives

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

All the members of the Supervisory Board receive an attendance allowance of EUR 500 for their participation in each meeting of the Supervisory Board and the Committees. These fees are included in the reported remuneration.

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

Loans to members of the management boards and contingent liabilities

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

In 2010 no loan relationships existed with members of Hannover Re's Executive Board or Supervisory Board, nor did the company enter into any contingent liabilities for members of the management boards.

Securities transactions and shareholdings (directors' dealings)

Dealings in shares, options and derivatives of Hannover Rückversicherung AG effected by members of the Executive Board or Supervisory Board of Hannover Re or by other persons with managerial functions who regularly have access to insider information concerning the company and who are authorised to take major business decisions – as well as such dealings conducted by certain persons closely related to the aforementioned individuals – in excess of EUR 5,000 are to

Securities transactions								
Name	Type of transaction	Type of security	Transaction date	Number of contracts	Subscription rights per contract	Price per subscription right	Price per contract	Total volume in EUR
André Arrago	Sale	Call at EUR 46.00 Opt-HNR1/ EUX	20.12.2010	300	100	0.85	85.00	25,500.00
André Arrago	Sale	Call at EUR 48.00 Opt-HNR1/ EUX	17.12.2010	300	100	0.4533	45.33	13,600.00

be reported pursuant to § 15a Securities Trading Act (WpHG). The reportable transactions listed above took place in the 2010 financial year.

Members of the Supervisory Board and Executive Board of Hannover Re as well as their spouses or registered partners and first-degree relatives hold less than 1.0% of the issued shares. The total holding as at 31 December 2010 amounted to 0.055% (0.055%) of the issued shares, i.e. 66,146 (66,086) shares.

Remuneration of employees and managers

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

A system of variable remuneration is in place for the management levels of Managing Director, Director and General Manager. It consists, firstly, of a long-term remuneration component (stock appreciation rights) and, secondly, of short-term variable remuneration dependent upon accomplishment of the agreed goals for the year in question (Management by Objectives). Members of staff on the levels of Chief Manager, Senior Manager and Manager are able to participate in the Group Performance Bonus.

The variable portion of the remuneration for the senior management group is dependent upon hierarchical level. On the first management level (Managing Director) the remuneration breaks down into 60% fixed annual salary and 40% short-term variable component. The remuneration of General Managers is based on a split into 70% fixed and 30% short-term variable components. While the MbO (Management-by-Objectives) process recognises the attainment of short-term goals, the long-term success of the company is reflected in Hannover Re's virtual stock option plan (cf. Section 7.3 of the notes).

The short-term variable remuneration components at Hannover Re are linked to agreements on targets. These agreed targets are derived from the Performance Excellence process (leadership, business policy, advancement and skills enhancement, resources management, processes, employee

Eligible participants in variable remuneration systems (Hannover Home Office)			**2010**	2009
Participants	Management level	Type of remuneration		
Managing Director	E1	Management by Objectives (MbOs); Stock appreciation rights		
Director	E2			
General Manager	E2		73	73
Chief Manager	E3	Group Performance Bonus (GPB)		
Senior Manager	E3			
Manager	E4		504	459
Total eligible participants			**577**	**532**
Proportion of eligible participants in the total workforce			54.0%	51.6%

motivation, customer satisfaction, business results). The targets agreed upon with Managing Directors in the treaty and regional departments are split equally into economic targets for their department and individual targets. Of the variable remuneration received by General Managers in the treaty and regional departments, one quarter is based on the department's economic targets and three quarters derive from individual targets. The economic targets agreed upon for the departments encompass the combined ratio, contribution margin (DB) level 5 and IVC in non-life reinsurance and the premium growth, underwriting result and IVC in life and health reinsurance.

In the service departments the agreements on targets consisted entirely of individual targets in the year under review. This is, however, only intended to be a temporary state of affairs. It is envisaged that the MbO agreements for managers in the service departments will in future have a 25% linkage to corporate objectives and/or department goals.

The Management-by-Objectives process is overseen by Human Resources Management and Group Controlling Services; approval of the degree of goal accomplishment is subject to the approval of the full Executive Board.

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

Forecast

Economic development

It is to be expected that the recovery in the global economy will continue in 2011. In this context, the inconsistent picture across regions – moderate growth in the industrial nations, vigorous growth in emerging markets – is likely to remain unchanged. In countries whose economic recovery was not hampered by structural problems, the crisis-induced slump has been largely made good. Consequently, economic growth here is likely to slow somewhat in 2011. In countries experiencing structural problems, on the other hand, the available options for delivering economic stimuli are largely exhausted. Here, the necessary consolidation efforts are expected to prove a drag on the pace of expansion. All in all, global output in 2011 is likely to show a low single-digit percentage increase. Such forecasts are, however, subject to risks: particularly notable threats to the development of the world economy could derive from the protracted tension on European government bonds markets as well as from another sharp correction in real estate prices in the United States or China.

The economic rally in the United States will be exposed to considerable risks in the current year owing to ongoing structural problems. With both earnings and sales prospects under strain, especially for small and mid-sized enterprises, the speed with which equipment spending is stepped up could come under pressure. Given the minimal economic growth impetus, the prevailing exceptionally high level of unemployment will probably drop only slightly; the ifo-Institute estimates the average jobless rate in 2011 at 9.5%. GDP is forecast to rise by 1.7% in 2011.

In Germany, on the other hand, the outlook for economic growth is positive. Favourable earnings prospects, job security and low interest rates will likely encourage private consumption and housing investment. Corporate spending should also increase. Yet the economic momentum in Germany will probably be considerably less pronounced in 2011 than in 2010. Global economic stimuli will be weaker and foreign trade is expected to make just a modest contribution to the increase in real gross domestic product. What is more, the federal government is steering towards a course of consolidation, which will also have a restraining effect. All in all, real GDP as calculated by the ifo-Institute is likely to increase by 2.4% in 2011. Manufacturing output in Germany should therefore again surpass the European average in the coming year.

In the Eurozone, too, the upsurge in the economy should be sustained; the ifo-Institute expects GDP to rise by 1.4% overall in 2011. The differences between member states will likely remain considerable. In countries with relatively solid public finances and no major structural problems, such as Germany, Finland, Austria and the Netherlands, the economy should grow at an above-average pace and unemployment should fall. Countries on the European periphery, however, will likely experience only a sluggish recovery (for example in Spain, Italy or Ireland) or even recession (for example in Greece). The enormous repercussions of the crisis and the pressure to consolidate will be adverse factors here. In 2011 all Eurozone countries will embark on a course of fiscal consolidation. As a result, public spending and disposable incomes will likely be detrimentally affected. The resurgence in domestic demand will consequently slow.

In China the pace of expansion will likely diminish in 2011, although it will remain on a high level. An increasingly restrictive monetary policy will probably play a role here and should ultimately restrict the growth in economic output to 8%.

In Japan the government and central bank are trying to counteract the slowdown in economic growth. In November 2010, for example, the government approved a further economic stimulus package, while the Bank of Japan launched another asset purchasing plan. A more modest rate of expansion than in 2010 should nevertheless be anticipated.

Capital markets

International bond markets will likely continue to see low yields in 2011. The first cautious hike in prime rates by the ECB is not anticipated before the end of 2011 at the earliest; the US Federal Reserve will probably only follow suit in 2012. As a consequence of the prevailing expansionary monetary policy, yields on German government bonds will likely remain on a low level in 2011. The same is true of the United States, where yields will probably rise only marginally by the end of 2011. Bonds issued by peripheral countries of the European Monetary Union should, however, remain under pressure. While the budgetary situation of these countries will likely improve, concerns about possible insolvency after expiry of the EU/IMF rescue package will doubtless persist – especially as regards Greece, Ireland and Portugal. Should the economic upturn lead to an increase in corporate profits, this would open up price potential on the equity markets. Any increases in prices in 2011 will, however, probably be subject to considerable volatility.

The insurance industry

Having held its ground in the crisis, the international insurance industry will make another important contribution to economic stability in 2011. Insurers operate in the field of loss limitation, loss prevention and risk diversification; in this way they support economic development. They not only spread risks across a number of actors, they also help to shape markets and serve as a catalyst for financing and investments. For 2011 the German insurance industry expects premium income to contract overall – against the backdrop of the anticipated decline in income from single-premium business in life insurance. In the international arena the insurance industry looks set to expand its role in the economy and society in 2011.

Non-life reinsurance

Overview

We are broadly satisfied with conditions in non-life reinsurance. The renewals as at 1 January 2011 – the date on which 67% of our treaties in traditional reinsurance were renegotiated – passed off better for our company than the market players had generally expected. Despite softer market conditions, we had sufficient opportunities to write profitable business. All in all, we were able to enlarge the premium volume by 2% in this round of renewals.

Even though rates declined sometimes substantially on account of the healthy capital resources enjoyed by primary insurers and the absence of market-changing major losses in the developed markets, we were nevertheless able to maintain prices on a stable level in many instances – including for example in US casualty business involving small and mid-sized risks. As a direct consequence of the heavy loss expenditure associated with the sinking of the "Deepwater Horizon" drilling rig we obtained appreciable price increases on covers for offshore oil exploration. While original rates climbed by around 20%, price increases of roughly 25% were attainable in non-proportional reinsurance. We also succeeded in pushing through higher prices in European motor liability business.

The treaty renewals for US catastrophe business were, however, disappointing. Rates for the most part declined in the absence of losses from hurricanes. In keeping with our policy of active cycle management we reduced our exposure. In areas where major disasters occurred, such as the earthquake in Chile, the positive effects on the price level remained within regional bounds and failed to usher in a worldwide trend reversal. Nevertheless, we anticipate further price increases in the April and July treaty renewals, especially for Australia in the aftermath of the severe flooding of December 2010 and January 2011.

The renewals in global treaty business produced a mixed picture. Although the markets of Central and Eastern Europe typically saw rate reductions, business there is still profitable. In Western Europe we scaled back our portfolio in response to unsatisfactory prices. Market conditions in the Middle East were very favourable.

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

Target markets

Having cemented our position as one of the leading reinsurers in our target market of Germany in 2010, we are looking ahead optimistically to the current financial year. With premium volume stable overall, prices for loss-impacted programmes rose while rates declined under programmes that had been spared losses.

In motor business the primary insurance market bottomed out in 2010, as a consequence of which premium volume can be expected to grow by around 3% in motor liability and roughly 5% in motor own damage in the current financial year. This development, combined with improved conditions, will have favourable implications for our result in proportional motor business and also – indirectly – for our non-proportional motor liability portfolio. In the treaty renewals as at 1 January 2011 we generated rate increases averaging 5% in this line. In industrial fire business, where the resurgence of business activity led to an increase in loss events, we reduced our volume.

Lively competition is once again shaping business conditions in North America in the current financial year.

On the reinsurance side we expect rates for property business to remain adequate in 2011. Property catastrophe business saw sharp rate cuts in the treaty renewals as at 1 January 2011, and we therefore scaled back our business in areas where the price situation failed to adequately reflect the risks. The picture in casualty business was a mixed one: rates in standard casualty insurance, an important line for our company, remained stable; prices in the professional indemnity lines held stable or fell slightly.

In terms of premium volume, we expect to see a modest increase (+1%) for the current financial year. Growth will be driven by Canadian business. Given our very good market position and the excellent relations that we enjoy with our clients, we continue to see good business prospects going forward in our target market of North America.

Specialty lines

We were thoroughly satisfied with the treaty renewals in specialty lines. Rate movements were particularly favourable in offshore energy business. In view of the heavy losses associated with the sinking of the "Deepwater Horizon" drilling rig, prices here rose sharply in both the property and casualty lines; we therefore expect to enlarge our premium volume for 2011 by 16%. Rates remained stable in other marine lines such as cargo and hull covers as well as marine liability.

Thanks to our very good positioning we continue to see attractive business opportunities in aviation reinsurance. Prices on the reinsurance market are broadly stable; rate erosion can be observed in non-proportional business. We successfully expanded our customer base, especially in emerging markets such as China and India. For the current financial year we expect growth of around 12% in our gross premium volume.

Business should also develop well in credit and surety reinsurance. Although the treaty renewals as at 1 January 2011 saw price decreases in credit business after above-average rate rises in the previous years, the development of claims rates should nevertheless continue to be satisfactory. On the surety side, too, business is likely to fare well; we do, however, anticipate a moderate increase in the claims frequency. Given our selective underwriting policy the premium volume in credit and surety reinsurance is expected to contract by 8% in 2011. Nevertheless, the premium level is still 50% higher than at the beginning of the financial market crisis.

Overall, we are seeing sustained demand for contracts with a greater risk transfer in the area of structured reinsurance products. Given the likelihood of more exacting capital adequacy requirements under Solvency II, it is our expectation that further growth will be possible in Europe. We see potential for surplus relief contracts in emerging markets, since here too risk-based capital models are increasingly being adopted. In 2011 we shall again persevere with our strategy of enhancing our portfolio's regional diversification. We are looking forward to further pleasing development of our business in the current financial year.

We shall continue to expand our business in the area of Insurance-Linked Securities in 2011. Along with our activities in non-life reinsurance, we are now increasingly turning our attention to the securitisation of life reinsurance risks.

As far as the Direct Business/United Kingdom and London Market portfolio is concerned, we expect another rise in premium volume (+15%) in the current financial year. On the back of improved conditions in motor insurance on the primary market as well as price increases in offshore energy business and in response to the implementation of Solvency II, we expect more business opportunities to open up in the United Kingdom.

Global reinsurance

Treaty reinsurance worldwide

We shall grow by around 2% in global treaty reinsurance in 2011, even though the treaty renewals as at 1 January 2011 presented a mixed picture in the individual markets.

In the markets of Central and Eastern Europe it may be assumed that the importance of high-quality reinsurance protection will continue to grow and we shall again have very good opportunities to write profitable business in 2011. Although rates retreated on account of adequate capacities, demand remains strong for reinsurers of excellent financial standing. It was even possible to obtain modest price increases under programmes that had suffered losses. Based on our good positioning we expect to write more new business in 2011 and beyond. Gross premium should continue to grow.

With no easing of the intense competition prevailing in the Spanish market we expect to see further rate reductions. The premium volume is therefore likely to contract in 2011. In France, on the other hand, the premium volume should expand slightly.

Owing to the severe earthquakes in Chile and Haiti, rates for natural catastrophe covers in these countries increased. Overall, though, prices in Latin America are likely to remain stable both in the current financial year and in 2012. We anticipate somewhat lower gross premium in the face of growing competition.

In Japan, our largest Asian market, we expect rates to remain broadly unchanged; nor do we anticipate any significant changes in our underwriting policy for 2011. The extent to which the current wave of mergers in the primary sector will impact our premium volume remains to be seen.

Given the double-digit premium growth on the primary insurance market in China, there will be no let-up in the existing fierce competition. We anticipate stable conditions in proportional reinsurance, but continued rate erosion in non-proportional business. All in all, we are looking to further profitable business opportunities in China in the years ahead.

In the Southeast Asian region we anticipate further growth in the area of agricultural insurance. Conditions are expected to improve under programmes that suffered losses in the year under review. With no easing in the intensely competitive environment, the soft market phase is likely to be sustained in 2011.

In the coming years, too, we expect to see stronger demand for our entire portfolio of agricultural covers on account of the growth in government subsidy programmes. Premium volume is therefore forecast to rise in both 2011 and 2012. We shall continue to devote our energies to the cultivation of new markets and the development of innovative products.

Going forward, it remains our assessment that business with Sharia-compliant reinsurance products (retakaful) offers considerable potential. The engineering and liability lines should profit from an upswing in the construction industry in the current financial year. Gross premium volume is expected to rise in 2011.

Global catastrophe business

Owing to the absence of major loss events in peak zones such as the United States, the overall tendency towards declining rates in catastrophe business was sustained. Rate increases were only recorded in areas where 2010/2011 saw appreciable loss expenditures. Prices in Europe remained stable on account of a moderate claim incidence in the previous year. We expect the premium income from our business in Australia and New Zealand to grow in the current financial year. Given the heavy burden of losses from the earthquake in New Zealand in 2010 and the severe flood events in Australia in December 2010 and January 2011, further price increases for natural catastrophe covers are to be anticipated. Altogether, the gross premium from our global catastrophe business is likely to contract by around 10% in the current financial year.

Global facultative reinsurance

The price situation in facultative reinsurance, i.e. the underwriting of individual risks, remains tense in the current financial year. At this point in time it is our expectation that rates will for the most part decline, with the exception of prices for offshore energy covers. Nevertheless, given the varied nature of demand and the diversification of the markets, our facultative portfolio should again generate profitable growth in 2011. We anticipate that the rate erosion in conventional property and casualty business will be offset by the writing of niche segments.

Life and health reinsurance

In the coming years, as in the past, we expect to see a positive basic direction and further dynamic growth in international life and health reinsurance business; this can be attributed to the demographic changes in mature markets, progressive urbanisation and the ongoing formation of a stable middle class in emerging markets as well as the professional competition conducted among the six leading life reinsurers. The high entry barriers and long-term orientation of life and health reinsurance continue to act as stabilising structural factors in our markets.

On a global level the growth recorded in life and health reinsurance should continue to outpace the comparable growth on primary markets.

In this context we are seeing a shift in demand for new business away from developed markets such as the United States, United Kingdom and Germany towards emerging markets such as China, India, Brazil and Latin America. This trend assists internationally positioned life insurers and offers this group of clients – as multinational insurers – considerable opportunities going forward.

For Hannover Life Re, the evolution of our tried and tested "Five Pillar" model continues to shape the development of our business; new markets will remain the principal engines of growth over the coming two to three years. We also see good potential in the bancassurance sector, especially in emerging markets.

Our expansionary efforts are concentrated on the United States, Arab countries and the key emerging markets of Asia and Latin America.

The preparations for Solvency II, and in particular the stress tests performed by the EU (QIS – Quantitative Impact Studies), have led to a greater risk awareness among European insurers and highlighted the important role of reinsurance as a means of risk and capital optimisation. This is especially true of small and mid-sized insurers, specialty providers and mutual insurance companies.

With other markets such as South Africa, Australia and Bermuda also picking up on this model and aspiring to regulatory equivalence, we see the implementation of Solvency II in 2013 as an essentially global model.

Our business opportunities and risks

Non-life reinsurance

Irrespective of the expectations for individual segments and markets in non-life reinsurance, it should be noted that the probabilities of occurrence for (natural) catastrophe events in terms of their number and scale as well as their magnitude for the insurance industry are subject to considerable fluctuations. Hence, the total burden of losses in the current financial year may be significantly higher or lower than catastrophe loss assumptions based on multi-year trends and averages.

What is more, in numerous lines there is a correlation between the state of the overall economy and the claims frequency. A healthy economic climate naturally leads to higher claims frequencies – for example in the motor and engineering lines. In credit and surety reinsurance the correlation is inverted: as insolvency numbers rise, so do loss ratios – but also prices for reinsurance covers.

General growth stimuli for non-life reinsurance are expected to come from the more exacting requirements placed on companies' risk-based capital resources; for them, the transfer of risk to reinsurers with good ratings offers an economically attractive alternative.

Life and health reinsurance

The general framework conditions in international life and health reinsurance can in principle be described as favourable. In mature insurance markets such as the United States, Japan, United Kingdom and Germany this assessment is coloured by the demographic trend, i.e. the ageing of the population, which is reflected in heightened demand – especially for annuity and health insurance products.

Increasing urbanisation in leading emerging markets such as China, India and Brazil is fostering a rapidly growing middle class, which to a greater extent than before is clamouring for insurance solutions designed to protect surviving dependants and afford individual retirement provision for policyholders.

With this in mind, primary insurers are looking for tailored reinsurance solutions that support their own capital, liquidity and risk management. In the coming years we expect the reinsurance market to develop a more vigorous growth momentum than the primary market. Furthermore, it is our expectation that earnings prospects will remain on a satisfactory level.

Life and health reinsurance is generally characterised by its stable growth and minimal exposure to random fluctuations in results. There are nevertheless financial and non-financial risks (particularly risks such as mortality and longevity, morbidity and disability as well as the lapse risk), which are fully integrated into Hannover Re's risk management. In this context, crucial importance attaches to the appropriate selection of pricing assumptions, fundamental research into developments affecting the biometric actuarial bases, the adequate and complete reserving of all technical liabilities as well as risk diversification (both geographically and in terms of risk types, e.g. between mortality and longevity).

Investments

In view of the low yield level on government bonds and the reduced risk premiums on corporate bonds, any increase in investment income will be driven largely by the anticipated further growth in asset holdings. Although indications are emerging that money market rates will remain low on a sustained basis, we believe that there is an increased probability of a rise in yields – especially at the long end of the yield curve, with corresponding effects on equity from medium- and long-dated bonds. We shall counter this with a slightly reduced interest rate positioning and by expanding the balance sheet protection for our shareholders' equity through recognition at cost.

Bearing in mind the current economic expectations, we shall moderately increase our equity allocation in the current year. However, since we anticipate substantially greater volatility on equity markets, we shall manage this asset class particularly tightly according to risk considerations. The above notwithstanding, we shall counteract a potential increase in volatility through broad diversification of asset classes and individual debtors.

Our strategy of progressively stepping up investments in real estate will continue in 2011. We anticipate further attractive opportunities here in our focus markets of Germany and the United States. Within the bounds of our investment strategy we shall make active use of other types of alternative investments in order to diversify our risks and boost returns.

Outlook for the full 2011 financial year

We expect another very good overall result for the Hannover Re Group in the current year. The non-life reinsurance business group is expected to deliver stable or slightly higher net premium income, with an increase of up to 3%. Despite the continued trend towards softening markets, we anticipate a very good result for 2011. The life and health reinsurance business group is forecast to generate net premium growth of 10% to 12% and an EBIT margin in excess of 6%.

The expected positive cash flow that we generate from the technical account and our investments should – subject to stable exchange rates – lead to further growth in our asset portfolio. In the area of fixed-income securities we continue to stress the high quality and diversification of our portfolio. We are targeting a return on investment of 3.5% for 2011.

Bearing in mind the satisfactory to good market conditions described above in non-life and life/health reinsurance as well as our strategic orientation, we are looking forward to another good financial year in 2011. We expect our gross premium volume in total business to grow by about 5%. If no allowance is made for the special effects that favourably influenced the result in 2010, the net income generated by the Hannover Re Group will inevitably fall short of the previous year's level. As things currently stand, based on our positioning and our financial strength as well as the business prospects described above, we expect Group net income to come in at around EUR 650 million. This is subject to the premise that the burden of catastrophe losses does not significantly exceed the expected level of around EUR 530 million and that there are no drastically adverse movements on capital markets. For 2011, as in recent years, we are therefore aiming for a dividend in the range of 35% to 40% of Group net income.

Matters of special significance arising after the closing date for the consolidated financial statements are discussed in Section 7.11 of the notes "Events after the balance sheet date" on page 185.

Profit and growth targets for 2011		
Business group	Key data	Strategic targets
Non-life reinsurance	Combined ratio	≤ 100%
	Net catastrophe loss expectancy in EUR million	≤ 530
	EBIT margin	≥ 10%
	IVC margin[1]	≥ 2%
Life and health reinsurance	Gross premium growth	10 – 12%
	EBIT margin	≥ 6%
	MCEV increase[2]	≥ 10%
	Increase in the value of new business	≥ 10 %
Group	Investment return	≥ 3.5%[3]
	Minimum return on equity	≥ 11.1%[4]
Triple-10 targets	EBIT growth	≥ 10%
Triple-10 targets	Growth in earnings per share	≥ 10%
Triple-10 targets	Growth in book value per share	≥ 10%

1 IVC/net premium earned
2 MCEV increase on the basis of the adjusted MCEV of the previous year after elimination of capital changes and changes from currency effects
3 Risk-free interest rate + cost of capital
4 750 basis points above the risk-free return

Outlook for 2012/2013

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

In non-life reinsurance we are guided exclusively by profit rather than growth targets. Our goal here is to achieve an EBIT margin of at least 10% each year.

In life and health reinsurance we have set ourselves an annual growth target of 10% to 12% for gross premium income. Along with our organic growth we anticipate further portfolio acquisitions in mature insurance markets. We are targeting an EBIT margin of at least 6%.

On the Group level our return-on-equity target is at least 750 basis points above the risk-free interest rate. Both the earnings per share and the book value per share also constitute central management ratios and performance indicators for our company. Our strategic objective is to increase these key figures – together with the operating profit (EBIT) – by double-digit margins every year.

Consolidated balance sheet

Assets in EUR thousand	Notes	31.12.2010	31.12.2009[1]
Fixed-income securities – held to maturity	5.1	3,028,018	2,953,489
Fixed-income securities – loans and receivables	5.1	2,314,429	2,701,831
Fixed-income securities – available for sale	5.1	15,877,634	13,805,048
Fixed-income securities – at fair value through profit or loss	5.1	217,597	235,149
Equity securities – available for sale	5.1	536,755	19,357
Other financial assets – at fair value through profit or loss	5.1	54,756	58,273
Real estate and real estate funds	5.1	394,087	216,801
Investments in associated companies	5.1	127,644	128,316
Other invested assets	5.1	841,896	578,861
Short-term investments	5.1	1,570,502	1,352,475
Cash		447,753	457,412
Total investments and cash under own management		**25,411,071**	**22,507,012**
Funds withheld	5.2	11,920,725	10,160,380
Contract deposits	5.3	715,353	625,481
Total investments		**38,047,149**	**33,292,873**
Reinsurance recoverables on unpaid claims	5.7	1,025,332	1,747,991
Reinsurance recoverables on benefit reserve	5.7	347,069	104,868
Prepaid reinsurance premium	5.7	83,224	47,651
Reinsurance recoverables on other technical reserves	5.7	1,831	400
Deferred acquisition costs	5.4	1,834,496	1,838,450
Accounts receivable	5.4	2,841,303	2,869,874
Goodwill	5.5	45,773	44,393
Deferred tax assets	6.5	622,136	515,867
Other assets	5.6	336,443	372,012
Accrued interest and rent		11,182	3,189
Assets held for sale	4.4	1,529,355	–
Total assets		**46,725,293**	**40,837,568**

1 Adjusted on the basis of IAS 8

Liabilities in EUR thousand	Notes	31.12.2010	31.12.2009[1]
Loss and loss adjustment expense reserve	5.7	18,065,395	17,425,293
Benefit reserves	5.7	8,939,190	7,952,640
Unearned premium reserve	5.7	1,910,422	1,512,840
Other technical provisions	5.7	184,528	148,827
Funds withheld	5.8	1,187,723	857,440
Contract deposits	5.9	4,704,267	4,038,420
Reinsurance payable		733,473	1,021,364
Provisions for pensions	5.10	81,657	77,497
Taxes	6.5	286,394	266,747
Provision for deferred taxes	6.5	1,632,527	1,485,157
Other liabilities	5.11	443,932	313,450
Long-term debt and subordinated capital	5.12	2,056,797	1,481,336
Liabilities related to assets held for sale	4.4	1,381,120	–
Total liabilities		**41,607,425**	**36,581,011**
Shareholders' equity			
Common shares	5.13	120,597	120,597
Nominal value: 120,597 Conditional capital: 60,299	5.13		
Additional paid-in capital		724,562	724,562
Common shares and additional paid-in capital		**845,159**	**845,159**
Cumulative other comprehensive income			
Unrealised gains and losses on investments		372,094	241,569
Cumulative foreign currency translation adjustment		(52,954)	(224,084)
Other changes in cumulative other comprehensive income		(6,450)	(4,728)
Total other comprehensive income		**312,690**	**12,757**
Retained earnings		3,351,116	2,856,529
Shareholders' equity before minorities		**4,508,965**	**3,714,445**
Minority interests		608,903	542,112
Total shareholders' equity		**5,117,868**	**4,256,557**
Total liabilities		**46,725,293**	**40,837,568**

1 Adjusted on the basis of IAS 8

Consolidated accounts

Consolidated statement of income 2010

Figures in EUR thousand	Notes	1.1.–31.12.2010	1.1.–31.12.2009[1]
Gross written premium	6.1	11,428,717	10,274,755
Ceded written premium		1,127,465	759,076
Change in gross unearned premium		(287,536)	(227,161)
Change in ceded unearned premium		33,300	18,658
Net premium earned		**10,047,016**	**9,307,176**
Ordinary investment income	6.2	880,521	810,547
Profit/loss from investments in associated companies	6.2	3,857	(4,970)
Realised gains and losses on investments	6.2	162,003	113,012
Unrealised gains and losses on investments	6.2	(39,893)	100,571
Total depreciation, impairments and appreciation of investments	6.2	(3,448)	122,430
Other investment expenses	6.2	67,409	53,121
Net income from investments under own management		**942,527**	**843,609**
Income/expense on funds withheld and contract deposits	6.2	316,368	276,774
Net investment income		**1,258,895**	**1,120,383**
Other technical income	6.3	16,845	14,362
Total revenues		**11,322,756**	**10,441,921**
Claims and claims expenses	6.3	7,008,055	6,548,093
Change in benefit reserves	6.3	652,711	562,668
Commission and brokerage, change in deferred acquisition costs	6.3	2,257,948	2,011,344
Other acquisition costs		5,302	14,137
Other technical expenses	6.3	44,183	38,788
Administrative expenses	6.3	280,720	246,940
Total technical expenses		**10,248,919**	**9,421,970**
Other income and expenses	6.4	99,963	122,528
Operating profit/loss (EBIT)		**1,173,800**	**1,142,479**
Interest on hybrid capital	5.12	85,266	76,650
Net income before taxes		**1,088,534**	**1,065,829**
Taxes	6.5	257,629	291,770
Net income		**830,905**	**774,059**
thereof			
Minority interest in profit and loss		82,015	40,347
Group net income		**748,890**	**733,712**
Earnings per share			
Basic earnings per share	7.5	6.21	6.08
Diluted earnings per share	7.5	6.21	6.08

1 Adjusted on the basis of IAS 8

Consolidated statement of comprehensive income 2010

Figures in EUR thousand	1.1.–31.12.2010	1.1.–31.12.2009[1]
Net income	830,905	774,059
Unrealised gains and losses on investments		
Gains (losses) recognised directly in equity	353,614	121,189
Transferred to the consolidated statement of income	(184,823)	29,070
Tax income (expense)	(28,933)	(19,975)
	139,858	**130,284**
Currency translation		
Gains (losses) recognised directly in equity	183,883	24,704
Transferred to the consolidated statement of income	3,863	(2,438)
Tax income (expense)	(10,911)	81
	176,835	**22,347**
Changes from the measurement of associated companies		
Gains (losses) recognised directly in equity	(2,643)	648
	(2,643)	**648**
Other changes		
Gains (losses) recognised directly in equity	(4,240)	2,490
Tax income (expense)	2,517	(2,651)
	(1,723)	**(161)**
Total income and expense recognised directly in equity		
Gains (losses) recognised directly in equity	530,614	149,031
Transferred to the consolidated statement of income	(180,960)	26,632
Tax income (expense)	(37,327)	(22,545)
	312,327	**153,118**
Changes in the consolidated group	(23)	47
Total recognised income and expense	**1,143,209**	**927,224**
thereof:		
Attributable to minority interests	94,177	42,477
Attributable to the Group	1,049,032	884,747

1 Adjusted on the basis of IAS 8

Consolidated accounts

Consolidated statement of changes in shareholders' equity 2010

Figures in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)			Retained earnings	Minority interests	Shareholders' equity
			Currency translation	Unrealised gains/ losses	Other			
Balance as at 1.1.2009	**120,597**	**724,562**	**(247,565)**	**113,864**	**(4,577)**	**2,123,178**	**501,434**	**3,331,493**
Capital increases/ additions	–	–	–	–	–	–	11,872	11,872
Capital repayments	–	–	–	–	–	–	(9)	(9)
Acquisition/disposal of treasury shares	–	–	–	–	–	(361)	–	(361)
Total income and expense recognised after tax[1]	–	–	23,481	127,705	–151	733,712	42,477	927,224
Dividends paid	–	–	–	–	–	–	(13,662)	(13,662)
Balance as at 31.12.2009	**120,597**	**724,562**	**(224,084)**	**241,569**	**(4,728)**	**2,856,529**	**542,112**	**4,256,557**
Balance as at 1.1.2010	**120,597**	**724,562**	**(224,084)**	**241,569**	**(4,728)**	**2,856,529**	**542,112**	**4,256,557**
Changes in ownership interest with no change of control status	–	–	26	(235)	–	(756)	7,204	6,239
Capital increases/ additions	–	–	–	–	–	–	62	62
Capital repayments	–	–	–	–	–	–	(3,920)	(3,920)
Acquisition/disposal of treasury shares	–	–	–	–	–	(293)	–	(293)
Total income and expense recognised after tax	–	–	171,104	130,760	(1,722)	748,890	94,177	1,143,209
Dividends paid	–	–	–	–	–	(253,254)	(30,732)	(283,986)
Balance as at 31.12.2010	**120,597**	**724,562**	**(52,954)**	**372,094**	**(6,450)**	**3,351,116**	**608,903**	**5,117,868**

1 Adjusted on the basis of IAS 8

Consolidated cash flow statement 2010

The reporting on cash flows within the Group is based on IAS 7 "Statement of Cash Flows". In addition, we observed the principles set out in German Accounting Standard No. 2 (DRS 2) of the German Accounting Standards Board regarding the preparation of cash flow statements, which were supplemented by the requirements of DRS 2-20 that apply specifically to insurance enterprises. In accordance with the recommendation of the German Accounting Standards Board for insurance enterprises, we adopted the indirect method of presentation. The amounts taken into consideration are limited to cash and cash equivalents shown under the balance sheet item "Cash".

Figures in EUR thousand	1.1.–31.12.2010	1.1.–31.12.2009[1]
I. Cash flow from operating activities		
Net income	830,905	774,059
Appreciation/depreciation	(33,692)	71,195
Net realised gains and losses on investments	(162,003)	(113,012)
Income from the recognition of negative goodwill	–	(92,652)
Amortisation of investments	18,701	18,984
Changes in funds withheld	(949,562)	(1,251,921)
Net changes in contract deposits	373,791	427,411
Changes in prepaid reinsurance premium (net)	252,107	173,654
Changes in tax assets/provisions for taxes	100,484	157,678
Changes in benefit reserve (net)	352,955	1,055,229
Changes in claims reserves (net)	925,798	845,329
Changes in deferred acquisition costs	127,681	52,987
Changes in other technical provisions	19,138	(3,749)
Changes in clearing balances	(110,474)	(219,372)
Changes in other assets and liabilities (net)	(64,561)	(143,925)
Cash flow from operating activities	**1,681,268**	**1,751,895**

1 Adjusted on the basis of IAS 8

Figures in EUR thousand	**1.1.–31.12.2010**	1.1.–31.12.2009
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	21,611	40,243
Purchases	–	(43,860)
Fixed-income securities – loans and receivables		
Maturities, sales	904,068	333,032
Purchases	(517,804)	(1,231,446)
Fixed-income securities – available for sale		
Maturities, sales	8,376,705	10,353,694
Purchases	(9,878,959)	(10,804,242)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	55,650	76,824
Purchases	(6,198)	(19,948)
Equity securities – available for sale		
Sales	32,550	21,900
Purchases	(518,415)	(22,626)
Other financial assets – at fair value through profit or loss		
Sales	962	–
Purchases	–	(123)
Other invested assets		
Sales	60,314	17,717
Purchases	(112,964)	(55,865)
Affiliated companies and participating interests		
Sales	182	4,769
Purchases	(6,903)	(5,830)
Acquisition of ING life reinsurance portfolio		
Acquisition of cash in hand	–	117,170
Purchase price paid for other assets acquired	–	(12,878)
Real estate and real estate funds		
Sales	915	234
Purchases	(163,502)	(158,336)
Short-term investments		
Changes	(244,454)	(375,526)
Other changes (net)	2,521	(21,232)
Cash flow from investing activities	**(1,993,721)**	**(1,786,329)**

Figures in EUR thousand	**1.1.–31.12.2010**	1.1.–31.12.2009
III. Cash flow from financing activities		
Contribution from/payment on capital measures	(2,736)	9,940
Acquisition/disposal of treasury shares	(293)	(361)
Structural change without loss of control	6,522	–
Dividends paid	(283,986)	(13,662)
Proceeds from long-term debts	566,533	76,975
Repayment of long-term debts	(2,694)	(15,137)
Cash flow from financing activities	**283,346**	**57,755**
IV. Exchange rate differences on cash	**46,922**	**3,866**
Cash and cash equivalents at the beginning of the period	**457,412**	**430,225**
Change in cash and cash equivalents (I.+II.+III.+IV.)	**17,815**	**27,187**
Cash and cash equivalents at the end of the period	**475,227**	**457,412**
thereof cash and cash equivalents of disposal groups	**27,474**	**–**
Cash and cash equivalents at the end of the period excluding disposal groups	**447,753**	**457,412**
Income tax paid	(147,966)	(131,134)
Interest paid	(103,468)	(100,874)

Consolidated segmental report

Segmentation of assets in EUR thousand	Non-life reinsurance	
	31.12.2010	31.12.2009
Assets		
Held to maturity	2,724,546	2,651,188
Loans and receivables	2,259,375	2,624,702
Available for sale	11,725,861	9,820,513
At fair value through profit or loss	152,028	154,707
Other invested assets	1,330,693	894,289
Short-term investments	1,259,804	1,031,880
Cash	325,518	253,797
Total investments and cash under own management	**19,777,825**	**17,431,076**
Funds withheld	695,709	625,753
Contract deposits	–	–
Total investments	**20,473,534**	**18,056,829**
Reinsurance recoverables on unpaid claims	859,533	1,589,438
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	81,256	44,607
Reinsurance recoverables on other technical reserves	422	305
Deferred acquisition costs	362,080	331,091
Accounts receivable	1,805,883	1,896,362
Other assets in the segment	1,262,674	1,429,320
Assets held for sale	1,529,355	–
Total assets	**26,374,737**	**23,347,952**

Segmentation of technical and other liabilities in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	15,634,491	15,393,548
Benefit reserve	–	–
Unearned premium reserve	1,812,861	1,437,490
Provisions for contingent commissions	130,726	106,313
Funds withheld	218,084	209,925
Contract deposits	102,109	123,927
Reinsurance payable	456,496	701,103
Long-term liabilities	187,690	116,286
Other liabilities in the segment	1,564,020	1,461,588
Liabilities related to assets held for sale	1,381,120	–
Total	**21,487,597**	**19,550,180**

as at 31 December 2010

Life/health reinsurance		Consolidation		Total	
31.12.2010	31.12.2009[1]	31.12.2010	31.12.2009	31.12.2010	31.12.2009[1]
3,528	4,039	299,944	298,262	3,028,018	2,953,489
44,735	45,064	10,319	32,065	2,314,429	2,701,831
4,409,009	3,653,073	279,519	350,819	16,414,389	13,824,405
91,888	94,244	28,437	44,471	272,353	293,422
32,813	29,689	121	–	1,363,627	923,978
273,051	266,657	37,647	53,938	1,570,502	1,352,475
120,176	201,211	2,059	2,404	447,753	457,412
4,975,200	**4,293,977**	**658,046**	**781,959**	**25,411,071**	**22,507,012**
11,225,065	9,536,934	(49)	(2,307)	11,920,725	10,160,380
715,353	625,481	–	–	715,353	625,481
16,915,618	**14,456,392**	**657,997**	**779,652**	**38,047,149**	**33,292,873**
165,938	158,576	(139)	(23)	1,025,332	1,747,991
347,069	104,868	–	–	347,069	104,868
3,755	4,089	(1,787)	(1,045)	83,224	47,651
1,409	95	–	–	1,831	400
1,472,416	1,507,359	–	–	1,834,496	1,838,450
1,035,542	974,751	(122)	(1,239)	2,841,303	2,869,874
507,199	378,059	(754,339)	(871,918)	1,015,534	935,461
–	–	–	–	1,529,355	–
20,448,946	**17,584,189**	**(98,390)**	**(94,573)**	**46,725,293**	**40,837,568**
2,431,045	2,031,768	(141)	(23)	18,065,395	17,425,293
8,941,021	7,953,685	(1,831)	(1,045)	8,939,190	7,952,640
97,561	75,350	–	–	1,910,422	1,512,840
53,802	42,514	–	–	184,528	148,827
969,639	649,841	–	(2,326)	1,187,723	857,440
4,602,158	3,914,493	–	–	4,704,267	4,038,420
277,817	321,869	(840)	(1,608)	733,473	1,021,364
–	–	1,869,107	1,365,050	2,056,797	1,481,336
1,579,525	1,507,029	(699,035)	(825,766)	2,444,510	2,142,851
–	–	–	–	1,381,120	–
18,952,568	**16,496,549**	**1,167,260**	**534,282**	**41,607,425**	**36,581,011**

1 Adjusted on the basis of IAS 8

Consolidated segmental report

Segmental statement of income in EUR thousand	Non-life reinsurance	
	1.1.–31.12.2010	1.1.–31.12.2009
Gross written premium	6,339,285	5,746,613
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	6,339,285	5,746,613
Net premium earned	5,393,884	5,229,510
Net investment income	721,225	563,208
thereof		
Deposit interest and expenses	12,200	36,838
Claims and claims expenses	3,873,129	3,805,679
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	1,273,906	1,129,567
Administrative expenses	164,498	150,736
Other income and expenses	75,984	24,628
Operating profit/loss (EBIT)	**879,560**	**731,364**
Interest on hybrid capital	–	–
Net income before taxes	**879,560**	**731,364**
Taxes	220,363	221,955
Net income	**659,197**	**509,409**
thereof		
Minority interest in profit or loss	78,201	36,847
Group net income	**580,996**	**472,562**

Life/health reinsurance		Consolidation		Total	
1.1.–31.12.2010	1.1.–31.12.2009[1]	1.1.–31.12.2010	1.1.–31.12.2009	1.1.–31.12.2010	1.1.–31.12.2009[1]
5,090,123	4,529,288	(691)	(1,146)	11,428,717	10,274,755
691	1.146	(691)	(1,146)	–	–
5,089,432	4,528,142	–	–	11,428,717	10,274,755
4,653,910	4,078,670	(778)	(1,004)	10,047,016	9,307,176
508,243	520,105	29,427	37,070	1,258,895	1,120,383
304,168	239,931	–	5	316,368	276,774
3,135,785	2,743,003	(859)	(589)	7,008,055	6,548,093
653,496	563,675	(785)	(1,007)	652,711	562,668
1,022,800	926,181	(6,118)	(5,841)	2,290,588	2,049,907
118,698	98,316	(2,476)	(2,112)	280,720	246,940
52,979	107,141	(29,000)	(9,241)	99,963	122,528
284,353	**374,741**	**9,887**	**36,374**	**1,173,800**	**1,142,479**
–	–	85,266	76,650	85,266	76,650
284,353	**374,741**	**(75,379)**	**(40,276)**	**1,088,534**	**1,065,829**
60,914	73,168	(23,648)	(3,353)	257,629	291,770
223,439	**301,573**	**(51,731)**	**(36,923)**	**830,905**	**774,059**
3,814	3,500	–	–	82,015	40,347
219,625	**298,073**	**(51,731)**	**(36,923)**	**748,890**	**733,712**

1 Adjusted on the basis of IAS 8

Notes

1. Company information

The parent company Hannover Rückversicherung AG ("Hannover Re") and its subsidiaries (collectively referred to as the "Hannover Re Group") transact all lines of non-life and life/health reinsurance. The Group maintains business relations with more than 5,000 insurance companies in about 150 countries. With gross premium of approximately EUR 11.4 billion, Hannover Re is one of the largest reinsurance groups in the world. The company's network consists of more than 100 subsidiaries, affiliates, branches and representative offices worldwide with a total workforce of roughly 2,200. The Group's German business is conducted exclusively by the subsidiary E+S Rückversicherung AG. The parent company is a joint-stock corporation, the registered office of which is located at Karl-Wiechert-Allee 50, 30625 Hannover, Germany.

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

2. Accounting principles

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

Pursuant to EU Regulation (EC) No. 1606/2002, the present consolidated financial statement and group management report of Hannover Re have been drawn up in accordance with the International Financial Reporting Standards (IFRS) that are to be applied within the European Union. In addition, we have made allowance for the regulations that are also applicable pursuant to § 315a Para. 1 German Commercial Code (HGB) and the supplementary provisions of the parent company's Articles of Association as amended on 9 August 2010.

The consolidated financial statement reflects all IFRS in force as at 31 December 2010 as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), application of which was mandatory for the 2010 financial year. The disclosures regarding the management of technical and financial risks arising out of IFRS 7 "Financial Instruments: Disclosures" and IFRS 4 "Insurance Contracts" are contained in the risk report. We have dispensed with an additional presentation of the same content in 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 to the shareholders 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 prepared by the Executive Board on 14 February 2010 and hence released for publication.

New accounting principles

In the 2010 financial year the following IFRS requiring mandatory application were of relevance to Hannover Re:

In June 2009 the IASB published amendments to IFRS 2 "Group Cash-settled Share-based Payment Transactions", application of which is mandatory for the 2010 financial year. The amendments do not have any significant implications for the net assets, financial position or results of operations of Hannover Re.

In January 2008 the IASB published the revised versions of IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements". The new provisions primarily cover the balance sheet recognition of minority interests, measurement issues in connection with successive acquisition, changes in a participating interest with or without a loss of control as well as adjustments to acquisition costs depending upon future events and their effects on goodwill. Since the amendments are to be applied prospectively to financial years beginning on or after 1 July 2009, implications for Hannover Re can only arise in connection with future acquisitions.

In April 2009 the IASB published "Improvements to IFRSs (Issued 16 April 2009)", a collection of various minor amendments to IFRS that are for the most part applicable from the 2010 financial year onwards. Insofar as these changes were of practical relevance to the Group, they had no significant effect on the net assets, financial position or results of operations of Hannover Re.

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

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

In November 2009 the IASB published the revised IAS 24 "Related Party Disclosures". A major new feature of IAS 24 is the requirement for disclosures of "commitments", for example guarantees, undertakings and other commitments, which are dependent upon whether (or not) a particular event occurs in the future. The definition of a related entity or a related person is also clarified. The standard, the implications of which for Hannover Re are currently under review, was ratified by the European Union effective 20 July 2010 and must be applied with effect from 1 January 2011.

In November 2009 the IASB also 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, the implications of which for Hannover Re are currently under review, has not yet been ratified by the European Union.

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	1 July 2011	Pending
Improvements to IFRSs (issued by IASB in May 2010)	For the most part 1 January 2011	Pending
Deferred tax: Recovery of Underlying Assets (Amendments to IAS 12)	1 January 2012	Pending

3. Accounting policies

3.1 Changes in accounting policies

Hannover Re corrected the balance sheet recognition of certain life reinsurance contracts. In accordance with applicable US GAAP (FASB ASC 340-30), technical assets and liabilities relating to these contracts are to be offset in the balance sheet. These offsetting rules were not applied consistently within the Group in previous reporting periods. In accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", we therefore adjusted the comparative figures in the present financial statement. The adjustments had no implications for Group net income or shareholders' equity in any of the previous reporting periods. Relative to the figures originally shown, the balance sheet items "funds withheld" (assets side) and "contract deposits" (liabilities side) are each reduced by EUR 1,429.2 million as at 31 December 2009. The decrease in these balance sheet items in the opening balance sheet as at 1 January 2009 amounted to EUR 1,852.1 million in each case.

In addition, pursuant to the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" it was necessary to correct the translation of intangible assets held in foreign currencies in the consolidated annual financial statement as at 31 December 2009.

The effects of the aforementioned adjustments on the items of the consolidated balance sheet and consolidated statement of income are as follows:

Adjustments to the consolidated balance sheet pursuant to IAS 8 in EUR thousand	1. 1. 2009	31. 12. 2009
Funds withheld	(1,852,064)	(1,429,178)
Other assets	–	+2,527
Total change in assets	**(1,852,064)**	**(1,426,651)**
Contract deposits	(1,852,064)	(1,429,178)
Retained earnings	–	+2,527
Total change in liabilities	**(1,852,064)**	**(1,426,651)**

Adjustments to the consolidated statement of income pursuant to IAS 8 in EUR thousand	1.1.–31. 12. 2009
Other income and expenses	+2,527
Total change in items of the statement of income	**+2,527**
Change in basic and diluted earnings per share (in EUR)	+0.02

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.

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 117. For further information please see our explanatory remarks on the fair value hierarchy in Section 5.1 "Investments under own management".

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 equity after deduction of deferred taxes.

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

With respect to impairments on securities with the character of equity, IAS 39 "Financial Instruments: Recognition and Measurement" states, in addition to the aforementioned principles, that a significant or prolonged decrease in fair value below acquisition cost constitutes objective evidence of impairment. Hannover Re considers securities to be impaired under IAS 39 if their fair value falls significantly, i.e. by at least 20%, or for a prolonged period, i.e. at least nine months, below acquisition cost. In accordance with IAS 39 the reversal of impairment losses on equities to the statement of income once impairment has been taken is prohibited, as is adjustment of the cost basis. Impairment is tested in each reporting period using the criteria defined by Hannover Re. If a security is considered to be impaired on the basis of these criteria, IAS 39 requires that a value adjustment be recognised in the amount

Valuation models

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

of the fair value less historical cost and less prior value adjustments, meaning that depreciation is taken on the fair value as at the closing date – if available, on the publicly quoted stock exchange price.

Netting of financial instruments: financial assets and liabilities are only netted and recognised in the appropriate net amount if a corresponding legal claim exists or is expressly agreed by contract (reciprocity; similarity and maturity), 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 contract deposits 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 insurance 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/expenses. The payment flows resulting from these contracts are shown in the cash flow statement under operating activities.

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

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

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

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

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

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

Deferred tax assets may only be netted with deferred tax liabilities if an enforceable right exists to net actual tax refund claims with actual taxes owing and the deferred tax assets and deferred tax liabilities refer to income taxes levied by the same revenue authority either for (i) the same taxable entity or for (ii) different taxable entities that intend – 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 presentation 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 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, allowances for past experience and assumptions relating to the future development are incorporated in calculating the estimates. 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.

Unearned premium is premium that has already been collected but is allocated to future risk periods. In reinsurance business flat rates are sometimes used if the data required for calculation pro rata temporis is not available.

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.

Minority 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 minority interests be recognised separately within Group shareholders' equity. The minority interest in profit or loss is shown separately as profit appropriation following the net income ("thereof" note). This item refers mainly to minority interests in E+S Rück.

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

- Fixed-income securities
- Equities, equity funds and other variable-yield securities
- Other financial assets – at fair value through profit or loss
- Other invested assets
- Short-term investments
- Funds withheld and contract deposits (assets)
- Accounts receivable
- Other receivables
- Funds withheld 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 national currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statement. The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange on the balance sheet date. In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" differences from the currency translation of financial statements of foreign Group companies must be recognised in the consolidated financial statement as a separate item in shareholders' equity. Currency translation differences resulting from long-term loans or lendings without specified maturity between Group companies are similarly recognised outside the statement of income as a separate item in shareholders' equity.

Key exchange rates				1 EUR corresponds to:
	31.12.2010	31.12.2009	2010	2009
	Mean rate of exchange on the balance sheet date		Average rate of exchange	
AUD	1.3068	1.6048	1.4510	1.7839
BHD	0.4997	0.5404	0.5009	0.5267
CAD	1.3259	1.5048	1.3758	1.5916
CNY	8.7511	9.7847	8.9895	9.5419
GBP	0.8585	0.9042	0.8592	0.8966
HKD	10.3146	11.1172	10.3232	10.8274
KRW	1,501.6346	1,669.5842	1,541.5994	1,771.3279
MYR	4.0869	4.9113	4.2915	4.9076
SEK	9.0119	10.2986	9.5582	10.6210
USD	1.3254	1.4336	1.3287	1.3969
ZAR	8.7907	10.6121	9.7204	11.6273

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 examined.

3.3 Segmentation

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

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

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

3.4 Major discretionary decisions and estimates

In the consolidated financial statement it is to some extent necessary to make estimates and assumptions which affect the assets and liabilities shown in the balance sheet, the information on contingent claims and liabilities as at the balance sheet date and the disclosure of income and expenses during the reporting period. Key facts and circumstances subject to such assumptions and estimates include, for example, the recoverability of contingent reinsurance liabilities, the 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 5.7 "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 5.7 "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".

Hannover Re has refined the calculation logic for the fair values of derivatives in connection with Modified Coinsurance/ Coinsurance Funds Withheld reinsurance treaties. This represents a change in an accounting estimate, which pursuant to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" was performed in the year under review without adjustment of the comparative figures for previous years. For further details please see the remarks on derivative financial instruments in Section 7.1 "Derivative financial instruments".

4. Consolidation

4.1 Consolidation principles

Capital consolidation

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

Only subsidiaries which are of minor importance – both individually and in their entirety – for the net assets, financial position and results of operations of the Hannover Re Group are exempted from consolidation. Hannover Re assesses whether a subsidiary is of minor importance on the basis of the company's total assets and net income relative to the corresponding values for the Group as a whole on average over the last three years. For this reason 26 (18) companies at home and abroad, the business object of which is primarily the rendering of services for reinsurance companies within the Group, were not consolidated in the year under review.

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

Minority interests in shareholders' equity are reported separately within Group shareholders' equity in accordance with IAS 1 "Presentation of Financial Statements". The minority 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 82.0 million (EUR 40.3 million) in the year under review.

Minority shares in partnerships are reported under long-term liabilities in accordance with the applicable version of IAS 32 "Financial Instruments: Presentation".

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

Consolidation of business transactions within the Group

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

4.2 Consolidated companies and complete list of shareholdings

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

Scope of consolidation (number of companies)	2010	2009
Consolidated companies		
Germany	15	15
Abroad[1]	54	54
Total	**69**	**69**
Consolidated special purpose entities and special funds		
Abroad[1]	3	3
Total	**72**	**72**
Companies included at equity		
Germany	3	3
Abroad[2]	7	7
Total	**10**	**10**

1 Consists of: 18 (20) individual companies and 39 (37) companies which are fully consolidated in 3 (3) subgroups.
2 Consists of: 1 (2) associated companies and 6 (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 for the first time in accordance with the amended requirements of § 313 German Commercial Code (HGB) as amended by the Act on the Modernisation of Accounting Law (BilMoG). Previously, an abridged presentation has been provided in the Group annual financial report and the complete list was published in the electronic Federal Gazette.

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

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

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

Companies included in the consolidated financial statement

Name and registered office of the company Figures in currency units of 1,000	Participation in %		Capital and reserves		Result for the last financial year
Affiliated companies resident in Germany					
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany[1]	100.00	EUR	2,621,855	EUR	–
Hannover Life Re AG, Hannover/Germany[1,2]	100.00	EUR	1,032,596	EUR	–
HILSP Komplementär GmbH, Hannover/Germany[3]	100.00	EUR	22	EUR	–
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover/Germany[3]	100.00	EUR	65,883	EUR	8,585
Funis GmbH & Co. KG Hannover/Germany[3]	100.00	EUR	7,996	EUR	(4)
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover/Germany[3]	95.28	EUR	167,582	EUR	5,832
HAPEP II Holding GmbH, Hannover/Germany[3]	95.28	EUR	41,565	EUR	1,702
Hannover Re Euro PE Holdings GmbH & Co KG, Cologne/Germany[3]	90.92	EUR	25,979	EUR	691
Hannover Re Euro RE Holdings GmbH, Cologne/Germany[3]	81.85	EUR	56,057	EUR	(305)
Hannover Euro Private Equity Partners III GmbH & Co. KG, Hannover/Germany[3]	67.08	EUR	62,438	EUR	4,723
HEPEP III Holding GmbH, Hannover/Germany[3]	67.08	EUR	11,925	EUR	56
E+S Rückversicherung AG, Hannover/Germany[4]	63.69	EUR	683,413	EUR	176,000
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Hannover/Germany[3]	60.17	EUR	72,582	EUR	8,946
Hannover Euro Private Equity Partners II GmbH & Co. KG, Hannover/Germany[3]	57.64	EUR	5,747	EUR	454
HEPEP II Holding GmbH, Hannover/Germany[3]	57.64	EUR	2,944	EUR	483

Name and registered office of the company Figures in currency units of 1,000	Participation in %		Capital and reserves		Result for the last financial year
Affiliated companies resident abroad					
Hannover Finance (Luxembourg) S.A., Luxembourg/Luxembourg[4]	100.00	EUR	31,244	EUR	(2,331)
Hannover Finance (UK) Limited, Virginia Water/United Kingdom[4]	100.00	GBP	131,095	GBP	–12
Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda[5]	100.00	EUR	163,387	EUR	15,451
Hannover Life Reassurance Company of America, Orlando/USA[4]	100.00	USD	166,599	USD	217
Hannover Life Reassurance (Ireland) Ltd., Dublin/Ireland[4]	100.00	EUR	922,025	EUR	84,505
Hannover Life Reassurance (UK) Ltd., Virginia Water/United Kingdom[4]	100.00	GBP	40,509	GBP	(461)
Hannover Life Re of Australasia Ltd., Sydney/Australia[4]	100.00	AUD	251,641	AUD	27,673
Hannover Re Advanced Solutions Ltd., Dublin/Ireland[6]	100.00	EUR	31	EUR	–
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda[4]	100.00	EUR	920,679	EUR	27,287
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland[4]	100.00	EUR	462,537	EUR	46,010
Hannover ReTakaful B.S.C. (c), Manama/Bahrain[4]	100.00	BHD	28,198	BHD	6,208
Hannover Services (UK) Ltd., Virginia Water/United Kingdom[4]	100.00	GBP	763	GBP	(17)
International Insurance Company of Hannover Ltd., Bracknell/United Kingdom[4]	100.00	GBP	119,353	GBP	9,134
Inter Hannover (No.1) Limited, London/United Kingdom[4]	100.00	GBP	1	GBP	–
Secquaero ILS Fund Ltd., George Town, Grand Cayman/Cayman Islands[4,5]	100.00	USD	51,472	USD	26
Hannover Re (Guernsey) PCC Limited, St Peter Port/Guernsey[4]	100.00	EUR	261	EUR	(42)
Fracom FCP, Paris/France[7]	99.37	EUR	708,449	EUR	23,435
Kaith Re Ltd., Hamilton/Bermuda[4,5]	88.00	USD	640	USD	(441)
Subgroups resident abroad					
Hannover Finance, Inc., Wilmington/USA[4]	100.00	USD	307,866	USD	(34,956)
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[4]	100.00	USD	(46,297)	USD	(36,624)
Atlantic Capital Corporation, Wilmington/USA[8,9,10]	100.00	USD	(113,387)	USD	–
Clarendon National Insurance Company, Trenton/USA[4,8]	100.00	USD	(46,580)	USD	(33,254)
Clarendon America Insurance Company, Trenton/USA[4,8]	100.00	USD	131,093	USD	(7,999)
Clarendon Select Insurance Company, Tallahassee/USA[4,8]	100.00	USD	13,412	USD	(867)
Harbor Specialty Insurance Company, Trenton/USA[4,8]	100.00	USD	37,840	USD	1,804
Participations (non-consolidated)					
Clarendon Services of New Jersey, Inc., Trenton/USA[4,8,9]	100.00	USD	–	USD	–

Name and registered office of the company Figures in currency units of 1,000	Participation in %		Capital and reserves		Result for the last financial year
Subgroups resident abroad					
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa[4]	100.00	ZAR	155,813	ZAR	138,961
Hannover Reinsurance Group Africa (Pty) Ltd. compiles its own subgroup financial statement in which the following companies are included:					
Consolidated companies					
Hannover Life Reassurance Africa Ltd., Johannesburg/South Africa[4]	100.00	ZAR	411,113	ZAR	69,634
Hannover Reinsurance Africa Ltd., Johannesburg/South Africa[4]	100.00	ZAR	726,038	ZAR	151,044
Compass Insurance Company Limited, Johannesburg/South Africa	100.00	ZAR	111,083	ZAR	(13,847)
Micawber 185 (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR	18,257	ZAR	3,225
Peachtree (Pty) Ltd., Johannesburg/South Africa[9]	100.00	ZAR	–	ZAR	–
Indoc Holdings S.A., Luxembourg/Luxembourg[9]	100.00	CHF	–	CHF	–
Hannover Reinsurance Mauritius Ltd., Port Louis/Mauritius	100.00	MUR	50,613	MUR	2,824
Lireas Holdings (Pty) Ltd., Johannesburg/South Africa	51.00	ZAR	185,175	ZAR	36,888
MUA Insurance Acceptances (Pty) Ltd., Cape Town/South Africa	51.00	ZAR	3,751	ZAR	4,696
MUA Insurance Company Ltd., Cape Town/South Africa	51.00	ZAR	19,673	ZAR	5,655
Transit Underwriting Managers (Pty) Ltd., Cape Town/South Africa	51.00	ZAR	1,332	ZAR	2,552
Garagesure Consultants and Acceptances (Pty) Ltd., Johannesburg/South Africa	48.45	ZAR	1,926	ZAR	220
Landmark Underwriting Agency (Pty) Ltd., Bloemfontein/South Africa	41.06	ZAR	1,873	ZAR	374
Cargo Transit Insurance (Pty) Ltd., Helderkruin/South Africa[4]	40.80	ZAR	(269)	ZAR	(769)
Hospitality Industries Underwriting Consultants (Pty) Ltd., Johannesburg/South Africa	37.38	ZAR	3,071	ZAR	2,763
SUM Holdings (Pty) Ltd., Johannesburg/South Africa	37.38	ZAR	21,469	ZAR	478
Gem & Jewel Acceptances (Pty) Ltd., Johannesburg/South Africa[4]	35.70	ZAR	459	ZAR	393
Thatch Risk Acceptances (Pty) Ltd., Cape Town/South Africa	33.64	ZAR	764	ZAR	1,008
Envirosure Underwriting Managers (Pty) Ltd., Durban/South Africa	30.60	ZAR	(1,849)	ZAR	(618)
Woodworking Risk Acceptances (Pty) Ltd., Pietermaritzburg/South Africa	30.60	ZAR	1,001	ZAR	209
Construction Guarantee (Pty) Ltd., Parktown/South Africa	26.01	ZAR	1,476	ZAR	1,152
Film & Entertainment Underwriters SA (Pty) Ltd., Northcliff/South Africa[4]	26.01	ZAR	(610)	ZAR	(860)
Associated companies					
Takafol South Africa (Pty) Ltd., Johannesburg/South Africa	24.99	ZAR	825	ZAR	351
Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg/South Africa[4]	20.40	ZAR	5,147	ZAR	15,703
Flexible Accident and Sickness Acceptances (Pty) Ltd., Johannesburg/South Africa	20.40	ZAR	1,811	ZAR	2,995
Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg/South Africa[4]	19.04	ZAR	3,880	ZAR	30,190

Notes

Name and registered office of the company Figures in currency units of 1,000	Participation in %		Capital and reserves		Result for the last financial year
Aviation Insurance Company Limited, Johannesburg/South Africa[4]	15.94	ZAR	6,270	ZAR	(140)
Camargue Underwriting Managers (Pty) Ltd., Parktown/South Africa	13.26	ZAR	9,012	ZAR	1,666
Participations (non-consolidated)					
Clarenfin (Pty) Ltd., Johannesburg/South Africa[6]	19.04	ZAR	–	ZAR	–
Hannover Re Real Estate Holdings, Inc., Orlando/USA[5]	95.10	USD	254,774	USD	2,838
Hannover Re Real Estate Holdings, Inc. holds a subgroup in which the following companies are included:					
Consolidated companies					
5115 Sedge Corporation, Chicago/USA[5]	95.10	USD	2,582	USD	277
GLL HRE CORE PROPERTIES LP, Wilmington/USA[5]	95.00	USD	111,270	USD	2,058
One Winthrop Square LLC, Wilmington/USA[5]	95.00	USD	23,123	USD	1,078
402 Santa Monica Blvd LLC, Wilmington/USA[5]	95.00	USD	31,673	USD	1,139
300 S. Orange Avenue LLC, Wilmington/USA[5]	95.00	USD	55,392	USD	1,743
465 Broadway LLC, Wilmington/USA[5]	95.00	USD	42,394	USD	1,088
5115 Sedge Boulevard LP, Chicago/USA[5]	79.88	USD	1,012	USD	231
GLL Terry Francois Blvd. LLC, Wilmington/USA[5]	48.40	USD	24,801	USD	1,768
Associated companies resident in Germany					
Oval Office Grundstücks GmbH, Hannover/Germany[4]	50.00	EUR	57,789	EUR	1,878
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover/Germany[11,12]	32.74	EUR	73,950	EUR	192
HANNOVER Finanz GmbH, Hannover/Germany[11]	25.00	EUR	69,093	EUR	5,617
Associated companies resident abroad					
ITAS Vita S.p.A., Trient/Italy[11]	34.88	EUR	75,355	EUR	5,572
Participations abroad (non-consolidated)					
International Mining Industry Underwriters Ltd., London/United Kingdom[4]	100.00	GBP	358	GBP	57
HR Hannover Re, Correduría de Reaseguros S.A., Madrid/Spain[4]	100.00	EUR	198	EUR	30
LRA Superannuation Plan Pty Ltd., Sydney/Australia[6]	100.00	AUD	–	AUD	–
Mediterranean Reinsurance Services Ltd., Hong Kong/China[9,13]	100.00	USD	125	USD	–
Hannover Re Services Japan K.K., Tokyo/Japan	100.00	JPY	90,297	JPY	3,690
Hannover Re Consulting Services India Private Limited, Mumbai/India[14]	100.00	INR	45,643	INR	5,643
Hannover Life Re Consultants, Inc., Orlando/USA[11]	100.00	USD	181	USD	37
Hannover Services (México) S.A. de C.V., Mexico City/Mexico[4]	100.00	MXN	11,022	MXN	1,031

Name and registered office of the company Figures in currency units of 1,000	Participation in %	Capital and reserves		Result for the last financial year	
Participations abroad (non-consolidated)					
Hannover Re Services USA, Inc., Itasca/USA	100.00	USD	794	USD	78
Hannover Rückversicherung AG Escritório de Representação no Brasil Ltda., Rio de Janeiro/Brazil[11]	100.00	BRL	35	BRL	107
Hannover Re Services Italy Srl, Milan/Italy[4]	99.64	EUR	313	EUR	91
Svedea AB, Stockholm/Sweden[15]	75.20	SEK	–	SEK	–
Hannover Care AB, Stockholm/Sweden[11]	30.00	SEK	570	SEK	(2,657)
Energi Holdings, Inc., Peabody/USA[11]	28.50	USD	4,805	USD	(190)
Energi Insurance Services, Inc., Peabody/USA[11]	28.50	USD	2,686	USD	(1,573)
Hurst Holme Insurance Company Limited - account 2006 - 03 SCC, Hamilton/Bermuda[11]	28.50	USD	894	USD	241
Hurst Holme Insurance Company Limited - account 2009 - 01 SCC, Hamilton/Bermuda[11]	28.50	USD	137	USD	137
XS Direct Holdings Limited, Dublin/Ireland[11]	25.00	EUR	658	EUR	16
XS Reinsurance Limited, Dublin/Ireland[11]	25.00	EUR	3,242	EUR	(662)
XS Direct Insurance Brokers Limited, Dublin/Ireland[11]	25.00	EUR	554	EUR	453
Indemnity Guarantee Company Limited, Dublin/Ireland[9,11]	25.00	EUR	(6)	EUR	182
Sciemus Power MGA Limited, London/United Kingdom[11]	25.00	GBP	1	GBP	–
PlaNet Guarantee (SAS), Saint-Ouen/France[4]	23.58	EUR	1,069	EUR	(927)
Acte Vie S.A. Compagnie d'Assurances sur la Vie et de Capitalisation, Strasbourg/France[11]	9.38	EUR	8,118	EUR	136

1 Year-end result after profit transfer
2 Formerly Zweite Hannover Rück Beteiligung Verwaltungs-GmbH
3 Financial year as at 30 September 2010
4 Provisional (unaudited) figures
5 IFRS figures
6 Company is inactive and does not compile an annual report.
7 Financial year as at 30 October 2009
8 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.
9 Company is in liquidation.
10 Figures as at 31 December 2007
11 Figures as at 31 December 2009
12 Formerly WeHaCo Unternehmensbeteiligungs-AG
13 Last annual financial statement compiled as at 31 December 1999
14 Financial year as at 31 March 2010
15 Company was newly established in 2010; an annual financial statement is not yet available.

Consolidation of special purpose entities

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

Insurance-Linked Securities (ILS)

In the course of 2010, as part of its extended Insurance-Linked Securities (ILS) activities, Hannover Re wrote a number of so-called collateralised fronting arrangements under which risks assumed from ceding companies were 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.

The largest single transaction in this connection is "FacPool Re", under which Hannover Re has transferred a portfolio of facultative reinsurance risks to the capital market since September 2009. The contracts, which cover worldwide individual risks, are mediated by an external reinsurance intermediary, written by Hannover Re and placed on the capital market in conjunction with a service provider. The "FacPool Re" transaction consists of a quota share reinsurance arrangement and two non-proportional cessions. The total amount of capital provided is equivalent to EUR 45.3 million (EUR 41.9 million), with Hannover Re keeping a share of approximately EUR 3.8 million (EUR 3.5 million) and additionally assuming losses that exceed the capacity of "FacPool Re". The term of the transaction is roughly two and a half years. A number of special purpose entities participate in the reinsurance cessions within "FacPool Re"; Hannover Re does not hold any shares in these special purpose entities and does not bear the majority of the economic benefits or risks arising out of their activities through any of its business relations.

Securitisation of reinsurance risks

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

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

Effective 1 January 2009 Hannover Re raised further underwriting capacity for catastrophe risks on the capital market by way of the "K6" transaction. This securitisation, which was placed with institutional investors in North America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. The volume of "K6", which was increased in the year under review, was equivalent to EUR 248.5 million (EUR 123.1 million) as at the balance sheet date. The planned term of the transaction runs until 31 December 2011 or in the case of the new shares placed in the year under review until 31 December 2012. 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.

Effective 26 April 2010 Hannover Re made use of its right of early cancellation and terminated the credit default swap underlying the "Merlin" transaction. Since 2007 Hannover Re had used this transaction to transfer risks from reinsurance recoverables to the capital market. The securities serving as collateral were issued through the special purpose entity Merlin CDO I B.V., over which Hannover Re did not exercise a controlling influence.

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

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

4.3 Major acquisitions and new formations

On 18 January 2010 Funis GmbH & Co. KG, a wholly owned subsidiary of Hannover Re, acquired an interest of 28.5% in Energi Holdings, Inc., based in Peabody/United States, for a purchase price equivalent to EUR 2.4 million. The business object of Energi Holdings, Inc. and its three other wholly owned subsidiaries is the mediation of risk management and insurance brokerage services for companies in the energy industry.

In addition, effective 16 March 2010 Funis GmbH & Co. KG participated with a capital contribution of EUR 8.0 thousand (corresponding to 75.2% of the shares) in the newly established Foco 146 AB, which is based in Stockholm, Sweden. The company began trading under the name Svedea AB with effect from the balance sheet date. The company's business object consists principally of writing liability insurance for motor vehicles and yachts.

With effect from the second quarter Inter Hannover (No. 1) Limited, London, was included in the consolidated financial statement for the first time. All shares in the company are held by International Insurance Company of Hannover Ltd., Bracknell. The object of the company, which is a corporate member of Lloyd's of London with limited liability, is to participate in the business of one or more Lloyd's syndicates.

On 9 December 2010 Funis GmbH & Co. KG acquired a participation of around 25% of the shares in XS Direct Holdings, based in Dublin/Ireland, by subscribing to newly issued shares. The interest amounts to EUR 2.5 million. The company held three further participations – in each case with all shares – as at the balance sheet date. The business object of the company consists principally of the development and sale of financial services in Ireland and the United Kingdom.

4.4 Major disposals

On 21 December 2010 Hannover Re reached agreement on the sale of its US subgroup Clarendon Insurance Group, Inc., Wilmington (CIGI), to Enstar Group Ltd., Hamilton, a Bermuda-based company specialising in the run-off of insurance business. Hannover Re holds all shares of CIGI indirectly through the intermediate holding company Hannover Finance, Inc., Wilmington (HFI), which is also included in full in the consolidated financial statement. The buyer is to acquire all shares of CIGI at a purchase price equivalent to EUR 162.5 million before final price determination, which will take place upon adoption of the local annual financial statement as at 31 December 2010. As at the balance sheet date the transaction was still subject to the customary regulatory approvals. Closing of the transaction and the associated deconsolidation from Hannover Re are anticipated in the second quarter of 2011.

Pursuant to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" CIGI was classified as at the balance sheet date as a disposal group, which is to be measured at the lower of the carrying amount and fair value less costs to sell. This measurement gave rise to the recognition of impairment losses in an amount of EUR 10.2 million, which were carried in other income and expenses.

In addition, a miscellaneous liability of EUR 4.1 million was recognised for selling expenditures and a sundry provision of EUR 54.9 million was constituted for expenses in connection with measurement of the disposal group. The corresponding expenses were recognised in other income and expenses.

The cumulative other comprehensive income of –EUR 28.8 million arising out of the currency translation of the assets and liabilities belonging to the disposal group will only be realised in the context of deconsolidation. Profits and losses from the measurement of available-for-sale financial assets in an amount of EUR 2.5 million as at the balance sheet date will also only be realised at the time of deconsolidation.

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

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

Assets and liabilities of the disposal group in EUR thousand	31.12.2010
Assets	
Total investments	643,060
Cash	27,474
Reinsurance recoverables on unpaid claims	831,093
Accounts receivable	16,916
Other assets	10,812
Assets held for sale	**1,529,355**
Liabilities	
Technical provisions	1,309,860
Funds withheld	26,713
Reinsurance payable	17,612
Other liabilities	26,935
Liabilities related to assets held for sale	**1,381,120**

4.5 Further corporate changes

Effective 8 March 2010 Hannover Rück Beteiligung Verwaltungs-GmbH (HRBV), which is wholly owned by Hannover Re, reached agreement with a third party outside the Group on the sale of 0.5% of its stake in E+S Rück – by way of a share reduction without a change of control status. Upon closing of the transaction HRBV held an interest of 63.69% in E+S Rück.

Effective 26 April 2010 the share capital of E+S Rück was increased out of retained earnings without the issue of new shares by an amount of EUR 2.8 million from EUR 42.6 million to EUR 45.5 million. The par value per share now stands at EUR 600. This did not give rise to a change of control status.

Penates A, Ltd., Tortola, British Virgin Islands, a company jointly owned by Hannover Re and E+S Rück, was liquidated effective 22 September 2010.

The companies Hannover Reinsurance (Dublin) Ltd. and E+S Reinsurance (Ireland) Ltd., both based in Dublin, Ireland, were liquidated effective 25 November 2010.

The participation in the company WPG CDA IV Liquidation Trust based in Grand Cayman, Cayman Islands, which was consolidated at equity, was also liquidated.

5. Notes on the individual items of the balance sheet

5.1 Investments under own management

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

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

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

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

Investments[1] in EUR thousand	31.12.2010	31.12.2009
Regional origin		
Germany	6,402,667	6,560,026
United Kingdom	1,731,362	1,363,938
France	2,188,048	1,865,540
Other	4,856,718	3,928,606
Europe	**15,178,795**	**13,718,110**
USA	6,145,130	6,007,409
Other	1,057,850	840,207
North America	**7,202,980**	**6,847,616**
Asia	673,879	530,497
Australia	1,577,157	941,664
Australasia	**2,251,036**	**1,472,161**
Africa	409,767	416,139
Other	368,493	52,986
Total	**25,411,071**	**22,507,012**

1 After elimination of internal transactions within the Group across segments

Maturities of the fixed-income and variable-yield securities				in EUR thousand
	2010		2009	
	Amortised cost[1]	Fair value	Amortised cost[1]	Fair value
Held to maturity				
due in one year	293,247	296,019	106,788	117,125
due after one through two years	481,951	497,863	280,725	290,471
due after two through three years	530,917	556,296	469,248	490,878
due after three through four years	402,290	435,132	521,196	542,714
due after four through five years	842,291	896,024	298,115	315,856
due after five through ten years	458,201	489,910	1,259,917	1,319,098
due after ten years	19,121	18,143	17,500	15,852
Total	**3,028,018**	**3,189,387**	**2,953,489**	**3,091,994**
Loans and receivables				
due in one year	61,280	61,845	220,814	221,111
due after one through two years	129,327	129,184	80,127	82,095
due after two through three years	348,915	356,739	41,048	41,219
due after three through four years	576,421	592,242	332,716	339,025
due after four through five years	330,110	342,088	485,554	490,978
due after five through ten years	806,953	840,900	1,294,842	1,323,459
due after ten years	61,423	58,741	246,730	244,384
Total	**2,314,429**	**2,381,739**	**2,701,831**	**2,742,271**
Available for sale				
due in one year[2]	4,127,663	4,146,256	3,890,651	3,926,328
due after one through two years	1,856,401	1,892,437	1,686,180	1,725,646
due after two through three years	1,841,265	1,892,893	1,656,235	1,698,765
due after three through four years	2,184,191	2,238,279	1,718,907	1,782,188
due after four through five years	2,277,464	2,294,991	1,875,448	1,907,847
due after five through ten years	3,710,502	3,727,430	3,151,562	3,196,970
due after ten years	1,629,312	1,703,603	1,383,350	1,377,191
Total	**17,626,798**	**17,895,889**	**15,362,333**	**15,614,935**
Financial assets at fair value through profit or loss				
due in one year	76,542	76,542	22,145	22,145
due after one through two years	28,498	28,498	70,245	70,245
due after two through three years	60,257	60,257	18,358	18,358
due after three through four years	4,876	4,876	39,155	39,155
due after four through five years	–	–	4,541	4,541
due after five through ten years	–	–	11,239	11,239
due after ten years	47,424	47,424	69,466	69,466
Total	**217,597**	**217,597**	**235,149**	**235,149**

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 — Figures in EUR thousand

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

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

	2009				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	323,510	3,065	946	6,854	332,483
US treasury notes	351,776	36,182	825	2,808	389,941
Other foreign government debt securities	13,445	664	–	25	14,134
Debt securities issued by semi-governmental entities	685,126	30,212	2,052	12,932	726,218
Corporate securities	559,900	27,107	1,121	12,334	598,220
Covered bonds/asset-backed securities	964,236	46,223	4	20,543	1,030,998
Total	**2,897,993**	**143,453**	**4,948**	**55,496**	**3,091,994**

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

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

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value					Figures in EUR thousand
	2009				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	79,498	1,713	415	739	81,535
Debt securities issued by semi-governmental entities	1,148,549	8,579	2,597	11,531	1,166,062
Corporate securities	543,718	16,508	1,163	9,470	568,533
Covered bonds/asset-backed securities	639,446	20,322	2,507	9,279	666,540
Other	200,036	–	–	59,565	259,601
Total	**2,611,247**	**47,122**	**6,682**	**90,584**	**2,742,271**

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

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

Figures in EUR thousand

	2010				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	2,091,535	29,356	28,204	27,268	2,119,955
US treasury notes	2,011,438	68,669	3,530	13,532	2,090,109
Other foreign government debt securities	777,750	13,659	1,466	3,922	793,865
Debt securities issued by semi-governmental entities	3,453,861	90,835	10,100	50,883	3,585,479
Corporate securities	4,951,023	105,530	61,778	89,912	5,084,687
Covered bonds/asset-backed securities	2,015,755	100,579	42,381	31,513	2,105,466
Investment funds	90,815	8,773	1,515	–	98,073
	15,392,177	**417,401**	**148,974**	**217,030**	**15,877,634**
Equity securities					
Shares	374,338	29,020	5,038	–	398,320
Investment funds	128,132	10,373	70	–	138,435
	502,470	39,393	5,108	–	536,755
Short-term investments	1,568,528	939	275	1,310	1,570,502
Total	**17,463,175**	**457,733**	**154,357**	**218,340**	**17,984,891**

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

Figures in EUR thousand

	2009				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	2,179,903	39,399	4,675	28,867	2,243,494
US treasury notes	1,986,505	27,876	13,049	14,483	2,015,815
Other foreign government debt securities	568,788	5,798	3,135	3,044	574,495
Debt securities issued by semi-governmental entities	3,755,392	94,194	6,731	53,603	3,896,458
Corporate securities	3,151,323	96,853	27,921	54,645	3,274,900
Covered bonds/asset-backed securities	1,573,093	85,303	50,824	20,937	1,628,509
Investment funds	162,156	27,466	18,245	–	171,377
	13,377,160	**376,889**	**124,580**	**175,579**	**13,805,048**
Equity securities					
Shares	14,086	3,100	189	–	16,997
Investment funds	1,959	479	78	–	2,360
	16,045	3,579	267	–	19,357
Short-term investments	1,351,309	354	61	873	1,352,475
Total	**14,744,514**	**380,822**	**124,908**	**176,452**	**15,176,880**

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

Fair value of financial assets at fair value through profit or loss before and after accrued interest as well as accrued interest on such financial assets						Figures in EUR thousand
	2010	2009	2010	2009	2010	2009
	Fair value before accrued interest		Accrued interest		Fair value	
Financial assets at fair value through profit or loss						
Fixed-income securities						
Other foreign government debt securities	9,995	–	80	–	10,075	–
Debt securities of semi-governmental entities	97,770	7,066	542	162	98,312	7,228
Corporate securities	108,598	121,589	612	5,208	109,210	126,797
Covered bonds/asset-backed securities	–	100,775	–	349	–	101,124
	216,363	229,430	1,234	5,719	217,597	235,149
Other financial assets						
Derivatives	54,756	58,273	–	–	54,756	58,273
	54,756	58,273	–	–	54,756	58,273
Total	271,119	287,703	1,234	5,719	272,353	293,422

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 54.8 million (EUR 58.3 million) that are originally allocable to this item as well as fixed-income securities amounting to EUR 217.6 million (EUR 235.1 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 an amount of EUR 0.6 million (–EUR 5.1 million) was due to changes in the ratings of callable bonds.

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

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

Carrying amounts before impairment				Figures in EUR thousand
	2010		2009	
	Carrying amount before impairment	Impairment	Carrying amount before impairment	Impairment
Fixed-income securities – held to maturity	3,028,149	131	2,954,695	1,206
Fixed-income securities – loans and receivables	2,315,964	1,535	2,705,515	3,684
Fixed-income securities – available for sale	15,883,874	6,240	13,845,487	40,439
Short-term investments	1,570,502	–	1,352,525	50
Equity securities – available for sale	537,324	569	22,522	3,165
Participating interests and other invested assets, real estate funds	940,538	7,976	725,760	92,709
Total	**24,276,351**	**16,451**	**21,606,504**	**141,253**

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

Valuation of the available-for-sale portfolio affecting shareholders' equity		in EUR thousand
	2010	2009
Changes in the other comprehensive income from fair value measurement and transactions	Other comprehensive income from investments	
Allocation to gains/losses from the fair-value measurement of the available-for-sale portfolio	208,751	221,550
Transfer of gains/losses from the fair-value measurement of the available-for-sale portfolio to the result for the period	(55,857)	(86,910)
Total	**152,894**	**134,640**

Notes

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

Rating structure of fixed-income securities									Figures in EUR thousand
	2009								
	AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity	1,776,146	579,187	473,858	120,373	3,925	–	–	–	2,953,489
Fixed-income securities – loans and receivables	1,047,059	972,062	499,329	109,637	161	–	–	73,583	2,701,831
Fixed-income securities – available-for-sale	7,946,449	2,432,341	2,276,065	779,432	90,317	221,813	7,594	51,037	13,805,048
Fixed-income securities – at fair value through profit or loss	4,494	10,475	40,392	80,633	46,391	33,442	8,404	10,918	235,149
Total fixed-income securities	**10,774,148**	**3,994,065**	**3,289,644**	**1,090,075**	**140,794**	**255,255**	**15,998**	**135,538**	**19,695,517**
Derivatives	12,757	2,903	18,829	3,347	(513)	7	8	765	38,103
Total fixed-income securities incl. derivatives	**10,786,905**	**3,996,968**	**3,308,473**	**1,093,422**	**140,281**	**255,262**	**16,006**	**136,303**	**19,733,620**

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

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

Breakdown of investments by currencies									Figures in EUR thousand
	2009								
	AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
Fixed-income securities – held to maturity	12,693	31,479	1,915,290	77,534	–	908,228	8,265	–	2,953,489
Fixed-income securities – loans and receivables	–	6,094	2,172,073	17,188	–	483,745	–	22,731	2,701,831
Fixed-income securities – available-for-sale	890,838	364,124	4,709,837	1,250,538	96,553	5,836,171	202,180	454,807	13,805,048
Fixed-income securities – at fair value through profit or loss	–	–	89,587	–	–	119,977	25,585	–	235,149
Equity securities – available-for-sale	–	–	14,799	3,734	–	691	133	–	19,357
Other financial assets – at fair value through profit or loss	–	–	26,161	29,553	–	2,559	–	–	58,273
Other invested assets	–	–	435,905	445	–	486,223	1,403	2	923,978
Short-term investments, cash	120,612	33,822	675,471	88,474	5,810	694,878	88,688	102,132	1,809,887
Total investments and cash	**1,024,143**	**435,519**	**10,039,123**	**1,467,466**	**102,363**	**8,532,472**	**326,254**	**579,672**	**22,507,012**

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

Associated companies

Investments in associated companies in EUR thousand	2010	2009
Net book value at 31 December of the previous year	**128,316**	**128,680**
Currency translation at 1 January	289	204
Balance at 1 January of the year under review	**128,605**	**128,884**
Additions	590	4,225
Disposals	50	–
Adjustment recognised in income	1,127	(5,470)
Adjustment recognised outside income	(2,643)	648
Currency translation at 31 December	15	29
Net book value at 31 December of the year under review	**127,644**	**128,316**

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 18.4 million (EUR 17.9 million).

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

Real estate

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

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

Development of investment property in EUR thousand	2010	2009
Gross book value at 31 December of the previous year	190,212	45,258
Currency translation at 1 January	11,583	(214)
Gross book value after currency translation at 1 January of the year under review	**201,795**	**45,044**
Additions	136,662	148,677
Currency translation at 31 December	177	(3,509)
Gross book value at 31 December of the year under review	**338,634**	**190,212**
Cumulative depreciation at 31 December of the previous year	27,600	23,640
Currency translation at 1 January	335	(81)
Cumulative depreciation after currency translation at 1 January of the year under review	**27,935**	**23,559**
Depreciation	7,120	1,078
Impairments	192	175
Appreciation	(52)	–
Reclassification	–	2,813
Currency translation at 31 December	17	(25)
Cumulative depreciation at 31 December of the year under review	**35,212**	**27,600**
Net book value at 31 December of the previous year	**162,612**	**21,618**
Net book value at 1 January of the year under review	173,860	21,485
Net book value at 31 December of the year under review	**303,422**	**162,612**

In addition, we held indirect real estate investments in the year under review in an amount of EUR 90.7 million (EUR 54.2 million).

The fair value of investment property amounted to EUR 305.4 million (EUR 167.3 million) as at the balance sheet date.

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

The additions to this item are attributable in large part to the sharply increased investment activities of Hannover Re Real Estate Holdings, Inc., and Hannover Re Euro RE Holdings GmbH.

Other invested assets

The other invested assets consisted largely of participating interests in partnerships measured at fair value in an amount of EUR 779.5 million (EUR 522.6 million). The amortised cost of these participations amounted to EUR 536.5 million (EUR 424.7 million); in addition, unrealised gains of EUR 244.5 million (EUR 98.7 million) and unrealised losses of EUR 1.5 million (EUR 0.8 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.

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

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

Fair value hierarchy of financial instruments recognised at fair value				in EUR thousand
	2009			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	7,449,589	6,459,155	131,453	14,040,197
Equity securities	18,387	620	350	19,357
Other financial assets – at fair value through profit or loss	–	58,273	–	58,273
Other invested assets	–	–	576,807	576,807
Short-term investments	1,339,985	12,490	–	1,352,475
Total assets measured at fair value	8,807,961	6,530,538	708,610	16,047,109
Other liabilities	1,796	19,333	–	21,129
Total liabilities measured at fair value	1,796	19,333	–	21,129

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

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

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

Development of level 3 financial instruments in EUR thousand	2009		
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets
Balance at 1 January of the year under review	118,328	350	621,944
Income and expenses			
recognised in the statement of income	(3,227)	–	(77,410)
recognised directly in shareholders' equity	29,976	–	(11,115)
Additions	–	–	65,524
Disposals	13,538	–	16,861
Transfers to level 3	–	–	–
Transfers from level 3	–	–	–
Currency translation at 31 December of the year under review	(86)	–	(5,275)
Net book value at 31 December of the year under review	131,453	350	576,807

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

Income and expenses from level 3 financial instruments			in EUR thousand
	2009		
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets
Total in the financial year			
Ordinary investment income	21	–	–
Total depreciation, impairments and appreciation of investments	(3,248)	–	(77,410)
Thereof attributable to financial instruments included in the portfolio at 31 December of the year under review			
Ordinary investment income	21	–	–
Total depreciation, impairments and appreciation of investments	(1,003)	–	(77,410)

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 862.1 million (EUR 708.6 million) as at the balance sheet date, Hannover Re measures financial instruments with a volume of EUR 839.4 million (EUR 701.9 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 22.7 million (EUR 6.7 million), the effects of alternative inputs and assumptions are immaterial.

5.2 Funds withheld (assets)

The funds withheld totalling EUR 11,920.7 million (EUR 10,160.4 million) represent the cash and securities deposits furnished by our company to our cedants that do not trigger any cash flows and cannot be realised by cedants without our consent. The maturities of these deposits are matched to the corresponding provisions. In the event of default on such a deposit our reinsurance commitment is reduced to the same extent. The rise in funds withheld was attributable principally to increased new business in the area of life reinsurance.

5.3 Contract deposits (assets)

The contract deposits on the assets side grew by EUR 89.9 million in the year under review from EUR 625.5 million to EUR 715.4 million. The increase was attributable principally to specific new contracts in the area of life reinsurance.

5.4 Technical assets

The retrocessionaires' portions of the technical provisions are based on the contractual agreements of the underlying reinsurance treaties. For further details please refer to our comments on the technical provisions in Section 5.7 "Technical provisions" as well as the remarks in the risk report on page 66 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	2010	2009
Net book value at 31 December of the previous year	1,838,450	1,860,783
Currency translation at 1 January	114,743	40,977
Balance at 1 January of the year under review	**1,953,193**	**1,901,760**
Additions	438,858	418,512
Amortisations	567,165	478,066
Portfolio entries/exits	626	3
Reclassification pursuant to IFRS 5	(3)	–
Currency translation at 31 December	8,987	(3,759)
Net book value at 31 December of the year under review	**1,834,496**	**1,838,450**

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
	2010		2009	
	Three months to one year	More than one year	Three months to one year	More than one year
Accounts receivable	61,366	87,605	52,642	98,826

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 66 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	2010	2009
Changes in value adjustments		
Cumulative value adjustments at 31 December of the previous year	72,258	125,573
Currency translation at 1 January of the year under review	2,325	(2,351)
Cumulative value adjustments after currency translation	**74,583**	**123,222**
Value adjustments in the year under review	11,025	23,718
Reversal	38,375	74,682
Reclassification pursuant to IFRS 5	(11,465)	–
Cumulative value adjustments at 31 December of the year under review	**35,768**	**72,258**
Gross book value of accounts receivable at 31 December of the year under review	2,877,071	2,942,132
Value adjustments	35,768	72,258
Net book value of accounts receivable at 31 December of the year under review	**2,841,303**	**2,869,874**

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

With regard to the credit risks resulting from technical assets we would also refer the reader to our comments in the risk report on page 66.

5.5 Goodwill

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

Development of goodwill in EUR thousand	2010	2009
Net book value at 31 December of the previous year	44,393	42,833
Currency translation at 1 January	1,663	1,560
Net book value at 1 January of the year under review	**46,056**	**44,393**
Corporate changes	(283)	–
Net book value at 31 December of the year under review	**45,773**	**44,393**

This item principally included the goodwill from the acquisition of E+S Rückversicherung AG as well as from acquisition transactions within the subgroup of Hannover Reinsurance Group Africa (Pty.) Ltd. For further information on the method used to test impairment the reader is referred to our explanatory remarks in Section 3.2 "Summary of major accounting policies".

5.6 Other assets

Other assets in EUR thousand	2010	2009
Present value of future profits on acquired life reinsurance portfolios	98,368	102,408
Other intangible assets	39,799	56,871
Insurance for pension commitments	57,064	52,007
Own-use real estate	45,699	44,547
Tax refund claims	35,104	42,791
Fixtures, fittings and equipment	31,808	38,844
Other receivables	8,396	1,556
Receivables from affiliated companies	2	545
Other	20,203	32,443
Total	**336,443**	**372,012**

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
	2010	2009
Net book value at 31 December of the previous year	102,408	1,823
Currency translation at 1 January	264	113
Net book value at 1 January of the year under review	**102,672**	**1,936**
Additions	–	104,252
Amortisation	4,304	3,786
Currency translation at 31 December	–	6
Net book value at 31 December of the year under review	**98,368**	**102,408**

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

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 57.1 million (EUR 52.0 million).

Fixtures, fittings and equipment

Fixtures, fittings and equipment in EUR thousand	**2010**	2009
Gross book value at 31 December of the previous year	111,425	89,110
Currency translation at 1 January	4,002	1,998
Gross book value after currency translation	**115,427**	**91,108**
Additions	10,013	11,275
Disposals	18,238	3,353
Reclassification	201	–
Changes in consolidated group	(34)	12,886
Currency translation at 31 December	76	(491)
Gross book value at 31 December of the year under review	**107,445**	**111,425**
Cumulative depreciation at 31 December of the previous year	72,581	62,808
Currency translation at 1 January	2,132	1,486
Cumulative depreciation after currency translation	**74,713**	**64,294**
Disposals	13,767	2,431
Depreciation	14,489	10,852
Reclassification	175	–
Change in consolidated group	(19)	–
Currency translation at 31 December	46	(134)
Cumulative depreciation at 31 December of the year under review	**75,637**	**72,581**
Net book value at 31 December of the previous year	38,844	26,302
Net book value at 31 December of the year under review	**31,808**	**38,844**

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	**2010**	2009
Gross book value at 31 December of the previous year	171,899	165,959
Currency translation at 1 January	1,373	24
Gross book value after currency translation	**173,272**	**165,983**
Change in consolidated group	(6)	–
Additions	4,157	7,598
Disposals	9,815	347
Currency translation at 31 December	(15)	(1,335)
Gross book value at 31 December of the year under review	**167,593**	**171,899**
Cumulative depreciation at 31 December of the previous year	115,028	104,649
Currency translation at 1 January	247	176
Cumulative depreciation after currency translation	**115,275**	**104,825**
Change in consolidated group	(6)	–
Disposals	84	194
Write-ups	12	80
Depreciation	12,602	10,474
Currency translation at 31 December	19	3
Cumulative depreciation at 31 December of the year under review	**127,794**	**115,028**
Net book value at 31 December of the previous year	56,871	61,310
Net book value at 31 December of the year under review	**39,799**	**56,871**

The item includes EUR 6.6 million (EUR 7.2 million) for self-provided software and EUR 31.6 million (EUR 36.6 million) for purchased software as at the balance sheet date. Scheduled depreciation is taken over useful lives of three to ten years. The additions can be broken down into EUR 2.9 million (EUR 5.9 million) for purchased software and EUR 1.0 million (EUR 0.3 million) for capitalised development costs for self-provided software.

As in the previous year, the other receivables do not include any items that were overdue but unadjusted as at the balance sheet date. Value adjustments were taken on other receivables in an amount of EUR 0.3 million (EUR 0.7 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 66 et seq.

5.7 Technical provisions

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

Technical provisions						in EUR thousand
	2010			2009		
	gross	retro	net	gross	retro	net
Loss and loss adjustment expense reserve	18,065,395	1,025,332	17,040,063	17,425,293	1,747,991	15,677,302
Benefit reserve	8,939,190	347,069	8,592,121	7,952,640	104,868	7,847,772
Unearned premium reserve	1,910,422	83,224	1,827,198	1,512,840	47,651	1,465,189
Other technical provisions	184,528	1,831	182,697	148,827	400	148,427
Total	**29,099,535**	**1,457,456**	**27,642,079**	**27,039,600**	**1,900,910**	**25,138,690**

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

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

Loss and loss adjustment expense reserve						in EUR thousand
	2010			2009		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	17,425,293	1,747,991	15,677,302	16,932,069	2,079,168	14,852,901
Currency translation at 1 January	1,084,548	121,769	962,779	25,107	(19,838)	44,945
Reserve at 1 January of the year under review	**18,509,841**	**1,869,760**	**16,640,081**	**16,957,176**	**2,059,330**	**14,897,846**
Reclassification pursuant to IFRS 5	(1,306,483)	(827,314)	(479,169)	–	–	–
Incurred claims and claims expenses (net)[1]						
Year under review	6,971,047	512,650	6,458,397	4,786,057	213,776	4,572,281
Previous years	765,975	218,902	547,073	1,942,699	(22,302)	1,965,001
	7,737,022	**731,552**	**7,005,470**	**6,728,756**	**191,474**	**6,537,282**
Less:						
Claims and claims expenses paid (net)						
Year under review	(2,491,229)	(230,553)	(2,260,676)	(2,314,135)	(130,610)	(2,183,525)
Previous years	(4,481,203)	(520,687)	(3,960,516)	(3,921,412)	(392,354)	(3,529,058)
	(6,972,432)	**(751,240)**	**(6,221,192)**	**(6,235,547)**	**(522,964)**	**(5,712,583)**
Specific value adjustment for retrocessions	–	2,100	(2,100)	–	10,423	(10,423)
Reversal of impairments	–	23,107	(23,107)	–	32,604	(32,604)
Portfolio entries/exits	133,254	(5,673)	138,927	9,801	(19)	9,820
Currency translation at 31 December	(35,807)	(12,760)	(23,047)	(34,893)	(2,011)	(32,882)
Net book value at 31 December of the year under review	**18,065,395**	**1,025,332**	**17,040,063**	**17,425,293**	**1,747,991**	**15,677,302**

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 reversed in an amount of EUR 21.0 million (previous year: reversed in an amount of EUR 22.2 million). Consequently, cumulative specific value adjustments of EUR 3.5 million (EUR 24.5 million) were recognised in these reinsurance recoverables as at the balance sheet date.

The total amount of the net reserve before specific value adjustments, to which the following remarks apply, was EUR 17,036.6 million (EUR 15,652.8 million) as at the balance sheet date.

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

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

The development of the euro relative to the most relevant foreign currencies is also a significant influencing factor in the analysis of run-off triangles. In particular, the depreciation of 7.5% in the euro against the US dollar compared to the previous year led to an increase in the loss and loss adjustment expense reserve on a euro basis.

The run-off triangles show the run-off of the 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 (loss and loss adjustment expense reserve) for non-life reinsurance in the years 2000 to 2010 as well as the run-off of the reserve (so-called run-off triangle). The figures reported for the 2000 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 2010 financial year for the individual run-off years.

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

	31.12. 2000	31.12. 2001	31.12. 2002	31.12. 2003	31.12. 2004	31.12. 2005	31.12. 2006	31.12. 2007	31.12. 2008	31.12. 2009	31.12. 2010
Loss and loss adjustment expense reserve (from balance sheet)											
	8,482.0	**12,182.7**	**12,863.4**	**13,462.2**	**13,120.7**	**14,295.9**	**13,279.8**	**12,718.2**	**13,354.1**	**13,779.6**	**15,255.3**[1]
Cumulative payments for the year in question and previous years											
One year later	2,108.2	2,242.2	2,118.1	3,622.7	4,495.8	3,051.1	2,664.8	2,476.2	2,927.9	2,803.6	
Two years later	3,111.9	3,775.1	5,024.4	7,322.2	6,611.0	5,072.2	4,389.8	4,249.6	4,573.2		
Three years later	4,174.2	6,032.1	7,764.8	8,780.2	7,590.1	6,204.5	5,696.0	5,370.9			
Four years later	5,745.1	8,588.5	8,909.0	9,518.8	8,356.3	7,306.3	6,500.7				
Five years later	7,581.3	9,399.8	9,467.1	10,101.6	9,136.7	7,934.9					
Six years later	8,114.1	9,786.1	9,896.7	10,733.6	9,596.4						
Seven years later	8,405.2	10,122.4	10,456.6	11,081.6							
Eight years later	8,610.9	10,533.4	10,724.3								
Nine years later	8,891.4	10,734.5									
Ten years later	9,023.6										
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	**8,482.0**	**12,182.7**	**12,863.4**	**13,462.2**	**13,120.7**	**14,295.9**	**13,279.8**	**12,718.2**	**13,354.1**	**13,779.6**	**15,255.3**
One year later	9,421.6	11,604.4	11,742.7	13,635.5	14,433.1	13,074.2	12,365.8	12,171.4	13,264.9	14,303.4	
Two years later	8,878.0	10,477.4	11,844.8	14,236.6	13,532.6	12,366.0	11,868.0	11,925.7	13,263.4		
Three years later	8,186.1	10,743.8	12,373.3	13,596.5	13,061.2	11,977.1	11,645.0	12,040.5			
Four years later	8,354.1	11,543.6	11,730.7	13,307.4	12,770.8	11,772.7	11,670.3				
Five years later	9,102.6	11,051.2	11,666.2	13,122.5	12,618.0	11,768.5					
Six years later	8,755.6	11,164.1	11,686.0	13,053.9	12,578.0						
Seven years later	8,864.2	11,219.1	11,707.0	12,987.5							
Eight years later	8,935.7	11,261.7	11,669.9								
Nine years later	8,933.0	11,166.3									
Ten years later	8,865.6										
Net run-off result of the loss reserve											
	67	28	(58)	29	(26)	(36)	(29)	(90)	116	(525)	
Of which currency exchange rate differences	94	27	28	42	47	69	66	89	139	138	
Net run-off result excluding currency exchange rate differences											
	161	55	(30)	72	21	33	36	–	255	(388)	
As percentage of original loss reserve	1.8	0.5	(0.3)	0.5	0.2	0.3	0.3	–	1.9	(2.8)	

1 The net loss reserve of EUR 15,255.3 million shown in the run-off triangle for the 2010 balance sheet year includes the assets held for sale and liabilities related to assets held for sale of Clarendon Insurance Group, Inc. in an amount of EUR 479.2 million.

The result for the run-off years in the 2010 financial year was EUR 214.8 million. This is equivalent to 1.4% of the original reserve.

The improved run-off result relative to the previous year can be attributed to positive run-offs of reserves for major losses (especially Hurricanes “Gustav” and “Ike” and the attack on the World Trade Center in New York) as well as proportional reinsurance business from the German market.

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 technical provisions broken down by the expected remaining times to maturity. In 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

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

Maturities of the technical reserves — in EUR thousand

	2009					
	Loss and loss adjustment expense reserves			Benefit reserve		
	gross	retro	net	gross	retro	net
Due in one year	4,580,900	434,186	4,146,714	108,337	6,822	101,515
Due after one through five years	6,717,787	743,097	5,974,690	296,293	36,811	259,482
Due after five through ten years	2,756,500	333,179	2,423,321	267,938	7,600	260,338
Due after ten through twenty years	1,952,551	140,255	1,812,296	452,295	5,541	446,754
Due after twenty years	1,035,258	49,448	985,810	329,017	4,286	324,731
	17,042,996	1,700,165	15,342,831	1,453,880	61,060	1,392,820
Deposits	382,297	72,345	309,952	6,498,760	43,808	6,454,952
Total	**17,425,293**	**1,772,510**	**15,652,783**	**7,952,640**	**104,868**	**7,847,772**

The average maturity of the loss and loss adjustment expense reserve was 5.2 years (5.7 years), or 5.3 years (5.8 years) after allowance for the corresponding retrocession shares. The benefit reserve had an average maturity of 14.4 years (13.0 years) – or 14.7 years (13.3 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 external 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 across years by contrasting the projected payments with the actual amounts realised.

Liabilities in liability and motor reinsurance traditionally have long settlement periods, 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 term 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 and lapse rates as well as mortality and morbidity rates.

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

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

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

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

Development of the benefit reserve — in EUR thousand

	2010			2009		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	7,952,640	104,868	7,847,772	5,913,075	159,151	5,753,924
Currency translation at 1 January	361,507	(27,793)	389,300	76,616	(2,225)	78,841
Reserve at 1 January of the year under review	**8,314,147**	**77,075**	**8,237,072**	**5,989,691**	**156,926**	**5,832,765**
Changes in the consolidated group	–	–	–	981,850	–	981,850
Changes	694,150	41,439	652,711	580,268	17,600	562,668
Portfolio entries/exits	(71,410)	228,346	(299,756)	422,752	(69,815)	492,567
Currency translation at 31 December	2,303	209	2,094	(21,921)	157	(22,078)
Net book value at 31 December of the year under review	**8,939,190**	**347,069**	**8,592,121**	**7,952,640**	**104,868**	**7,847,772**

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
	2010			2009		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	1,512,840	47,651	1,465,189	1,333,856	29,733	1,304,123
Currency translation at 1 January	116,463	3,994	112,469	11,558	1,624	9,934
Reserve at 1 January of the year under review	**1,629,303**	**51,645**	**1,577,658**	**1,345,414**	**31,357**	**1,314,057**
Reclassifications pursuant to IFRS 5	(108)	(85)	(23)			
Changes	287,536	33,300	254,236	227,161	18,658	208,503
Portfolio entries/exits	(3,351)	(1,221)	(2,130)	(35,038)	(189)	(34,849)
Currency translation at 31 December	(2,958)	(415)	(2,543)	(24,697)	(2,175)	(22,522)
Net book value at 31 December of the year under review	**1,910,422**	**83,224**	**1,827,198**	**1,512,840**	**47,651**	**1,465,189**

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

5.8 Funds withheld (liabilities)

The funds withheld under reinsurance treaties totalling EUR 1,187.7 million (EUR 857.4 million) represent the cash and securities deposits furnished to our company by our retrocessionaires that do not trigger any cash flows and cannot be realised without the consent of our retrocessionaires. The maturities of these deposits are matched to the corresponding shares of the reinsurers in the technical provisions. If such a share no longer exists the corresponding funds withheld are reduced to the same extent.

5.9 Contract deposits (liabilities)

The contract deposits on the liabilities side increased by EUR 665.9 million in the year under review from EUR 4,038.4 million to EUR 4,704.3 million. The contract deposits item encompasses balances deriving from non-traditional life insurance contracts that are to be carried as liabilities. The rise was due principally to growth in new business in the area of life reinsurance.

5.10 Provisions for pensions and other post-employment benefit obligations

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

On 1 April 1993 (1 June 1993 in the case of managerial staff) the 1993 pension plan came into effect. This pension plan provides for retirement, disability and surviving dependants' benefits. The scheme is based upon annual determination of the pension contributions, which at 1% up to the assessment limit in the statutory pension insurance scheme and 2.5% above the assessment limit of the pensionable employment income are calculated in a range of 0.7% to 1% and 1.75% to 2.5% respectively depending upon the company's performance. The pension plan closed as at 31 March 1999.

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

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

Effective 1 December 2002 Group employees have an opportunity to accumulate additional old-age provision at unchanged conditions by way of deferred compensation through membership of HDI-Gerling Pensionskasse AG. The benefits provided by HDI-Pensionskasse AG are guaranteed for its members and their surviving dependants and comprise traditional pension plans with bonus increases as well as unit-linked hybrid annuities.

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 discussed above are classified as defined benefit plans. The basis of the valuation is the estimated future increase in the rate of compensation of the pension beneficiaries. The benefit entitlements are discounted by applying the capital market rate for highest-rated securities. The commitments to employees in Germany predominantly comprise benefit obligations financed by the Group companies. The pension plans are unfunded. Amounts carried as liabilities are recognised under other liabilities. The provisions for pensions in Germany and abroad were calculated on the basis of uniform standards defined by Talanx AG and subject to local economic conditions.

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

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

Measurement assumptions in %	2010			2009		
	Germany	USA	Australia	Germany	USA	Australia
Discount rate	4.57	–	5.00	5.63	5.22	5.15
Projected long-term yield on plan assets	–	–	7.00	–	–	7.00
Rate of compensation increase	2.75	–	5.00	3.00	–	5.00
Pension indexation	2.00	–	3.00	2.25	–	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	2010	2009
Projected benefit obligation at the beginning of the year under review	93,462	79,908
Current service cost for the year under review	2,818	2,506
Interest cost	4,969	4,731
Deferred compensation	20	232
Actuarial gain/loss	11,034	5,915
Currency translation	2,447	2,366
Benefits paid during the year	(3,466)	(2,196)
Past service cost	57	–
Effect of plan curtailments or settlements	(1,379)	–
Projected benefit obligation at 31 December of the year under review	**109,962**	**93,462**

Funding of the defined benefit obligation in EUR thousand	2010	2009
Projected benefit obligation from unfunded plans	97,420	82,245
Projected benefit obligation from wholly or partially funded plans (before deduction of fair value of plan assets)	12,542	11,217
Projected benefit obligation at 31 December of the year under review	**109,962**	**93,462**
Fair value of plan assets	10,464	9,317
Funded status (present value of earned benefit entitlements less fund assets)	**99,498**	**84,145**

The fair value of the plan assets developed as follows:

Change in plan assets in EUR thousand	2010	2009
Fair value at the beginning of the year under review	9,317	7,051
Expected return on plan assets	710	532
Actuarial gain/loss	(448)	(43)
Currency translation	1,928	1,460
Employer contributions	1,507	398
Benefits paid during the year	(1,126)	(81)
Effect of plan curtailments or settlements	(1,424)	–
Fair value of plan assets at 31 December of the year under review	**10,464**	**9,317**

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 of qualifying insurance policies as defined by IAS 19.

The structure of the portfolio underlying the plan assets was as follows:

Portfolio structure as % of plan assets	2010	2009
Equities	–	5
Other	100	95
Total	**100**	**100**

The fair value of plan assets did not include any amounts (EUR 1.3 million) for own financial instruments as at the balance sheet date. No actual gains or losses were generated on plan assets in the year under review or in the previous year.

The following table presents a reconciliation of the funded status – calculated as 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	2010	2009
Defined benefit obligations at 31 December of the year under review	109,962	93,462
Fair value of plan assets at 31 December of the year under review	10,464	9,317
Funded status	**99,498**	**84,145**
Unrealised actuarial gain/loss	(17,784)	(6,648)
Past service cost	(57)	–
Net provisions for pensions at 31 December of the year under review	**81,657**	**77,497**

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

Change in the provision for pensions in EUR thousand	2010	2009
Net provisions for pensions at 31 December of the previous year	77,497	72,207
Currency translation	(681)	288
Expense for the year under review	7,688	7,260
Amounts paid during the year	(344)	(143)
Benefits paid during the year	(2,340)	(2,115)
Other	(163)	–
Net provisions for pensions at 31 December of the year under review	**81,657**	**77,497**

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

Net periodic pension cost in EUR thousand	2010	2009
Current service cost for the year under review	2,818	2,506
Interest cost	4,908	4,679
Expected return on plan assets	640	478
Recognised actuarial gain/loss	(526)	(538)
Effect of plan curtailments or settlements	(76)	(15)
Total	**7,688**	**7,260**

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

The net periodic pension cost was recognised in the consolidated statement of income in amounts of EUR 6.0 million (EUR 5.8 million) under administrative expenses, EUR 1.0 million (EUR 0.7 million) under other expenses and EUR 0.7 million (EUR 0.8 million) under other investment expenses.

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

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

Amounts recognised in EUR thousand	2010	2009	2008	2007	2006
Present value of defined benefit obligation	109,962	93,462	79,908	79,135	77,400
Fair value of plan assets	10,464	9,317	7,051	9,372	7,302
Surplus/(deficit) in the plan	(99,498)	(84,145)	(72,857)	(69,763)	(70,098)
Experience adjustments on plan liabilities	(17,784)	(6,647)	(649)	(3,410)	(8,633)
Experience adjustments on plan assets	–	–	–	(374)	34

In the current financial year Hannover Re does not expect any contribution payments (EUR 0.6 million) under the pension plans set out above.

Defined contribution plans

In addition to the defined benefit plans, some Group companies maintain defined contribution plans that are based on length of service and the employee's income or level of contributions. The expense recognised for these obligations in the year under review in accordance with IAS 19 "Employee Benefits" was EUR 4.2 million (EUR 4.0 million), of which only a minimal amount was due to obligations to members of staff in key positions.

5.11 Other liabilities

Other liabilities in EUR thousand	2010	2009
Liabilities from derivatives	77,205	21,129
Interest	73,575	71,770
Deferred income	16,545	19,522
Costs of the annual financial statements	5,840	6,189
Liabilities due to affiliated companies	4,833	3,285
Provisions arising out of employment relationships	29,746	33,850
Direct minority interests in partnerships	38,470	31,258
Other	197,718	126,447
Total	**443,932**	**313,450**

The liabilities from derivatives of EUR 77.2 million (EUR 21.1 million) consist of instruments to hedge currency and inflation risks as well as embedded derivatives recognised separately from the underlying insurance contract at fair value pursuant to IAS 39 "Financial Instruments: Recognition and Measurement". Please see our remarks on derivative financial instruments in Section 7.1 "Derivative financial instruments".

The other liabilities include sundry non-technical provisions of EUR 131.8 million (EUR 69.1 million), which developed as shown in the following table.

Development of sundry non-technical provisions	Balance at 31.12.2009	Currency translation at 1 January	Balance at 1 January of the year under review	Reclassifications pursuant to IFRS 5
Provisions for				
Audits and costs of publishing the annual financial statements	6,189	183	6,372	(707)
Consultancy fees	1,847	157	2,004	(206)
Suppliers' invoices	7,909	611	8,520	(444)
Partial retirement arrangements and early retirement obligations	8,232	266	8,498	(3,947)
Holiday entitlements and overtime	3,880	132	4,012	(121)
Anniversary bonuses	2,131	–	2,131	–
Management bonuses	19,607	964	20,571	(2,803)
Measurement of disposal groups	–	–	–	–
Other	19,287	839	20,126	(672)
Total	**69,082**	**3,152**	**72,234**	**(8,900)**

						in EUR thousand
Other reclassifications	Changes in consolidated group	Additions	Utilisation	Release	Currency translation at 31 December	Balance at 31.12.2010
–	–	5,306	5,104	–	(27)	5,840
918	–	1,407	1,097	15	145	3,156
(190)	–	6,731	6,152	307	119	8,277
–	–	3,983	3,043	–	(8)	5,483
–	–	5,184	3,444	7	186	5,810
–	–	2	53	–	–	2,080
–	–	17,600	14,894	4,095	(6)	16,373
–	–	54,918	–	–	137	55,055
(728)	(17)	15,786	4,267	377	(99)	29,752
–	**(17)**	**110,917**	**38,054**	**4,801**	**447**	**131,826**

Notes

5.12 Debt and subordinated capital

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

On 14 September 2010 Hannover Re placed a new subordinated bond on the European capital market through its subsidiary Hannover Finance (Luxembourg) S.A. This subordinated debt with a nominal value of 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% p.a. in the first ten years, after which the interest basis changes to a floating rate of three-month EURIBOR +423.5 basis points.

On 1 June 2005 Hannover Re issued further subordinated debt in the amount of EUR 500.0 million through its subsidiary Hannover Finance (Luxembourg) S.A. The bond is perpetual and carries a fixed coupon of 5.00% in the first ten years. It may be redeemed by Hannover Re on 1 June 2015 at the earliest and at each coupon date thereafter. If the bond is not called at the end of the tenth year, the coupon will step up to a floating-rate yield of quarterly EURIBOR +268 basis points. The interest will be serviced according to the same principles as those practised in the past. As part of the transaction, holders of the subordinated debt of EUR 350.0 million placed by Hannover Re in 2001 – which has a term of 30 years and may be called in prior to maturity by the issuer on 14 March 2011 – were offered an opportunity to exchange their existing issue for holdings in the new bond. Participation in the exchange amounted to a nominal value of EUR 211.9 million, corresponding to EUR 240.5 million of the new bond issue. The cash component of the new bond in the amount of nominally EUR 259.5 million was placed predominantly with institutional investors in Europe. The remaining volume of the bond issued in 2001 after the exchange was unchanged at EUR 138.1 million and carries a fixed coupon of 6.25% until March 2011. If Hannover Re does not exercise its right of early cancellation on this date, the coupon will step up to a floating-rate yield of quarterly EURIBOR +205 basis points.

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% (calculated as a spread of 163 basis points over the 10-year mid-swap rate at the time of issue). It may be redeemed by Hannover Re on 26 February 2014 at the earliest and at each coupon date thereafter. If the bond is not called at the end of the tenth year, the coupon will step up to a floating-rate yield of quarterly EURIBOR +263 basis points.

Altogether four subordinated bonds were recognised as at the balance sheet date with a cost or amortised cost of EUR 1,869.1 million (EUR 1,365.1 million).

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

Debt and subordinated capital in EUR thousand				2009			
Subordinated loans	Coupon	Maturity	Currency	Amortised cost	Fair value measurement	Accrued interest and rent	Fair value
Hannover Finance (Luxembourg) S.A., 2005	5.00	n/a	EUR	481,091	(71,794)	14,589	423,886
Hannover Finance (Luxembourg) S.A., 2004	5.75	2024	EUR	746,091	(27,599)	36,409	754,901
Hannover Finance (Luxembourg) S.A., 2001	6.25	2031	EUR	137,868	(7,775)	6,907	137,000
				1,365,050	**(107,168)**	**57,905**	**1,315,787**
Debt				116,200	–	59	116,259
Other long-term liabilities				86	–	–	86
Total				**1,481,336**	**(107,168)**	**57,964**	**1,432,132**

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.

The further rise of EUR 71.4 million in the debt to EUR 187.6 million was driven by increased borrowing requirements as a consequence of the extended investment activities of Hannover Re Real Estate Holdings, Inc. The largest debt in an amount equivalent to nominally EUR 68.4 million matures on 26 March 2015 and was accessed by the company in two tranches as at 1 April 2010 and 2 November 2010.

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

1 Excluding derivatives and minority shares in partnerships

Maturities of financial liabilities							in EUR thousand
	2009						
	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 liabilities[1]	76,473	65,628	364	–	–	–	75
Debt	143	2.098	113,959	–	–	–	–
Subordinated loans	–	–	–	–	746,091	137,868	481,091
Other long-term liabilities	–	–	86	–	–	–	–
Gesamt	**76,616**	**67,726**	**114,409**	**–**	**746,091**	**137,868**	**481,166**

1 Excluding derivatives and minority shares in partnerships

Net gains and losses from debt and subordinated capital						in EUR thousand
	2010	2009	2010	2009	2010	2009
	Ordinary income/expenses		Amortisation		Net result	
Debt	(9,218)	(2,807)	(1,414)	–	(10,632)	(2,807)
Subordinated loans	(85,266)	(76,650)	(4,057)	(2,476)	(89,323)	(79,126)
Total	**(94,484)**	**(79,457)**	**(5,471)**	**(2,476)**	**(99,955)**	**(81,933)**

The ordinary expenses principally include interest expenses of EUR 85.3 million (EUR 76.7 million) resulting from the subordinated debt placed through Hannover Finance (Luxembourg) S.A.

Other financial facilities

Facilities exist with various financial institutions for letters of credit, including two syndicated guarantee facilities from 2005 and 2006.

Following the contractual maturity of the first 50% of the line from 2005 in January 2010, it amounted to an equivalent of EUR 754.5 million (EUR 1,395.1 million) as at the balance sheet date. The other 50% of this line matures in January 2012. The line from 2006, the amount of which as at the balance sheet date was equivalent to EUR 1,509.0 million (EUR 1,395.1 million), matures in January 2013.

Unsecured letter of credit facilities with various terms (maturing at the latest in 2017) and a total volume equivalent to EUR 1,207.2 million (EUR 802.2 million) exist on a bilateral basis with financial institutions.

Furthermore, a long-term unsecured line of credit with a total volume equivalent to at most EUR 565.9 million (EUR 523.2 million) was concluded in December 2009. It is intended specifically for US life business. For further information on the letters of credit provided please see our explanatory remarks in Section 7.7 "Contingent liabilities and commitments".

A number of LoC facilities include standard market clauses that grant rights of cancellation to the banks 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 77 on the information pursuant to § 315 Para. 4 German Commercial Code (HGB).

5.13 Shareholders' equity, minority 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 value shares. The shares are fully paid up. Each share carries an equal voting right and an equal dividend entitlement.

Minority interests are established in accordance with the shares held by companies outside the Group in the shareholders' equity of the subsidiaries.

Authorised capital of up to EUR 60,299 thousand is available with a time limit of 3 May 2015. 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 11 May 2011.

For the disclosures arising out of IAS 1 "Presentation of Financial Statements" with regard to the management of capital the reader is referred to the "Financial position" section on page 73 et seq. 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 5 May 2009, the company was authorised until 31 October 2010 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 23,163 treasury shares in the course of the second quarter of 2010 and delivered them to eligible employees at preferential conditions. These shares are blocked until 31 May 2014. This transaction reduced the retained earnings by EUR 0.3 million. The company was no longer in possession of treasury shares as at the balance sheet date.

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

6.1 Gross written premium

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

Gross written premium[1] in EUR thousand	**31.12.2010**	31.12.2009
Regional origin		
Germany	1,163,854	1,313,417
United Kingdom	2,434,328	1,808,204
France	496,836	486,018
Other	1,329,042	1,286,776
Europe	**5,424,060**	**4,894,415**
USA	2,957,878	2,841,476
Other	415,623	383,313
North America	**3,373,501**	**3,224,789**
Asia	965,463	830,995
Australia	488,212	389,476
Australasia	**1,453,675**	**1,220,471**
Africa	465,062	354,652
Other	712,419	580,428
Total	**11,428,717**	**10,274,755**

1 After elimination of internal transactions within the Group across segments

6.2 Investment income

Investment income in EUR thousand	2010	2009
Income from real estate	31,410	4,762
Dividends	4,427	2,867
Interest income	829,855	793,269
Other investment income	14,829	9,649
Ordinary investment income	**880,521**	**810,547**
Profit or loss on shares in associated companies	3,857	(4,970)
Appreciation	27,213	20,076
Realised gains on investments	244,694	182,897
Realised losses on investments	82,691	69,885
Unrealised gains and losses on investments	(39,893)	100,571
Impairments on real estate	7,314	1,253
Impairments on equity securities	569	3,165
Impairments on fixed-income securities	7,906	45,379
Impairments on participating interests and other financial assets	7,976	92,709
Other investment expenses	67,409	53,121
Net income from assets under own management	**942,527**	**843,609**
Interest income on funds withheld and contract deposits	436,183	455,722
Interest expense on funds withheld and contract deposits	119,815	178,948
Total investment income	**1,258,895**	**1,120,383**

Of the impairments totalling EUR 16.6 million (EUR 141.4 million), an amount of EUR 7.7 million (EUR 92.6 million) was attributable to alternative investments. The impairments on fixed-income securities of EUR 7.9 million (EUR 45.4 million) were taken predominantly on structured assets. An impairment loss of EUR 0.6 million (EUR 3.2 million) was recognised on equities whose fair value had fallen significantly – i.e. by at least 20% – or for a prolonged period – i.e. for at least nine months – below acquisition cost. This contrasted with write-ups of EUR 27.2 million (EUR 20.1 million) on investments that had been written down in previous periods. Of this total volume, EUR 3.0 million (EUR 10.8 million) was attributable to alternative assets and EUR 24.1 million (EUR 9.3 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	2010	2009
Fixed-income securities – held to maturity	124,539	102,600
Fixed-income securities – loans and receivables	90,063	72,005
Fixed-income securities – available for sale	583,968	566,953
Financial assets – at fair value through profit or loss	6,812	17,004
Other	24,473	34,707
Total	**829,855**	**793,269**

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 67.4 million (EUR 53.1 million), net income from assets under own management of altogether EUR 942.5 million (EUR 843.6 million) was recognised in the year under review.

Net gains and losses on investments					Figures in EUR thousand
	2010				
	Ordinary investment income1[1]	Realised gains and losses	Impairments/ appreciation	Unrealised gains and losses	Net income from assets under own management[2]
Held to maturity					
Fixed-income securities	135,340	306	131	–	135,515
Loans and receivables					
Fixed-income securities	91,255	8,299	434	–	99,120
Available for sale					
Fixed-income securities	579,090	161,238	(16,744)	–	757,072
Equity securities	1,726	407	569	–	1,564
Other invested assets	13,536	3,507	4,951	–	12,092
Short-term investments	19,693	1,399	(50)	–	21,142
At fair value through profit or loss					
Fixed-income securities	13,597	5,979	–	6,004	25,580
Other financial assets	2,842	–	–	10,125	12,967
Other	27,299	(19,132)	7,261	(56,022)	(55,116)
Total	**884,378**	**162,003**	**(3,448)**	**(39,893)**	**1,009,936**

Net gains and losses on investments					Figures in EUR thousand
	2009				
	Ordinary investment income1[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	108,826	(3,173)	1,206	–	104,447
Loans and receivables					
Fixed-income securities	72,273	6,149	3,684	–	74,738
Available for sale					
Fixed-income securities	564,541	111,414	31,593	–	644,362
Equity securities	790	(3,504)	2,722	–	(5,436)
Other invested assets	31,751	1,191	81,922	–	(48,980)
Short-term investments	16,223	322	50	–	16,495
At fair value through profit or loss					
Fixed-income securities	17,171	2,990	–	15,575	35,736
Other financial assets	1,581	(1,308)	–	36,566	36,839
Other	(7,579)	(1,069)	1,253	48,430	38,529
Total	**805,577**	**113,012**	**122,430**	**100,571**	**896,730**

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

6.3 Reinsurance result

Reinsurance result in EUR thousand	2010	2009
Gross written premium	11,428,717	10,274,755
Ceded written premium	1,127,465	759,076
Change in unearned premium	(287,536)	(227,161)
Change in ceded unearned premium	33,300	18,658
Net premium earned	**10,047,016**	**9,307,176**
Other technical income	16,845	14,362
Total net technical income	**10,063,861**	**9,321,538**
Claims and claims expenses paid	6,221,192	5,712,583
Change in loss and loss adjustment expense reserve	786,863	835,510
Claims and claims expenses (net)	**7,008,055**	**6,548,093**
Change in benefit reserve	652,229	562,256
Premium refund	(482)	(412)
Net change in benefit reserve	**652,711**	**562,668**
Commissions	2,119,269	1,971,883
Change in deferred acquisition costs	(117,566)	(52,990)
Change in provision for contingent commissions	21,113	(13,529)
Other acquisition costs	5,302	14,137
Other technical expenses	44,183	38,788
Administrative expenses	280,720	246,940
Net technical result	**(185,058)**	**(100,432)**

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

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

Other technical income in EUR thousand	2010	2009
Other technical income (gross)	13,168	15,301
Reinsurance recoverables	(3,677)	939
Other technical income (net)	**16,845**	**14,362**

Commissions and brokerage, change in deferred acquisition costs		in EUR thousand
	2010	2009
Commissions paid (gross)	2,266,467	2,055,809
Reinsurance recoverables	147,198	83,926
Change in deferred acquisition costs (gross)	(158,192)	(122,719)
Reinsurance recoverables	(40,626)	(69,729)
Change in provision for contingent commissions (gross)	22,373	(15,745)
Reinsurance recoverables	1,260	(2,216)
Commissions and brokerage, change in deferred acquisition costs (net)	**2,257,948**	**2,011,344**

Notes

Other technical expenses in EUR thousand	2010	2009
Other technical expenses (gross)	44,574	38,892
Reinsurance recoverables	391	104
Other technical expenses (net)	**44,183**	**38,788**

6.4 Other income/expenses

Other income/expenses in EUR thousand	2010	2009
Other income		
Exchange gains	157,691	112,533
Reversals of impairments on receivables	55,655	95,879
Income from the recognition of negative goodwill	–	92,652
Income from contracts recognised in accordance with the deposit accounting method	49,672	40,468
Income from services	10,546	7,893
Other interest income	5,896	1,904
Sundry income	106,931	24,823
	386,391	**376,152**
Other expenses		
Other interest expenses	35,246	48,757
Exchange losses	20,688	32,580
Separate value adjustments	13,540	35,022
Expenses for the company as a whole	39,847	33,690
Depreciation	15,489	11,488
Expenses for services	9,321	9,698
Expenses from the measurement of disposal groups	54,918	–
Sundry expenses	97,379	82,389
	286,428	**253,624**
Total	**99,963**	**122,528**

Of the separate value adjustments, an amount of EUR 10.9 million (EUR 23.9 million) was attributable to accounts receivable, EUR 2.1 million (EUR 10.4 million) to reinsurance recoverables on unpaid claims and EUR 0.5 million (EUR 0.7 million) to other receivables.

6.5 Taxes on income

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

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

The tax rate used to calculate the deferred taxes of the domestic companies was unchanged from the previous year at 31.93% (rounded to 32%). It is arrived at from the corporate income tax rate of 15.0% applicable since 1 January 2008, the German reunification charge of 5.5% and a uniform trade earnings tax rate of 16.1%. The deferred taxes at the companies abroad were calculated using the applicable country-specific tax rates.

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

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

Tax risks

In the previous year we reported that, contrary to a very clear opinion expressed by tax attorneys, the revenue authority is of the view that not inconsiderable investment income generated by the Group's reinsurance subsidiaries domiciled in Ireland is subject to taxation of foreign sourced income at the parent companies in Germany on the basis of the provisions of the Foreign Transactions Tax Act. Insofar as tax assessments to this effect have already been received, appeals have been filed – also with respect to the amounts already recognised as a tax expense. After our opinion had already been confirmed in full by the court of the first instance in 2009, we evaluated as slight the risk that tax assessments containing taxation of foreign sourced investment income generated by Irish companies at the parent companies would be upheld.

In October 2010 the Federal Fiscal Court confirmed the decision of the lower court. Provisions constituted for these circumstances were therefore released. As a result, a non-capitalised contingent asset also existed as at 31 December 2010 in connection with the refund of prepaid taxes and interest in a substantial amount.

Breakdown of taxes on income

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

Income tax in EUR thousand	**2010**	2009
Current tax for the year under review	307,519	146,887
Current tax for other periods	(52,498)	37,804
Deferred taxes due to temporary differences	(2,792)	105,239
Deferred taxes from loss carry-forwards	6,299	1,822
Change in deferred taxes due to changes in tax rates	(899)	18
Total	**257,629**	**291,770**

Domestic/foreign breakdown of recognised tax expenditure/income in EUR thousand	**2010**	2009
Current taxes		
Germany	198,204	124,921
Abroad	56,817	59,770
Deferred taxes		
Germany	(22,189)	90,342
Abroad	24,797	16,737
Total	**257,629**	**291,770**

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

Deferred tax assets and deferred tax liabilities of all Group companies		in EUR thousand
	2010	2009[1]
Deferred tax assets		
Tax loss carry-forwards	45,433	117,918
Loss and loss adjustment expense reserves	201,132	193,175
Benefit reserve	36,148	43,126
Other technical/non-technical provisions	170,844	150,513
Funds withheld	308,411	531,016
Accounts receivable/reinsurance payable	6,243	15,926
Valuation differences relating to investments	14,517	21,739
Contract deposits	84	30,533
Other valuation differences	278,904	307,875
Value adjustments[2]	(44,377)	(146,651)
Total	**1,017,339**	**1,265,170**
Deferred tax liabilities		
Loss and loss adjustment expense reserves	13,228	15,494
Benefit reserve	190,521	390,521
Other technical/non-technical provisions	95,284	109,499
Equalisation reserve	802,480	753,431
Funds withheld	51,402	91,293
Deferred acquisition costs	363,468	380,562
Accounts receivable/reinsurance payable	53,593	52,493
Valuation differences relating to investments	183,523	138,533
Present value of future profits on acquired life reinsurance portfolios (PVFP)	12,155	12,297
Other valuation differences	262,076	290,337
Total	**2,027,730**	**2,234,460**
Deferred tax liabilities	1,010,391	969,290

1 Adjusted on the basis of IAS 8
2 Thereof on tax loss carry-forwards: -EUR 43,787 thousand (-EUR 110,573 thousand)

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

Netting of deferred tax assets and deferred tax liabilities in EUR thousand	2010	2009
Deferred tax assets	622,136	515,867
Deferred tax liabilities	1,632,527	1,485,157
Net deferred tax liabilities	**1,010,391**	**969,290**

The current and deferred taxes recognised directly in shareholders' equity in the financial year amounted to –EUR 37.5 million (–EUR 23.3 million). They resulted from items that were charged or credited directly to equity.

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

Reconciliation of the expected expense for income taxes with the actual expense		in EUR thousand
	2010	2009
Profit before income taxes	1,088,534	1,065,829
Expected tax rate	32%	32%
Expected expense for income taxes	348,331	341,065
Change in deferred tax rates	(899)	19
Taxation differences affecting foreign subsidiaries	(54,112)	(118,700)
Non-deductible expenses	9,777	41,567
Tax-exempt income	(14,174)	(26,352)
Tax income not attributable to the reporting period (previous year: tax expense)	(54,026)	27,559
Utilisation of previously adjusted loss carry-forwards	–	228
Other	22,732	26,384
Actual expense for income taxes	**257,629**	**291,770**

Availability of non-capitalised loss carry-forwards

Unused tax loss carry-forwards of EUR 161.9 million (EUR 370.8 million) existed as at the balance sheet date. Making allowance for local tax rates, EUR 156.5 million (EUR 345.0 million) thereof was not capitalised since realisation is not sufficiently certain.

In addition, tax credits of EUR 5.9 million (EUR 22.3 million) which were not capitalised are still available. There were no other temporary differences which had not been capitalised (previous year: EUR 82.0 million).

Significant elements of the unused tax loss carry-forwards, non-capitalised tax credits and other non-capitalised temporary differences were allocated to the disposal group as at the balance sheet date. This is reflected in a decrease relative to the previous year.

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

Expiry of loss carry-forwards					in EUR thousand
	One to five years	Six to ten years	More than ten years	Unlimited	Total
Loss carry-forwards	–	–	350	156,130	156,480
Tax credits	5,897	–	–	–	5,897
Total	**5,897**	**–**	**350**	**156,130**	**162,377**

Notes

7. Other notes

7.1 Derivative financial instruments

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

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

Hannover Re holds derivative financial instruments to hedge interest rate risks from loans connected with the financing of real estate; these gave rise to recognition of other liabilities in an amount of EUR 2.3 million (previous year: none).

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 34.9 million (other liabilities of EUR 17.8 million, other financial assets at fair value through profit or loss of EUR 0.2 million).

In the year under review Hannover Re acquired 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 31.4 million (previous year: none) and other financial assets at fair value through profit or loss in an amount of EUR 0.2 million (previous year: none).

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

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

Maturity structure of derivative financial instruments					in EUR thousand
	2009				
	Less than three months	Three months to one year	One to five years	Five to ten years	31.12.
Currency hedges					
Fair values	(485)	(1,997)	(8,887)	(6,211)	(17,580)
Notional values	10,395	8,864	40,464	40,414	100,137
Total hedging instruments					
Fair values	(485)	(1,997)	(8,887)	(6,211)	(17,580)
Notional values	10,395	8,864	40,464	40,414	100,137

The net changes in the fair value of these instruments produced a charge of EUR 50.9 million (EUR 17.1 million) to the result of the financial year.

Derivative financial instruments in connection with reinsurance

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

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

Hannover Re calculates the fair value of the embedded derivatives in ModCo treaties using the market information available on the valuation date on the basis of a "credit spread" method. Under this method the derivative is valued at zero on the date when the contract commences and its value then fluctuates over time according to changes in the credit spreads of the securities. The derivative had a value of EUR 45.2 million (EUR 31.9 million) as at the balance sheet date and was recognised under other financial assets at fair value through profit or loss.

Hannover Re has refined the calculation logic for derivatives resulting from ModCo treaties. The risks from the aforementioned contracts are thus established on a more market-oriented basis. Retention of the parameters used until the first quarter of 2010 to calculate the derivative would have produced a value of EUR 26.5 million. The effect of this refinement of the calculation logic on the value of the derivative in future reporting periods could only have been determined with a disproportionately high effort.

Owing to the narrowing of credit spreads in the course of the year, the change in the fair value of the derivative gave rise to a positive profit contribution of EUR 10.7 million before tax (EUR 121.8 million).

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 9.3 million (EUR 9.9 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 0.6 million (EUR 1.2 million) as at 31 December 2010.

Pursuant to IAS 39 "Financial Instruments: Recognition and Measurement" the "Eurus II" transaction gives rise to a derivative, the fair value of which as at 31 December 2010 was –EUR 6.8 million (EUR 1.5 million) and which we recognised under other liabilities as at the balance sheet date. Measurement resulted in a charge to investment income of EUR 5.3 million (EUR 5.4 million) in the year under review.

We would refer the reader to the explanatory remarks in Section 4 “Consolidation” regarding the securitisation of reinsurance risks.

All in all, application of the standards governing the carrying of derivatives in connection with the technical account led to recognition of assets totalling EUR 54.5 million (EUR 58.0 million) as well as recognition of liabilities from the derivatives resulting from technical items in an amount of EUR 8.5 million (EUR 3.3 million) as at the balance sheet date. Increases in investment income amounting to EUR 11.0 million (EUR 122.1 million) as well as charges to income of EUR 22.2 million (EUR 20.0 million) were recognised in the year under review from all separately measured derivatives in connection with the technical account.

7.2 Related party disclosures

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

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

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

Within the contractually agreed framework AmpegaGerling Asset Management GmbH performs investment and asset management services for Hannover Re and some of its subsidiaries. AmpegaGerling Immobilien Management GmbH performs services for Hannover Re under a management contract.

Companies belonging to the Talanx Group granted the Hannover Re Group insurance protection inter alia in the areas of public liability, building, group accident and business travel collision insurance. In addition, Talanx AG billed Hannover Re and E+S Rück pro rata for the directors’ and officers’ (D&O) insurance of the Talanx Group. Divisions of Talanx AG also performed services for us in the areas of taxes and general administration, in the latter case additionally through Talanx Service AG (formerly HDI-Gerling Sach Serviceholding AG). Furthermore, a cost allocation agreement existed with Talanx AG for joint promotional activities in 2010.

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.

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

Business assumed and ceded in Germany and abroad in EUR thousand	31.12.2010	
	Premium	Underwriting result
Business assumed		
Non-life reinsurance	381,281	107,621
Life and health reinsurance	276,418	(6,502)
	657,699	**101,119**
Business ceded		
Non-life reinsurance	(19,215)	(21,903)
Life and health reinsurance	(8,789)	(4,038)
	(28,004)	**(25,941)**
Total	**629,695**	**75,178**

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

Positive run-offs of reserves and losses in proportional reinsurance business from the German market significantly influenced the underwriting result from business assumed from related parties in the non-life reinsurance segment.

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

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

With effect from the second quarter of 2010 Hannover Reinsurance (Ireland) Ltd. and Talanx AG commuted a group of reinsurance treaties furnished with guarantees from Talanx AG. The guarantees were transferred to Hannover Reinsurance (Ireland) Ltd in 2007. All claims of Hannover Reinsurance (Ireland) Ltd. under the guarantees expired upon commutation.

As part of long-term lease arrangements companies belonging to the Hannover Re Group rented out business premises in 2010 to HDI Direkt Versicherung AG, Hannover. In addition, lease agreements exist with Talanx Service AG, Hannover, AmpegaGerling Asset Management GmbH, Cologne, and HDI-Gerling Leben Betriebsservice GmbH, Brühl, for use of a portion of the space in our data-processing computer centre.

Furthermore, IT and management services were performed for both HDI Direkt Versicherung AG and Protection Reinsurance Intermediaries AG, Hannover, under service contracts.

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

With regard to this information please see in general the remuneration report included as part of our Corporate Governance report, in particular page 83 et seq.

The remuneration report is based on the recommendation of the German Corporate Governance Code and contains information which also forms part of the notes to the 2010 consolidated financial statement as required by IAS 24 "Related Party Disclosures". In addition, we took into account the more specific provisions of DRS 17 "Reporting on the Remuneration of Members of Governing Bodies". Under German commercial law, too, this information includes data specified as mandatory for the notes (§ 314 HGB) and the management report (§ 315 HGB). These details are discussed as a whole in the remuneration report. Consequently, we have not provided any further explanation in the notes.

7.3 Share-based payment

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 stock appreciation rights with cash settlement is governed by the requirements of IFRS 2 "Share-based Payment".

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

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

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

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

Upon exercise of a stock appreciation right the amount paid out to the entitled party is the difference between the basic price and the current market price of the Hannover Re share at the time of exercise. In this context, the basic price corresponds to the arithmetical 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 arithmetical 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 2000, 2002 to 2004 as well as 2006, 2007 and 2009 gave rise to commitments in the 2010 financial year shown in the following table. No allocations were made for 2001, 2005 or 2008.

Stock appreciation rights of Hannover Re — Allocation year

	2009	2007	2006	2004	2003	2002	2000
Award date	15.03.10	28.03.08	13.03.07	24.03.05	25.03.04	11.04.03	21.06.01
Period	10 years	10 years	10 years	10 years	10 years	10 years	10 years
Waiting period	2 years	2 years	2 years	2 years	2 years	2 years	2 years
Basic price (in EUR)	22.70	34.97	30.89	27.49	24.00	23.74	25.50
Participants in year of issue	137	110	106	109	110	113	95
Number of rights granted	1,569,855	926,565	817,788	211,171	904,234	710,429	1,138,005
Fair value at 31.12.2010 (in EUR)	7.30	7.86	9.77	16.16	8.99	8.79	5.49
Maximum value (in EUR)	8.76	10.79	10.32	24.62	8.99	8.79	5.49
Weighted exercise price	–	1.52	5.32	8.51	8.99	8.79	5.49
Number of rights existing at 31.12.2010	1,535,600	889,858	691,751	126,622	3,316	2,365	–
Provisions at 31.12.2010 (in EUR million)	3.90	6.10	6.48	2.05	0.03	0.02	–
Amounts paid out in the 2010 financial year (in EUR million)	–	0.02	0.50	0.25	0.49	0.07	0.01
Expense in the 2010 financial year (in EUR million)	3.90	2.40	2.53	0.59	0.01	–	–

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

The calculations were based on the year-end closing price of the Hannover Re share of EUR 41.38 as at 22 December 2010, expected volatility of 39.69% (historical volatility on a five-year basis), a dividend yield of 5.32% and risk-free interest rates of 1.02% for the 2002 allocation year, 1.39% for the 2003 allocation year, 1.76% for the 2004 allocation year, 2.38% for the 2006 allocation year, 2.64% for the 2007 allocation year and 3.05% for the 2009 allocation year.

In the 2010 financial year the waiting period expired for 100% of the stock appreciation rights awarded in 2000 and 2002 to 2004, 60% of those awarded in 2006 and 40% of those awarded in 2007. 1,503 stock appreciation rights from the 2000 allocation year, 7,682 stock appreciation rights from the 2002 allocation year, 52,581 stock appreciation rights from the 2003 allocation year, 29,832 stock appreciation rights from the 2004 allocation year, 95,380 stock appreciation rights from the 2006 allocation year and 10,399 stock appreciation rights from the 2007 allocation year were exercised. The total amount paid out stood at EUR 1.3 million.

The stock appreciation rights of Hannover Re developed as follows:

Development of the stock appreciation rights of Hannover Re							Allocation year
Number of options	2009	2007	2006	2004	2003	2002	2000
Granted in 2001	–	–	–	–	–	–	1,138,005
Exercised in 2001	–	–	–	–	–	–	–
Lapsed in 2001	–	–	–	–	–	–	–
Number of options at 31.12.2001	**–**	**–**	**–**	**–**	**–**	**–**	**1,138,005**
Granted in 2002	–	–	–	–	–	–	–
Exercised in 2002	–	–	–	–	–	–	–
Lapsed in 2002	–	–	–	–	–	–	40,770
Number of options at 31.12.2002	**–**	**–**	**–**	**–**	**–**	**–**	**1,097,235**
Granted in 2003	–	–	–	–	–	710,429	–
Exercised in 2003	–	–	–	–	–	–	–
Lapsed in 2003	–	–	–	–	–	23,765	110,400
Number of options at 31.12.2003	**–**	**–**	**–**	**–**	**–**	**686,664**	**986,835**
Granted in 2004	–	–	–	–	904,234	–	–
Exercised in 2004	–	–	–	–	–	–	80,137
Lapsed in 2004	–	–	–	–	59,961	59,836	57,516
Number of options at 31.12.2004	**–**	**–**	**–**	**–**	**844,273**	**626,828**	**849,182**
Granted in 2005	–	–	–	211,171	–	–	–
Exercised in 2005	–	–	–	–	–	193,572	647,081
Lapsed in 2005	–	–	–	6,397	59,834	23,421	25,974
Number of options at 31.12.2005	**–**	**–**	**–**	**204,774**	**784,439**	**409,835**	**176,127**
Granted in 2006	–	–	–	–	–	–	–
Exercised in 2006	–	–	–	–	278,257	160,824	153,879
Lapsed in 2006	–	–	–	14,511	53,578	22,896	10,467
Number of options at 31.12.2006	**–**	**–**	**–**	**190,263**	**452,604**	**226,115**	**11,781**
Granted in 2007	–	–	817,788	–	–	–	–
Exercised in 2007	–	–	–	12,956	155,840	110,426	3,753
Lapsed in 2007	–	–	8,754	13,019	38,326	10,391	–
Number of options at 31.12.2007	**–**	**–**	**809,034**	**164,288**	**258,438**	**105,298**	**8,028**
Granted in 2008	–	926,565	–	–	–	–	–
Exercised in 2008	–	–	–	1,699	121,117	93,747	–
Lapsed in 2008	–	–	3,103	1,443	2,162	944	–
Number of options at 31.12.2008	**–**	**926,565**	**805,931**	**161,146**	**135,159**	**10,607**	**8,028**
Granted in 2009	–	–	–	–	–	–	–
Exercised in 2009	–	–	–	1,500	79,262	560	6,525
Lapsed in 2009	–	17,928	16,158	3,192	–	–	–
Number of options at 31.12.2009	**–**	**908,637**	**789,773**	**156,454**	**55,897**	**10,047**	**1,503**
Granted in 2010	1,569,855	–	–	–	–	–	–
Exercised in 2010	–	10,399	95,380	29,832	52,581	7,682	1,503
Lapsed in 2010	34,255	8,380	2,642	–	–	–	–
Number of options at 31.12.2010	**1,535,600**	**889,858**	**691,751**	**126,622**	**3,316**	**2,365**	**–**

On this basis the aggregate provisions – included in the sundry non-technical provisions – amounted to EUR 18.6 million for the 2010 financial year (EUR 10.5 million). The expense totalled altogether EUR 9.4 million (EUR 7.5 million).

7.4 Staff and expenditures on personnel

Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group during the reporting period was 2,130 (1,984).

As at the balance sheet date altogether 2,192 (2,069) staff were employed by the Hannover Re Group, with 1,089 (1,032) employed in Germany and 1,103 (1,037) working for the consolidated Group companies abroad.

Personnel information	2010					2009	
	31.03.	30.06.	30.09.	31.12.	Average	31.12.	Average
Number of employees (excluding Board members)	2,099	2,133	2,159	2,192	2,130	2,069	1,984

Nationality of employees							
	2010						
	German	US	South African	UK	Irish	Other	Total
Number of employees	1,017	341	165	165	31	473	2,192

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	2010	2009
a) Wages and salaries		
aa) Expenditures on insurance business	144,546	118,495
ab) Expenditures on the administration of investments	10,578	9,742
	155,124	**128,237**
b) Social security contributions and expenditure on provisions and assistance		
ba) Social security contributions	18,787	17,327
bb) Expenditures for pension provision	16,404	11,819
bc) Expenditures for assistance	2,530	1,922
	37,721	**31,068**
Total	**192,845**	**159,305**

Notes

7.5 Earnings per share and dividend proposal

Calculation of the earnings per share	2010	2009
Group net income in EUR thousand	748,890	733,712
Weighted average of issued shares	120,596,877	120,594,371
Basic earnings per share in EUR	6.21	6.08
Diluted earnings per share in EUR	6.21	6.08

Neither in the year under review nor in the previous reporting period were there any dilutive effects. The weighted average of the issued shares was, as in the previous year, slightly lower than the value of the shares in circulation on the balance sheet date. In the context of the employee share option plan Hannover Re acquires treasury shares and sells them at a later date to eligible employees. For further details please see our comments in Section 5.13 "Shareholders' equity, minority 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: none) was paid in the year under review for the 2009 financial year.

On the occasion of the Annual General Meeting to be held on 3 May 2011 it will be proposed that a dividend of EUR 2.30 per share should be paid for the 2010 financial year. This corresponds to a total distribution of EUR 277.4 million. The dividend proposal does not form part of this consolidated financial statement.

7.6 Lawsuits

In the context of the acquisition of Lion Insurance Company, Trenton/USA, by Hannover Finance, Inc., Wilmington/USA – a subsidiary of Hannover Re –, a legal dispute exists with the former owners of Lion Insurance Company regarding the release of a trust account in an amount of around USD 14 million that serves as security for liabilities of the former owners in connection with a particular business segment.

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

7.7 Contingent liabilities and commitments

Hannover Re has placed four subordinated debts on the European capital markets through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured by subordinated guarantee both the debt issued in 2001, the volume of which now stands at EUR 138.1 million, and the debts from financial years 2004 in an amount of EUR 750.0 million as well as 2005 and 2010 in amounts of EUR 500.0 million respectively. For further details please see Section 5.12 "Debt and subordinated capital".

The guarantees given by Hannover Re for the subordinated debts come into action if the issuer in question 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 2,576.3 million (EUR 2,341.3 million) and EUR 9.5 million (previous year: none) respectively as at the balance sheet date. The securities held in the trust accounts are shown as available-for-sale investments. Further collateral exists in an amount of EUR 298.6 million (EUR 309.6 million) in the form of so-called "single trust funds".

As part of our business activities we hold collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the Group's major companies was EUR 1,851.4 million (EUR 1,587.8 million) as at the balance sheet date.

In order to collateralise 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 2,766.6 million (EUR 2,552.2 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 77 on the information pursuant to § 315 Para. 4 German Commercial Code (HGB) as well as in Section 5.12 "Debt and subordinated capital" on other financial facilities.

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 257.5 million (EUR 174.4 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 272.6 million (EUR 328.8 million). These primarily involve as yet unfulfilled payment obligations from participations entered into in private equity funds and venture capital firms.

7.8 Long-term commitments

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

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

7.9 Rents and leasing

Leased property

Future leasing commitments in EUR thousand	Payments
2011	8,391
2012	7,225
2013	6,150
2014	4,766
2015	3,967
Subsequent years	5,762

Operating leasing contracts produced expenditures of EUR 8.2 million (EUR 5.4 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
2011	26,518
2012	23,059
2013	23,814
2014	23,012
2015	21,046
Subsequent years	45,801

Rental income totalled EUR 29.3 million (EUR 16.3 million) in the year under review. The rental income resulted principally from the renting out of properties by Hannover Re Real Estate Holdings.

7.10 Fee paid to the auditor

Total fees of EUR 9.5 million (EUR 8.9 million) were incurred for accountants' services throughout the Hannover Re Group worldwide in the year under review. They were principally comprised of auditing and tax consultancy fees.

Of this total amount, EUR 3.4 million (EUR 2.5 million) was attributable to the fee paid to the appointed auditor of the consolidated financial statement as defined by §318 German Commercial Code (HGB). The amount includes a fee of EUR 2.8 million (EUR 2.3 million) for the auditing of the financial statement and EUR 0.1 million (EUR 0.1 million) for tax consultancy services. Expenditure of EUR 0.5 million (EUR 0.1 million) was incurred for consultancy and other services performed for the parent or subsidiary companies in the year under review.

7.11 Events after the balance sheet date

In October 2010 the Federal Fiscal Court (BFH) confirmed a decision of the lower court according to which investment income of Irish subsidiaries is not subject to taxation of foreign sourced income. Since tax assessments were amended accordingly or the amendment thereof was announced by the revenue authority in February 2011, we anticipate the refund of prepaid taxes and interest in a substantial amount.

In a press release dated 22 December 2010 we reported that Hannover Re had reached agreement on the sale of all operational companies of its US subsidiary Clarendon Insurance Group, Inc., New York, to the Bermuda-based Enstar Group Ltd., Hamilton. Since this transaction was still subject to the customary regulatory approvals at the time when the consolidated financial statement was released for publication, it remains our expectation that the sale will be closed in the second quarter of 2011.

We anticipate a net burden of losses in the range of EUR 40.0 million to EUR 100.0 million from the flooding that occurred in the Australian city of Brisbane in January 2011.

In a press release dated 11 January 2011 we advised that the New York State Insurance Department had allowed Hannover Re to qualify as a so-called “Eligible Reinsurer”. Under this regulation the collateral requirements for our non-life reinsurance business written in the state of New York are reduced. Whereas it had previously been necessary to post collateral for 100% of the technical reserves, the required collateral level for Hannover Re now stands at just 20%.

The subordinated debt of EUR 350.0 million issued in 2001 through Hannover Finance (Luxembourg) S.A. can be called for the first time on 14 March 2011 and has a remaining volume of EUR 138.1 million after the offer made in 2005 to existing issue holders to exchange into a new bond. As announced on 1 February 2011, the issuer exercised its call option and will repay the outstanding bond volume in full effective 14 March 2011. Further details of the debt are provided in section 5.12 “Debt and subordinated capital”.

Hannover, 7 March 2011

Executive Board

Wallin | Arrago | Dr. Becke | 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, notes to the consolidated financial statements, consolidated cash flow statement and consolidated statement of changes in equity – as well as the group management report for the business year from 1 January to 31 December 2010. 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 Abs. 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, 7 March 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Husch	Busch
Wirtschaftsprüfer	Wirtschaftsprüfer

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, 7 March 2011

Executive Board

Wallin   Arrago   Dr. Becke   Gräber

Dr. Miller   Dr. Pickel   Vogel

Report by the Supervisory Board

of Hannover Re for the Hannover Re Group

In our function as the Supervisory Board we considered at length during the 2010 financial year the position and development of the company and its major subsidiaries. We advised the Executive Board on the direction of the company and monitored the management of business on the basis of written and verbal reports from the Executive Board. The Supervisory Board held four meetings in order to adopt the necessary resolutions after appropriate discussion. A resolution was adopted by a written procedure with respect to one matter requiring attention at short notice. We received quarterly written reports from the Executive Board on the course of business and the position of the company and the Group. These reports describe, inter alia, the current planned and expected figures for the individual business groups. The reporting also covers strains from major losses as well as the investment portfolio, investment income, ratings and the development of the Group's global workforce. The quarterly reports with the quarterly financial statements and key figures for the Hannover Re Group constituted a further important source of information for the Supervisory Board. We received an analysis of the 2009 results in non-life and life/health reinsurance as well as a presentation from the Executive Board covering the profit expectations for the 2010 financial year and the operational planning for the 2011 financial year. In addition, the Chairman of the Supervisory Board was constantly advised by the Chairman of the Executive Board of major developments and impending decisions as well as of the risk situation within the company and the Group. All in all, we were involved in decisions taken by the Executive Board and assured ourselves of the lawfulness, regularity and efficiency of the company's management as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. No audit measures pursuant to § 111 Para. 2 Sentence 1 German Stock Corporation Act were required in the 2010 financial year.

Key points of deliberation

As in every year, we were given a description of the major pending legal proceedings. We obtained information about the use of inflation swaps as a hedge against the potential effects of inflation on the liabilities side of the balance sheet as well as about the status of the audit conducted by the Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung (DPR)). We were regularly updated on the work of the Supervisory Board committees and received a report on the ING Life Re acquisition from 2009 as well as a status report on approval of the internal model by the Federal Financial Supervisory Authority (BaFin). What is more, we again looked at the existing collateral structures for reinsurance liabilities and adopted the necessary resolutions regarding the funding of collateral capacities required for further transactions in order to be able to make flexible use of available opportunities in life reinsurance business while at the same time retaining latitude for possible additional block assumption transactions. We authorised the issue of a subordinated bond with a volume of EUR 500 million and approved the sale of the subsidiary Clarendon National Insurance Company and its subsidiaries for a price of around USD 200 million. A focus of our deliberations was a procedure pending before the Federal Fiscal Court (BFH) regarding taxation of foreign sourced income under the Foreign Transactions Tax Act (Außensteuergesetz). This procedure concluded with the pleasing decision for the Hannover Re Group handed down on 13 October 2010 and the amendment of the affected tax assessments – which has either already been carried out or has been announced by the revenue authority. The core of the legal dispute, about which the Executive Board updated the Supervisory Board on a regular and timely basis, revolved around the question of whether the investment income generated by a reinsurance subsidiary domiciled in Ireland was taxable at the parent company in Germany. The Federal Fiscal Court answered this question in the negative and thereby confirmed a decision of the Lower Saxony Fiscal Court in the first instance. In the context of the annual review of the investment guidelines, the work concentrated on further clarification, the restructuring of issuer risks and the revised specification of real estate guidelines.

With an eye to § 87 Para. 1 Sentence 1 German Stock Corporation Act, the full Supervisory Board again considered the definition of the performance bonuses of the members of the Executive Board. In addition, the fixed remuneration of individual members of the Executive Board was reviewed. A new member of the Executive Board was appointed and the schedule of Executive Board responsibilities was updated. The revision of the system of Executive Board remuneration and the adjustment of contracts of employment with members of the Executive Board were also considered at length. These revisions were essential on account of changes in the legal framework conditions.

Committees of the Supervisory Board

Of the committees formed by the Supervisory Board within the meaning of § 107 Para. 3 German Stock Corporation Act, the Finance and Audit Committee as well as the Standing Committee each met on four occasions. Both committees took one decision by way of a written procedure. The Chairman of the Supervisory Board updated the full Supervisory Board on the major deliberations of the committee meetings at its next meeting and provided an opportunity for further questions.

The Finance and Audit Committee considered inter alia the consolidated financial statement drawn up in accordance with IFRS and the individual financial statement of the parent company Hannover Re drawn up in accordance with the German Commercial Code (HGB) and discussed with the independent auditors their reports on these financial statements. As in the previous year, an expert opinion on the adequacy of the loss reserves in non-life reinsurance, a review of the accumulated prefinancing volume in life reinsurance including a comparison of the expected return flows with the repayments actually made, the risk report pursuant to the Act on Control and Transparency in Business (KonTraG), the compliance report/report on adherence to Corporate Governance principles and reports on the major subsidiaries were received and discussed. The Finance and Audit Committee further considered the effectiveness of the risk management system, the internal control system and the internal audit function, and it reported accordingly to the Supervisory Board. In addition, the Committee examined the investment structure and investment income – including the stress tests with regard to the investments and their implications for net income and the equity base – and defined the audit concentrations for the 2010 financial year. The Committee received information on the reserving of major losses as well as on the products offered by Hannover Re in the field of structured products and was provided with an overview of the individual securitisations, the structure of these transactions and the results. It considered the issue of a subordinated bond as well as the sale of Clarendon National Insurance Company and its subsidiaries and prepared the adoption of resolutions on these matters by the full Supervisory Board. The discussion of the quarterly financial statements for the parent company Hannover Re and the Hannover Re Group as well as the findings of the audits conducted by the Internal Auditing unit constituted further key areas of deliberation.

The Standing Committee dealt with the determination of the performance bonuses of the members of the Executive Board for the 2009 financial year, the total number of stock participation rights to be awarded to the Executive Board and the basic number of stock participation rights for the 2010 financial year and drew up corresponding recommendations for the full Supervisory Board. In addition, recommendations were submitted to the full Supervisory Board in the context of the review of the fixed remuneration of members of the Executive Board. The Standing Committee considered at length the personnel changes on the company's Executive Board and recommended to the full Supervisory Board that Dr. Klaus Miller be appointed as a full member of the Executive Board. Furthermore, the Executive Board was authorised to conclude an exemption agreement with a member of the Executive Board regarding the exercise of an outside mandate. The Committee deliberated at length on the preparation of recommendations for the full Supervisory Board regarding the revision of the system of Executive Board remuneration and the adjustment of the contracts of employment with members of the Executive Board. As a consequence of these revisions, the stock participation rights plan was partially terminated with effect from the 2011 allocation year with respect to the allocation entitlement of the members of the Executive Board.

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

Corporate Governance

The Supervisory Board once again devoted considerable attention to the issue of Corporate Governance. The Rules of Procedure for the Supervisory Board were modified with an eye to the revised version of the German Corporate Governance Code (DCGK) as amended 26 May 2010. As far as the composition of the Supervisory Board is concerned, efforts are now being made to ensure that at least two members of the Supervisory Board are women. Despite the high importance that the Supervisory Board attaches to the standards of good and responsible enterprise management defined in the German Corporate Governance Code, the Supervisory Board again decided not to comply with the recommendation in Code Item 4.2.3 Para. 4 of the German Corporate Governance Code concerning a cap on severance payments in management board contracts. The justification in this respect is provided in the Declaration of Conformity pursuant to § 161 German Stock Corporation Act regarding compliance with the German Corporate Governance Code, which is reproduced in this Annual Report in the context of the Corporate Governance declaration. Further information on the topic of corporate governance is available on Hannover Re's website.

The deductibles in the D&O cover as well as the system of Executive Board remuneration were revised and adjusted in line with the modified legal framework conditions. The Supervisory Board again conducted an efficiency audit of the Supervisory Board's work using a written questionnaire, the overall outcome of which was very pleasing. With a view to further improving the work of the Supervisory Board, it was agreed that henceforth the item "Reports from the Supervisory Board Committees" should be included in the agenda for Supervisory Board meetings on a regular basis.

Audit of the annual financial statements and consolidated financial statements

The accounting, annual financial statements, consolidated financial statements and the corresponding management reports were audited by KPMG AG Wirtschaftsprüfungsgesellschaft. The Supervisory Board selected the auditor and the Chairman of the Supervisory Board awarded the audit mandate. The auditor's independence declaration was received. In addition to the usual audit tasks, the auditors focused particularly on the issues defined by the Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung) as well as on the implementation of requirements arising out of the Act on the Modernisation of Accounting Law (BilMoG). In the context of the consolidated financial statements to be drawn up by Hannover Re in accordance with International Financial Reporting Standards (IFRS), the auditors were required to subject the measurement of deferred acquisition costs and the fair value determination of investments with a special eye to the fair value hierarchy of IFRS 7.27 B to particular scrutiny. The mandate for the review report by the independent auditors on the interim financial report as at 30 June 2010 was again also awarded. The special challenges associated with the international aspects of the audits were met without reservation. Since the audits did not give rise to any objections KPMG AG issued unqualified audit certificates. The Finance and Audit Committee discussed the annual financial statements and the management reports with the participation of the auditors and in light of the audit reports, and it informed the Supervisory Board of the outcome of its examination. The audit reports were distributed to all members of the Supervisory Board and scrutinised in detail – with the participation of the auditors – at the Supervisory Board meeting held to consider the annual results. The auditors will also be present at the Annual General Meeting.

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

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

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

We have examined

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

– in each case drawn up as at 31 December 2010 – and have no objections. Nor do we have any objections to the statement reproduced in the dependent company report. The Supervisory Board thus concurred with the opinions of the auditors and approved the annual financial statements and the consolidated financial statements; the annual financial statements are thereby adopted. We concur with the Executive Board's proposal regarding the appropriation of the disposable profit for 2010.

Changes on the Supervisory Board and the Executive Board

There were no changes in the composition of the Supervisory Board and its committees in the year under review.

With effect from 1 September 2010 Dr. Klaus Miller was appointed as a full member of the Executive Board for a period of three years. Mr. Roland Vogel was appointed as a full member of the Executive Board with effect from 1 January 2011 for the remainder of his current term of appointment, i.e. until 31 March 2012.

Word of thanks to the Executive Board and members of staff

The Supervisory Board thanks the members of the Executive Board and all staff for their work in the year under review.

Hannover, 8 March 2011

For the Supervisory Board
Herbert K. Haas
Chairman

Supervisory Board of Hannover Re

Herbert K. Haas[1, 2, 3]

Burgwedel

Chairman

Chairman of the Board of Management of Talanx AG

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

Dr. Klaus Sturany[1]

Dortmund

Deputy Chairman

Member of various supervisory boards

Wolf-Dieter Baumgartl[1, 2, 3]

Berg

Chairman of the Supervisory Board of Talanx AG

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

Uwe Kramp[4]

Hannover

Karl Heinz Midunsky[3]

Gauting

Former Corporate Vice President and Treasurer Siemens AG

Ass. jur. Otto Müller[4]

Hannover

Dr. Immo Querner

Hannover

Member of the Board of Management of Talanx AG

Member of the Board of Management of HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Dr. Erhard Schipporeit[2]

Hannover

Member of various supervisory boards

Gert Wächtler[4]

Burgwedel

1 Member of the Standing Committee
2 Member of the Finance and Audit Committee
3 Member of the Nomination Committee
4 Staff representative

Details of memberships of legally required supervisory boards and comparable control boards at other domestic and foreign business enterprises are contained in the individual report of Hannover Rückversicherung AG.

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Eric Arnst

Glossary

Accumulation loss: sum of several individual losses incurred by various policyholders as a result of the same loss event (e.g. windstorm, earthquake). This may lead to a higher loss for the direct insurer or reinsurer if several affected policyholders are insured by the said company.

Acquisition cost, deferred (DAC): cost of an insurance company that arises from the acquisition or the renewal of an insurance contract (e.g. commission for the closing, costs of proposal assessment and underwriting etc.). Capitalisation results in a distribution of the cost over the duration of the contract.

Aggregate excess of loss treaty: a form of excess of loss treaty reinsurance under which the reinsurer responds when a ceding insurer incurs losses on a particular line of business during a specific period (usually 12 months) in excess of a stated amount.

Alternative risk financing: use of the capacity available on the capital markets to cover insurance risks, e.g. through the securitisation of natural catastrophe risks.

American Depositary Receipt (ADR): share certificates written by US banks on foreign shares deposited there. Instead of trading the foreign shares directly, US stock exchanges trade the ADRs.

Bancassurance: partnership between a bank and an insurance company for the purpose of selling insurance products through the banking partner's branches. The link between the insurer and the bank is often characterised by an equity participation or a long-term strategic cooperation between the two parties.

Benefit reserves: value arrived at using mathematical methods for future liabilities (present value of future liabilities minus present value of future incoming premiums), primarily in life and health insurance.

Block assumption transaction (BAT): proportional reinsurance treaty on a client's life or health insurance portfolio, by means of which it is possible, inter alia, for our clients to realise in advance the future profits so as to be able to efficiently ensure the attainment of corporate objectives, e.g. in the areas of financial or solvency policy.

CAPM: cf. ➔ Capital Asset Pricing Model

Capital asset pricing model (CAPM): the CAPM is used to explain the materialisation of prices/returns on the capital market based on investor expectations regarding the future probability distribution of returns. Under this method, the opportunity cost rate for the shareholders' equity consists of three components – a risk-averse interest rate, a market-specific risk loading and an enterprise-specific risk assessment, the beta coefficient. The cost of shareholders' equity is therefore defined as follows: risk-averse interest rate + beta * enterprise-specific risk assessment.

Cash flow statement: statement on the origin and utilisation of cash and cash equivalents during the accounting period. It shows the changes in liquid funds separated into cash flows from operating, investing and financing activities.

Catastrophe loss: loss which has special significance for the direct insurer or reinsurer due to the amount involved; it is defined as a catastrophe loss in accordance with a fixed loss amount or other criteria.

Cedant: direct insurer or reinsurer which passes on (also: cedes) shares of its insured or reinsured risks to a reinsurer in exchange for premium.

Cession: transfer of a risk from the direct insurer to the reinsurer.

Claims and claims expenses: sum total of paid claims and provisions for loss events that occurred in the business year; this item also includes the result of the run-off of the provisions for loss events from previous years, in each case after the deduction of own reinsurance cessions.

Coinsurance Funds Withheld- (CFW) Treaty: type of coinsurance contract where the ceding company retains a portion of the original premium at least equal to the ceded reserves. Similar to a ➔ Modco contract the interest payment to the reinsurer reflects the investment return on an underlying asset portfolio.

Combined ratio: sum of the loss ratio and expense ratio.

Confidence (also: probability) level: the confidence level defines the probability with which the defined amount of risk will not be exceeded.

Contribution margin accounting level 5 (DB 5): this level of contribution margin accounting constitutes the clear profit after earning the discounted claims expenditure plus all external and internal costs including the cost of capital.

Corporate Governance: serves to ensure responsible management and supervision of enterprises and is intended to foster the trust of investors, clients, employees and the general public in companies.

Credit status (also: creditworthiness): ability of a debtor to meet its payment commitments.

Creditworthiness: cf. → credit status

Critical illness coverages: cf. → dread disease coverages

DB 5: cf. → contribution margin accounting level 5

Deposit accounting: an accounting method originating in US accounting principles for the recognition of short-term and multi-year insurance and reinsurance contracts with no significant underwriting risk transfer. The standard includes inter alia provisions relating to the classification of corresponding contract types as well as the recognition and measurement of a deposit asset or liability upon inception of such contracts.

Deposits with ceding companies/deposits received from retrocessionaires (also: funds held by ceding companies/funds held under reinsurance treaties): collateral provided to cover insurance liabilities that a (re-)insurer retains from the liquid funds which it is to pay to a reinsurer under a reinsurance treaty. In this case, the retaining company shows a deposit received, while the company furnishing the collateral shows a deposit with a ceding company.

Derivatives, derivative financial instruments: these are financial products derived from underlying primary instruments such as equities, fixed-income securities and foreign exchange instruments, the price of which is determined on the basis of an underlying security or other reference asset. Notable types of derivatives include swaps, options and futures.

Direct business: business focused on narrowly defined → portfolios of niche or other non-standard risks.

Direct (also: primary) insurer: company which accepts risks in exchange for an insurance premium and which has a direct contractual relationship with the policyholder (private individual, company, organisation).

Discounting of loss reserves: determination of the present value of future profits through multiplication by the corresponding discount factor. In the case of the loss reserves this is necessary because of the new profit calculation methods for tax purposes applicable to German joint-stock corporations.

Diversification: orientation of business policy towards various revenue streams in order to minimise the effects of economic fluctuations and stabilise the result. Diversification is an instrument of growth policy and risk policy for a company.

Dread disease (also: critical illness) coverages: personal riders on the basis of which parts of the sum insured which would otherwise only become payable on occurrence of death are paid out in the event of previously defined severe illnesses.

Due diligence: activity generally performed as part of a capital market transaction or in the case of mergers and acquisitions, covering inter alia an examination of the financial, legal and tax situation.

Earnings per share, diluted: ratio calculated by dividing the consolidated net income (loss) by the weighted average number of shares outstanding. The calculation of the diluted earnings per share is based on the number of shares including subscription rights already exercised or those that can still be exercised.

Earnings retention: non-distribution of a company's profits leading to a different treatment for tax purposes than if profits were distributed.

EEV: cf. → European Embedded Value

European embedded value (EEV): present value of shareholders' interests in the earnings distributable from assets allocated to the covered business after sufficient allowance for the aggregate risks in the covered business.

Excess of loss treaty: cf. → non-proportional reinsurance

Excess return on capital allocated (xRoCA): describes the → IVC in relation to the allocated capital and shows the relative excess return generated above and beyond the weighted cost of capital.

Expense ratio: administrative expenses (gross or net) in relation to the (gross or net) premium earned.

Exposure: level of danger inherent in a risk or portfolio of risks; this constitutes the basis for premium calculations in reinsurance.

Facultative reinsurance: participation on the part of the reinsurer in a particular individual risk assumed by the direct insurer. This is in contrast to → obligatory (also: treaty) reinsurance.

Fair value: price at which a financial instrument would be freely traded between two parties.

FASB Accounting Standards Codification, FASB ASC: since 15 September 2009 the single source of authoritative ➔ US GAAP. It is a codification of all previous standards.

Financial Accounting Standards Board (FASB): committee in the USA whose task is to determine and improve upon the standards of accounting and reporting.

Financial Accounting Standards (FAS): cf. ➔ Statement of Financial Accounting Standards (SFAS)

Financial Solutions: targeted provision of financial support for primary insurers through reinsurance arrangements under which the reinsurer participates in the original costs of an insurance portfolio and receives as a consideration a share of the future profits of the said portfolio. This approach is used primarily for long-term products in personal lines, such as life, annuity and personal accident insurance.

Free float: the free float refers to the part of the capital stock held by shareholders with a low stockholding in both absolute and relative terms.

Funds held by ceding companies/funds held under reinsurance treaties: cf. ➔ deposits with ceding companies/deposits received from retrocessionaires

Goodwill: the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed.

Gross/Retro/Net: gross items constitute the relevant sum total deriving from the acceptance of direct insurance policies or reinsurance treaties; retro items constitute the relevant sum total deriving from own reinsurance cessions. The difference is the corresponding net item (gross – retro = net, also: for own account).

Hybrid capital: debt structure which because of its subordination bears the character of both debt and equity

IBNR (Incurred but not reported) reserve: provision for claims which have already occurred but which have not yet been reported.

Impairment: extraordinary amortisation taken when the present value of the estimated future cash flow of an asset is less than its book value.

International Accounting Standards (IAS): cf. ➔ International Financial Reporting Standards (IFRS)

International Accounting Standards Board (IASB): committee in the EU whose task is to determine and improve upon the international standards of accounting and reporting.

International Financial Reporting Standards (IFRS): standards published by the International Accounting Standards Board on accounting and reporting (until 2002 they were named International Accounting Standards, IAS).

International Securities Identification Number (ISIN): ten-character universal code used to identify securities internationally. It is prefixed by a country code that specifies the country where the issuer entity is legally registered or in which it has legal domicile, e.g. DE = Germany.

Intrinsic value creation (IVC): the IVC is calculated according to the following formula: real operating value creation = adjusted operating profit (EBIT) – (capital allocated x weighted cost of capital). IVC is a tool of value-based enterprise management used to measure the accomplishment of long-term targets on the level of the Group, the individual business groups and the operating units (profit centres).

Investment grade: investment grade ratings are awarded to companies and assigned to securities that have a low risk profile. They contrast with non-investment-grade ratings, which by definition include speculative elements and therefore entail a significantly higher risk.

IVC: cf. ➔ Intrinsic Value Creation

Issuer: private enterprise or public entity that issues securities, e.g. the federal government in the case of German Treasury Bonds and a joint-stock corporation in the case of shares.

Leader: if several (re-)insurers participate in a contract, one company assumes the role of leader. The policyholder deals exclusively with this lead company. The lead (re-) insurer normally carries a higher percentage of the risk for own account.

Letter of credit (LOC): bank guarantee; at the request of the guaranteed party, the bank undertakes to render payment to the said party up to the amount specified in the LOC. This method of providing collateral in reinsurance business is typically found in the USA.

Life and health (re-)insurance: collective term for the lines of business concerned with the insurance of persons, i.e. life, pension, health and personal accident insurance.

Life business: this term is used to designate business activities in our life and health reinsurance business group.

Loss, economic: total loss incurred by the affected economy as a whole following the occurrence of a loss. The economic loss must be distinguished from the → insured loss.

Loss, insured: the insured loss reflects the total amount of losses covered by the insurance industry (insurers and reinsurers).

Loss ratio: proportion of loss expenditure (gross or net) relative to the (gross or net) premium earned.

Market Consistent Embedded Value (MCEV): a refinement and closer specification of the previous principles of → European Embedded Value (EEV). In particular, the market-consistent calculation method is intended to bring about better comparability. The MCEV is established using risk-neutral assumptions in relation to the expected investment income and the discounting approach. In addition, the swap curve is adopted as a risk-neutral interest rate structure.

Mark-to-market valuation: the evaluation of financial instruments to reflect current market value or → fair value.

Matching currency cover: coverage of technical liabilities in foreign currencies by means of corresponding investments in the same currency in order to avoid exchange-rate risks.

Modified Coinsurance- (Modco) Treaty: type of reinsurance treaty where the ceding company retains the assets supporting the reinsured reserves by withholding a fund, thereby creating an obligation to render payments to the reinsurer at a later date. Such payments include a proportional share of the gross premium plus a return on the assets.

Net: cf. → Gross/Retro/Net

Non-life business: by way of distinction from business activities in our life and health reinsurance business group, we use this umbrella term to cover our business groups of property and casualty reinsurance, financial reinsurance and specialty insurance.

Non-proportional reinsurance: reinsurance treaty under which the reinsurer assumes the loss expenditure in excess of a particular amount (→ priority) (e.g. under an excess of loss treaty). This is in contrast to → proportional reinsurance.

Obligatory (also: treaty) reinsurance: reinsurance treaty under which the reinsurer participates in a → cedant's total, precisely defined insurance portfolio. This is in contrast to → facultative reinsurance.

Other securities, available-for-sale: securities that are not classified as "trading" or "held-to-maturity"; these securities can be disposed of at any time and are reported at their market value at the balance sheet date. Changes in market value do not affect the statement of income.

Other securities, held-to-maturity: investments in debt securities intended to be held to maturity. They are measured at amortised cost.

Other securities, trading: securities that are held principally for short-term trading purposes. They are measured at their market value at the balance sheet date.

(Insurance) Pool: a risk-sharing partnership under civil law formed by legally and economically independent insurers and reinsurers in order to create a broader underwriting base for particularly large or unbalanced risks. The members undertake to write certain risks only within the scope of the insurance pool. They include such risks – while maintaining their commercial independence – in the insurance pool against a commission fee. Each insurer participates in the profit or loss of the insurance pool according to its proportionate interest. Reinsurance is often ceded or accepted in order to further diversify the risk. Pools can be divided into two types: coinsurance pools, in which all members take the role of primary insurers according to their interests, and reinsurance pools, in which a primary insurer writes the risks and then spreads them among the participating insurers by way of reinsurance.

Portfolio: a) all risks assumed by an insurer or reinsurer in a defined sub-segment (e.g. line of business, country) or in their entirety; b) group of investments defined according to specific criteria.

Premium: agreed remuneration for the risks accepted from an insurance company. Unlike the earned premiums, the written premiums are not deferred.

Present value of future profits (PVFP): intangible asset primarily arising from the purchase of life and health insurance companies or portfolios. The present value of expected future profits from the portfolio assumed is capitalised and amortised according to schedule.

Price earnings ratio (PER): ratio of the market value of a share to the earnings per share of a publicly traded corporation.

Primary insurer: cf. → direct insurer

Priority: direct insurer's loss amount stipulated under → non-proportional reinsurance treaties; if this amount is exceeded, the reinsurer becomes liable to pay. The priority may refer to an individual loss, an → accumulation loss or the total of all annual losses.

Probability level: cf. → confidence level

Property and casualty (re-)insurance: collective term for all lines of business which in the event of a claim reimburse only the incurred loss, not a fixed sum insured (as is the case in life and personal accident insurance, for example). This principle applies in all lines of property and casualty insurance.

Proportional reinsurance: reinsurance treaties on the basis of which shares in a risk or → portfolio are reinsured under the relevant direct insurer's conditions. → Premiums and losses are shared proportionately on a pro-rata basis. This is in contrast to → non-proportional reinsurance.

Protection cover: protection of segments of an insurer's portfolio against major losses (per risk/per event), primarily on a non-proportional basis.

Provision: liability item as at the balance sheet date to discharge obligations which exist but whose extent and/or due date is/are not known. Technical provisions, for example, are for claims which have already occurred but which have not yet been settled, or have only been partially settled (= provision for outstanding claims, abbreviated to: claims provision).

Provision for unearned premiums (also: unearned premium reserve): premiums written in a financial year which are to be allocated to the following period on an accrual basis. This item is used to defer written premiums.

Purchase cost, amortised: the cost of acquiring an asset item including all ancillary and incidental purchasing costs; in the case of wasting assets less scheduled and/or special amortisation.

Quota share reinsurance: form of proportional reinsurance under which the reinsurer assumes a contractually set percentage share of the written risk. Since the insurer is responsible for acquisition, pricing, policy administration and claims handling, the administrative expenditure for the reinsurer is very low. The latter therefore participates in the aforementioned expenses through payment of a reinsurance commission. This commission can amount to 15%–20% of the original premium depending upon the market and cost situation.

Rate: percentage rate (usually of the premium income) of the reinsured portfolio which is to be paid to the reinsurer as reinsurance premium under a → non-proportional reinsurance treaty.

Rating: systematic evaluations of companies with respect to their → credit status or the credit status of issuers with regard to a specific obligation. They are awarded by a rating agency or bank.

Reinsurer: company which accepts risks or portfolio segments from a → direct insurer or another reinsurer in exchange for an agreed premium.

Reserve ratio: ratio of (gross or net) technical provisions to the (gross or net) premiums.

Retention: the part of the accepted risks which an insurer/reinsurer does not reinsure, i.e. shows as → net (retention ratio: percentage share of the retention relative to the gross written premiums).

Retro: cf. → Gross/Retro/Net

Retrocession: ceding of risks or shares in risks which have been reinsured. Retrocessions are ceded to other reinsurers in exchange for a pro-rata or separately calculated premium.

Risk, insured: defines the specific danger which can lead to the occurrence of a loss. The insured risk is the subject of the insurance contract.

Securitisation instruments: innovative instruments for transferring reinsurance business to the capital markets with the goal of refinancing or placing insurance risks.

Segmental reporting: presentation of items from the annual financial statements separated according to functional criteria such as segments and regions.

Special Purpose Entity (SPE): legal structure with specific characteristics not bound to a certain form of organisation used to conduct defined activities or to hold assets.

Specialty insurance: a specialty form of non-life primary insurance that focuses on narrowly defined, homogenous portfolios of niche or other non-standard risks (specialty business), whereby the typical insurer functions (acquisition, underwriting, policy issuing, premium collection, policy administration, claims settlement, etc.) can be outsourced to specialized managing general agents (MGAs) or third-party administrators (TPAs).

Statement of Financial Accounting Standards, SFAS (also: Financial Accounting Standards, FAS): the accounting and reporting standards published by the → Financial Accounting Standards Board; since 15 September 2009 superseded by → FASB ASC.

Spread loss treaty: treaty between an insurer and a reinsurer that covers risks of a defined portfolio over a multi-year period.

Structured products: reinsurance with limited potential for profits and losses; the primary objective is to strive for risk equalisation over time and to stabilise the → cedant's balance sheet.

Surplus reinsurance: form of proportional reinsurance under which the risk is not spread between the insurer and reinsurer on the basis of a previously agreed, set quota share. Instead, the insurer determines a maximum sum insured per risk up to which it is prepared to be liable. Risks that exceed the ceding company's retention (surpluses) are borne by the reinsurer. The reinsurer's lines thus vary according to the level of the retention and the sum insured of the reinsured contract. The reinsurer's liability is generally limited to a multiple of the ceding company's retention.

Surplus relief treaty: a portfolio reinsurance contract under which an admitted reinsurer assumes (part of) a ceding company's business to relieve stress on the cedant's policyholders' surplus.

Survival ratio: reflects the ratio of loss reserves to paid losses under a specific contract or several contracts in a balance sheet year.

Technical result: the balance of income and expenditure allocated to the insurance business and shown in the technical statement of income (after additional allowance is made for the allocation to/withdrawal from the equalisation reserve: net technical result).

Treaty reinsurance: cf. → obligatory reinsurance

Underwriting: process of examining, accepting or rejecting (re-)insurance risks and classifying those selected in order to charge the proper premium for each. The purpose of underwriting is to spread the risk among a pool of (re-)insureds in a manner that is equitable for the (re-) insureds and profitable for the (re-)insurer.

Unearned premium reserve: cf. → provision for unearned premiums

US GAAP (United States Generally Accepted Accounting Principles): internationally recognised US accounting principles. Not all the provisions which together constitute US GAAP have been codified. In addition to the authoritative standards of the → FASB ASC, US GAAP also includes, for example, standard accounting practices in specific industries.

Value of in-force business (VIF): present value of expected future profit flows from the portfolio of in-force retained business, discounted by a currency-specific risk discount rate. It is determined in accordance with local accounting principles.

Variable Interest Entity: legal entity not bound to a certain form of organisation for which the traditional approach to consolidation based on voting rights is ineffective in identifying where control of the entity really lies, or in which the equity investors do not bear the economic risks and rewards of the entity. The definition is broader than the previously used term → special-purpose entity (SPE).

Volatility: measure of the variability of stock prices, interest rates and exchange rates. Standard practice is to measure the volatility of a stock price by calculating the standard deviations of relative price differences.

xRoCA: cf. → Excess Return on Capital Allocated

Index of key terms

Financial calendar 2011/2012

9 March 2011

Annual Results Press Conference
Hannover Re
Karl-Wiechert-Allee 50
30625 Hannover, Germany

10 March 2011

DVFA Analysts' Meeting, Frankfurt
Analysts' Meeting, London

3 May 2011

Annual General Meeting
Start 10:00 a.m.
Hannover Congress Centrum
Theodor-Heuss-Platz 1-3
30175 Hannover, Germany

3 May 2011

Interim Report 1/2011

8 August 2011

Interim Report 2/2011

9 November 2011

Interim Report 3/2011

1 February 2012

Conference Call: Non-life treaty renewals

3 May 2012

Annual General Meeting
Start 10:00 a.m.
Hannover Congress Centrum
Theodor-Heuss-Platz 1-3
30175 Hannover, Germany

3 May 2012

Interim Report 1/2012

Strategic business groups of the Hannover Re Group

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Non-life reinsurance

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- **E+S Rück**
  Hannover
- **Hannover Rück**
  Hannover
- **Hannover Re Africa**
  Johannesburg
- **Hannover Re Bermuda**
  Hamilton
- **Hannover Re Ireland**
  Dublin
- **Hannover ReTakaful**
  Manama
- **Inter Hannover**
  London
- **Compass Ins. Co**
  Johannesburg

Life and health reinsurance

hannover life re

- **Hannover Life Re Africa**
  Johannesburg
- **Hannover Life Re America**
  Orlando/Florida
- **Hannover Life Re Australasia**
  Sydney
- **Hannover Life Re Bermuda**
  Hamilton
- **Hannover Life Re Germany**
  (E+S Rück), Hannover
- **Hannover Life Re International**
  Hannover
- **Hannover Life Re Ireland**
  Dublin
- **Hannover Life Re UK**
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