

# Report by the Supervisory Board

## of Hannover Re for the Hannover Re Group

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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

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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 gener-

ated 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

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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 con-

sidered 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.

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

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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 con-

solidated 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

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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

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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

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**HERBERT K. HAAS**<sup>1, 2, 3</sup>

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.**

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**DR. KLAUS STURANY**<sup>1</sup>

Dortmund

**Deputy Chairman**

**Member of various supervisory boards**

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**WOLF-DIETER BAUMGARTL**<sup>1, 2, 3</sup>

Berg

**Chairman of the Supervisory Board of Talanx AG**

**Chairman of the Supervisory Board of HDI Haftpflichtverband der Deutschen Industrie V.a.G.**

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**UWE KRAMP**<sup>4</sup>

Hannover

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**KARL HEINZ MIDUNSKY**<sup>3</sup>

Gauting

**Former Corporate Vice President and Treasurer Siemens AG**

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**ASS. JUR. OTTO MÜLLER**<sup>4</sup>

Hannover

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**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.**

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**DR. ERHARD SCHIPPOREIT**<sup>2</sup>

Hannover

**Member of various supervisory boards**

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**GERT WÄCHTLER**<sup>4</sup>

Burgwedel

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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.