

Interim Report 1/2011

Key figures

Figures in EUR million	2011		2010 ¹	
	1.1.–31.3.	+/- previous year	1.1.–31.3.	31.12.
Results				
Gross written premium	3,143.1	+10.3%	2,850.1	
Net premium earned	2,490.7	+8.8%	2,289.6	
Net underwriting result	(382.7)		(49.1)	
Net investment income	392.0	+40.3%	279.5	
Operating profit (EBIT)	46.1	-80.7%	238.8	
Group net income (loss)	52.3	-65.4%	151.0	
Balance sheet (as at the end of the quarter)				
Policyholders' surplus	6,670.6	-4.5%		6,987.0
Equity attributable to shareholders of Hannover Re	4,348.0	-3.6%		4,509.0
Non-controlling interests	590.4	-3.0%		608.9
Hybrid capital	1,732.2	-7.3%		1,869.1
Investments (excl. funds withheld by ceding companies)	24,823.5	-2.3%		25,411.1
Total assets	46,221.8	-1.1%		46,725.3
Share				
Earnings per share (basic and diluted) in EUR	0.43	-65.4%	1.25	
Book value per share in EUR	36.05	-3.6%	33.84	37.39
Share price at the end of the period in EUR	38.53	-4.0%	36.56	40.14
Market capitalisation at the end of the period	4,646.0	-4.0%	4,409.0	4,840.8
Ratios				
Combined ratio (non-life reinsurance) ²	123.8%		99.3%	
Major losses as percentage of net premium earned (non-life reinsurance) ³	41.6%		21.0%	
Retention	89.3%		90.8%	
Return on investment (excl. funds withheld by ceding companies)	4.1%		3.6%	
EBIT margin ⁴	1.9%		10.4%	
Return on equity	4.7%		15.5%	

1 Adjusted pursuant to IAS 8

2 Incl. funds withheld

3 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

4 Operating result (EBIT)/net premium earned



Ulrich Wallin
Chairman of the Executive Board

Dear shareholders, ladies and gentlemen,

Since I first began to have this opportunity to address you once every quarter, I have consistently been able to report on results generated by your company that met or even exceeded our targets. For the first quarter of the current year, however, this is not the case. Whilst it is true that with Group net income of EUR 52 million we achieved another positive result, this falls well short of what we expect in a “normal” quarter.

From the standpoint of the global reinsurance industry, the first quarter of 2011 was anything but “normal”; it was impacted by severe natural disasters on a scale unseen in any previous quarter. Along with the flooding around the Australian city of Brisbane, the Christchurch area in New Zealand was rocked by another powerful earthquake in February – having already suffered a major quake as recently as September of the previous year. Yet the consequences of this second quake were incomparably worse than those of the first. One event is likely to remain a particularly indelible memory: the devastating earthquake of 11 March off the coast of Japan, which caused a massive tsunami and ultimately set in motion a nuclear disaster in Fukushima.

Faced with such destruction and the immensity of the resulting human tragedy, it is difficult to turn a sober eye to business results. I would like, therefore, to first extend my deepest sympathies to all those who have been affected by these natural disasters in Australia, New Zealand and Japan. I would also like to thank the staff of our Tokyo

office for continuing to work with such calm and composure. As a reliable reinsurance partner, we shall stand by those of our clients who have been impacted by natural catastrophes and play our part in shouldering the associated burden.

Natural catastrophes caused economic losses running into several hundred billion US dollars, and the insured losses may also exceed an amount of some fifty billion US dollars. Consequently, the first quarter of 2011 will probably go down as the quarter with the heaviest burden of losses ever incurred by the reinsurance industry.

Even though the effect of the first quarter's major losses on your company was, if anything, disproportionately low – measured by its market shares –, it must still be noted that the major loss expenditure of EUR 572 million exceeds the loss expectancy for the first quarter by more than EUR 450 million; indeed, it is even higher than the burden of major losses anticipated for the entire financial year (EUR 530 million). That we were still able to close the quarter in positive territory can be attributed to run-off profits on loss reserves constituted for prior years, very healthy investment income, a tax refund from the years 1993 to 2001 and the satisfactory performance of our life and health reinsurance portfolio. The latter once again underscores the diversification between our non-life and life/health reinsurance, which significantly reduces the volatility of our results.

In non-life reinsurance the major losses of the first quarter of 2011 ushered in a trend reversal on the markets – at least as far as reinsurance covers exposed to natural catastrophe risks were concerned. Even under loss-free reinsurance programmes from regions that had not been impacted by the major losses, we were thus able to obtain substantial rate increases. Looking beyond business with natural catastrophe exposure, here, too, we expect to see satisfactory or good conditions in non-life reinsurance over the further course of the year. In the renewals as at 1 January 2011 we secured broadly stable conditions, while in European motor liability XL business and the offshore energy sector we were already able to push through rate increases. It is our expectation that the more exacting requirements imposed by Solvency II on the risk capital resources of insurance undertakings – for whom the transfer of risk to reinsurers with good ratings constitutes an economically attractive alternative – will create further scope for growth stimuli.

The satisfactory development of our non-life reinsurance business is also reflected in the rise in premium income, which grew by almost 12 percent in the first quarter of 2011. The fact that we generated a profit despite the major losses is due to circumstances already explained above: in the first place, non-life reinsurance benefited from a positive special effect deriving from the reimbursement of excess taxes and the interest paid thereon. This was based on a decision of the Federal Fiscal Court (BFH)

in October 2010 with regard to the taxation of foreign-sourced income under the Foreign Transactions Tax Act. Whereas in the previous year we had been able to release provisions that we had set aside in this respect, the effect in the current year was due to the fact that taxes already paid for earlier years were in large measure refunded. This gave rise to a positive non-recurring amount of EUR 114 million in the first quarter. Further positive factors were run-off profits booked on loss reserves constituted for prior years and very good investment income. The latter was assisted not least by the reversal of impairments on inflation swaps that we had taken out.

We are thoroughly satisfied with our life and health reinsurance business group. The vigorous growth and rising demand for protection products have their origins, most notably, in the demographic changes on mature markets as well as the formation of a stable middle class in emerging markets. Our growth rates in Asian markets again reflected this trend. Our business in the United Kingdom, specifically in the area of longevity risks, also continued to develop successfully. The reinsurance of immediate enhanced annuities for a single premium payment continues to account for a large share of UK pension business; we have been a key player in shaping this segment. In addition, we expanded our activities in the area of block assumption transactions for existing pension commitments – not only from pension funds but also from primary insurers.

It is our expectation that the growth of our life and health reinsurance portfolio will accelerate still further in the current year. This can be attributed inter alia to the closing of a sizeable transaction with Scottish Re (as already reported on 18 April 2011), which is likely to bring in premium income of some USD 80 million for 2011 against a backdrop of healthy profit expectations. Owing to adverse exchange rate effects we were not quite able to generate our targeted EBIT margin of 6 percent in the first quarter. Nevertheless, we remain confident of achieving this goal for the full 2011 financial year.

The development of our investments in the first three months was highly satisfactory. Investment income rose sharply on the back of higher unrealised gains – driven in large measure by the positive fair value development of inflation swaps taken out in the previous year. Despite the sustained low interest rate level, ordinary investment income moved slightly higher relative to the corresponding period of the previous year. In March we parted company with our entire portfolio of listed equities; the disposal reduced investment income modestly. We decided to take this step because we considered the market climate to be highly volatile – in part as a consequence of events in Japan, the repercussions of which on the global economy were difficult to foresee. Net investment income climbed roughly 40 percent year-on-year to reach EUR 392.0 million.

Looking ahead to the full 2011 financial year, in light of the events of the first quarter we expect to be able to generate Group net income in the order of EUR 500 million. This expectation makes allowance for catastrophe losses on the anticipated level of EUR 410 million for the second to fourth quarters of 2011 and reflects investment income that is not influenced by special effects. In these circumstances, however, our original profit target of EUR 650 million is not attainable on account of the burden of major losses incurred in the first quarter.

I would like to thank you – also on behalf of my colleagues on the Executive Board – most sincerely for your trust in Hannover Re. Going forward, as in the past, our paramount concern will be to lead your company responsibly and securely into a profitable future.

Yours sincerely,



Ulrich Wallin
Chairman of the Executive Board

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Burgwedel

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Isernhagen

ROLAND VOGEL

Wennigsen

1 Member of the Standing Committee

2 Member of the Finance and Audit Committee

3 Member of the Nomination Committee

4 Staff representative

Business development

The business development in non-life reinsurance as at 31 March 2011 was overshadowed by the severe natural disasters in Japan, Australia and New Zealand as well as further less substantial major losses. At this point in time the resulting burden of losses for the first quarter is already higher than the expected level for the entire 2011 financial year. Whilst this reduces our profit, it does not diminish our business prospects. Quite the contrary, demand for reinsurance covers is rising. After the recent natural catastrophe events we can now expect to see price increases for catastrophe covers not only in the impacted regions but also worldwide.

We are thoroughly satisfied with the profitability of life and health reinsurance. Our goal here continues to be to expand this business group relative to non-life reinsurance – which is typically subject to greater volatility – and hence to further improve the diversification of our income streams.

Gross written premium in total business increased sharply by 10.3% to EUR 3.1 billion (EUR 2.9 billion) as at 31 March 2011. At constant exchange rates, growth would have come in at 8.7%. The level of retained premium retreated slightly to 89.3% (90.8%).

We are highly satisfied with the development of our investments in the first quarter. Although the portfolio of assets under own management contracted slightly to EUR 24.8 billion (EUR 25.4 billion) owing to fair value and exchange rate effects, ordinary income excluding interest on deposits came in marginally higher than in the corresponding period of the previous year at EUR 222.7 million (EUR 214.2 million) – despite the continued low level of interest rates. Interest on deposits climbed to EUR 75.9 million (EUR 74.0 million). The disposal of our listed equities reduced our investment income by a moderate EUR 7.2 million. The unrealised gains on our asset holdings recognised at fair value through profit or loss totalled EUR 69.0 million. This contrasted with losses of EUR 12.9 million in the corresponding quarter of the previous year. The primary factor here was the favourable fair value development of our inflation swaps. Our net investment income consequently improved appreciably on the comparable reporting period to reach EUR 392.0 million as at 31 March 2011 (EUR 279.5 million).

In view of the enormous catastrophe loss expenditure, the operating profit (EBIT) of EUR 46.1 million fell well short of the result in the comparable period (EUR 238.8 million). Group net income amounted to EUR 52.3 million (EUR 151.0 million)

as at 31 March 2011. This includes a positive special effect amounting to EUR 113.5 million associated with the refund of excess taxes and interest already paid. The tax refund was based on a decision handed down by the Federal Fiscal Court (BFH) in October 2010 on the taxation of foreign-sourced income under the Foreign Transactions Tax Act. The result was further boosted by run-off profits from prior accident years. Earnings per share of EUR 0.43 (EUR 1.25) were generated.

Non-life reinsurance

The situation on the international reinsurance markets is for the most part favourable. 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 initially 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 roughly 2% in this round of renewals.

The treaty renewals again demonstrated the considerable importance that ceding companies continue to attach to a reinsurer's financial strength. A very good rating is a prerequisite for a reinsurer if it is to be offered and awarded the entire spectrum of business. With its excellent ratings ("AA-" from Standard & Poor's and "A" from A.M. Best), Hannover Re is one of the reinsurers that meets this requirement without reservation.

Even though rates declined in some areas on account of the healthy capital resources enjoyed by primary insurers and the absence of market-changing major losses in 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. Rate increases were attainable both in European motor business and in the offshore energy sector as a consequence of the sinking of the "Deepwater Horizon" drilling rig.

We are similarly satisfied with developments in aviation business. The written premium volume grew by 14%. Despite softening tendencies caused by surplus capacities in the market, prices for the most part held stable.

The treaty renewals for US catastrophe business were, however, disappointing. Prices continued to retreat on the back of an untroubled claims experience in 2010. It is our expectation, however, that the recent earthquake events will influence rates – not only in the impacted regions but also worldwide.

Gross premium in our non-life reinsurance business group increased by a substantial 11.8% relative to the corresponding period of the previous year to reach EUR 1.9 billion (EUR 1.7 billion). At constant exchange rates, especially against the US dollar, growth would have come in at 10.7%. The level of retained premium fell to 87.8% (90.1%). Net premium earned climbed by 9.4% to EUR 1.4 billion (EUR 1.3 billion).

The major loss incidence was exceptionally high in the first quarter. This was driven principally by three natural catastrophes: firstly, the flooding in Australia, with a net strain for our account of EUR 51.5 million; secondly, the earthquake in New Zealand, which cost us EUR 152.3 million; thirdly, we have booked an amount of EUR 231.9 million for the Japan earthquake and the resulting tsunami. Altogether, the net

burden of major losses for Hannover Re as at 31 March 2011 totalled EUR 572.1 million. Not only did this figure far exceed our expectations for the first quarter, it has also already exhausted our major loss budget of EUR 530 million for the entire 2011 financial year. The net underwriting result stood at –EUR 330.9 million (EUR 5.5 million) owing to the major loss situation described above.

The operating result (EBIT) for non-life reinsurance decreased to –EUR 24.5 million (EUR 165.6 million) as at 31 March 2011 owing to the heavy major loss expenditure. Group net income closed in positive territory at EUR 17.3 million (EUR 109.4 million) due to the tax refund based on the Federal Fiscal Court (BFH) decision. The earnings per share amounted to EUR 0.14 (EUR 0.91).

Key figures for non-life reinsurance in EUR million	2011		2010
	1.1.–31.3.	+/- previous year	1.1.–31.3.
Gross written premium	1,924.3	+11.8%	1,721.9
Net premium earned	1,376.3	+9.4%	1,258.0
Underwriting result	(330.9)		5.5
Net investment income (loss)	250.3	+50.4%	166.4
Operating profit/loss (EBIT)	(24.5)	–114.8%	165.6
Group net income (loss)	17.3	–84.2%	109.4
Earnings per share in EUR	0.14	–84.2%	0.91
Combined ratio ¹	123.8%		99.3%
Retention	87.8%		90.1%

1 Including expenses on funds withheld and contract deposits

Life and health reinsurance

The general business environment in international life and health reinsurance remains favourable: the ageing of the population in mature insurance markets such as the United States, Japan, the United Kingdom and Germany is generating heightened awareness of the need for provision. This is of particular benefit to providers of annuity and health insurance products. Yet in leading emerging markets such as China, India and Brazil demand for individual retirement provision is also rising.

We offer our clients tailored reinsurance solutions that assist primary insurers with their management of capital, liquidity and risk. In the first quarter of 2011 we grew our position in the US mortality market by a double-digit margin as planned. Not only that, we continued to move forward with our activities in South Africa and Australia. In China we wrote two mid-sized financing transactions.

Gross written premium in life and health reinsurance rose by 8.1% to EUR 1.2 billion (EUR 1.1 billion) as at 31 March 2011. At constant exchange rates growth would have come in at 5.7%. Net premium earned increased by 8.0% to EUR 1.1 billion (EUR 1.0 billion).

In the earthquake-affected markets of Japan and New Zealand Hannover Re has only minimal exposure in life and health reinsurance. For reasons of prudence we nevertheless set aside

reserves for potential claims. The development of results in the first quarter was otherwise in line with expectations. Particularly in the United States, the claims experience normalised in the first quarter of 2011 after slightly elevated mortalities in the fourth quarter of 2010.

The operating profit (EBIT) as at 31 March 2011 amounted to EUR 58.4 million (EUR 62.6 million). The modest decline can be attributed to exchange rate volatilities. The EBIT margin for the first quarter stood at 5.2%. The Group net income of EUR 41.5 million fell slightly short of the result posted for the comparable quarter of the previous year (EUR 45.8 million). Earnings per share amounted to EUR 0.34 (EUR 0.38).

As in previous years, we are also reporting on the Market Consistent Embedded Value (MCEV) in the context of our interim report on the first quarter. This consists of a valuation of the life and health reinsurance business across the entire duration of the portfolio as well as of the allocated capital. The MCEV thus provides a basis for assessing the long-term profitability of a life (re)insurance undertaking.

The MCEV reached a record level as at 31 December 2010. It stood at EUR 2.6 billion (EUR 2.1 billion) excluding non-controlling interests. This corresponds to growth of 24.3%. Including non-controlling interests, the MCEV amounted to EUR 2.7 billion (EUR 2.2 billion). The value of new business was also sharply higher and totalled EUR 149.3 million (EUR 78.9 million) excluding non-controlling interests.

Key figures for life and health reinsurance in EUR million	2011		2010 ¹
	1.1.–31.3.	+/- previous year	1.1.–31.3.
Gross written premium	1,219.4	+8.1%	1,128.1
Net premium earned	1,114.5	+8.0%	1,031.6
Net investment income	127.8	+26.8%	100.7
Operating profit/loss (EBIT)	58.4	-6.6%	62.6
Group net income (loss)	41.5	-9.4%	45.8
Earnings per share in EUR	0.34	-9.4%	0.38
Retention	91.5%	-	91.8%
EBIT margin ²	5.2%	-	6.1%

1 Adjusted pursuant to IAS 8

2 Operating profit/loss (EBIT)/net premium earned

Investments

Credit spreads in the area of corporate bonds for the most part narrowed in the first quarter of 2011, although to a very large extent these were more than offset by yield increases on US treasury securities and European government bonds across all duration ranges. In total, the unrealised gains on our fixed-income securities retreated to EUR 285.9 million (EUR 497.1 million). Due also to exchange rate movements, our portfolio of assets under own management consequently contracted slightly overall to EUR 24.8 billion (EUR 25.4 billion).

Despite the low level of interest rates, ordinary income from assets under own management improved marginally on the corresponding period of the previous year to reach EUR 222.7 million (EUR 214.2 million). Interest on deposits increased from EUR 74.0 million to EUR 75.9 million.

Impairments of altogether EUR 13.7 million (EUR 11.4 million) were taken. This includes impairments of EUR 11.4 million on alternative investments. Of this amount, EUR 6.8 million was attributable to private equity and EUR 4.6 million to structured fixed-income products. No impairments had to be recognised on other fixed-income securities. Scheduled depreciation on directly held real estate rose to EUR 2.2 million (EUR 1.5 million), a reflection of our increased involvement in this area. The total volume of write-downs contrasted with write-ups of EUR 14.1 million, which were attributable exclusively to structured fixed-income securities.

In March we sold our entire portfolio of listed equities. We decided to take this step because the market climate appeared highly volatile in light of the events in Japan. The equity disposal reduced our investment income slightly by EUR 7.2 million. On account of the favourable market environment the sale of part of our holdings of government bonds and structured credit products (CDOs) had positive implications for the balance of realised gains and losses: it improved overall from EUR 21.3 million to EUR 39.2 million.

The unrealised gains on our assets recognised at fair value through profit or loss amounted to EUR 69.0 million – as against unrealised losses of EUR 12.9 million in the comparable quarter of the previous year. The primary factor here was the inflation swaps taken out in 2010 to hedge part of the inflation risks associated with the loss reserves in our technical account. Their hedging effect naturally diminishes slightly over time owing to their fixed maturity. In the first quarter, therefore, we took out further inflation swaps to the extent necessary in order to restore the original protective effect. The changes in the fair values of the inflation swaps are recognised in income as a derivative pursuant to IAS 39. Since inflationary expectations continued to rise in the quarter under review, the inflation swaps show a positive change in fair value with an effect of EUR 60.2 million recognised in income as at the end of the quarter.

Thanks to the higher net realised gains, but above all due to the development of the unrealised gains, our net investment income comfortably surpassed the previous year's level. It amounted to EUR 392.0 million (EUR 279.5 million) in the period under review.

Net investment income in EUR million	2011		2010
	1. 1.–31. 3.	+/- previous year	1. 1.–31. 3.
Ordinary investment income ¹	222.7	+4.0%	214.2
Results from participation in associated companies	2.4	+40.1%	1.7
Appreciation	14.1	+115.7%	6.5
Realised gains/losses	39.2	+83.5%	21.3
Impairments ²	13.7	+19.9%	11.4
Unrealised gains/losses ³	69.0		(12.9)
Investment expenses	17.6	+26.3%	13.9
Net investment income from assets under own management	316.1	+53.8%	205.5
Net investment income from funds withheld	75.9	+2.6%	74.0
Net investment income	392.0	+40.3%	279.5

1 Excluding expenses on funds withheld and contract deposits

2 Including depreciation/impairments on real estate

3 Portfolio at fair value through profit or loss

The risk strategy derived from the corporate strategy constitutes the basis for our handling of risks and opportunities. 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 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. 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
- 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

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. Our qualitative methods and practices, such as the Risk Management Framework Guideline, support our internal risk management and control system.

The system is subject to a constant cycle of planning, action, control and improvement.

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. 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. They include, 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.

Material risks

The risk landscape of Hannover Re encompasses technical risks (non-life reinsurance and life/health reinsurance), market risks, credit risks, operational risks and other risks.

A significant technical risk in the area of non-life reinsurance is the reserving risk, i.e. the risk of under-reserving losses and the associated strain on the underwriting result. In order to counter this risk we calculate our loss reserves based on our own actuarial 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. Our own actuarial calculations regarding the adequacy of the reserves are also subject to annual quality assurance reviews conducted by external actuaries and auditors.

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. 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 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. The combined ratio is one of the most important indicators when considering the profitability of reinsurance business. The development of this ratio is shown in the table below.

In life and health reinsurance, 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. 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 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). 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 Market Consistent Embedded Value (MCEV) is a key indicator for the valuation of life insurance and life reinsurance business. The calculation makes appropriate allowance for all risks underlying the covered business. The MCEV sensitivities reflect our main risk drivers. For further explanation please see the MCEV for the 2010 financial year, which is published on our Internet website at the same time as the report on the first quarter of 2011.

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. 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.

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. The short-term "Value at Risk" (VaR) is another vital tool used for monitoring and managing market price risks. Stress tests are conducted in order to be able to map extreme scenarios as well as normal market scenarios for the purpose of calculating the Value at Risk. In this context, the loss potentials for fair values and shareholders' equity (before tax) are simulated on the basis of already occurred or notional extreme events.

Further significant risk management tools – along with various stress tests used to estimate the loss potential under extreme market conditions – include sensitivity and duration analyses and our asset/liability management (ALM).

The 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

Development of combined and catastrophe ratio											in %
	Q1 2011	2010	2009	2008	2007	2006	2005 ¹	2004 ^{1,2}	2003 ^{1,2}	2002 ^{1,2}	2001 ^{1,2}
Combined ratio (non-life reinsurance)	123.8	98.2	96.6	95.4	99.7	100.8	112.8	97.2	96.0	96.3	116.5
thereof major losses ³	41.6	12.3	4.6	10.7	6.3	2.3	26.3	8.3	1.5	5.2	23.0

1 Including financial reinsurance and specialty insurance

2 Based on figures reported in accordance with US GAAP

3 Natural catastrophes and other major losses in excess of EUR 5 million gross for the Hannover Re Group's share

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%	-3.7	-3.7
	Share prices -20%	-7.3	-7.3
	Share prices +10%	+3.7	+3.7
	Share prices +20%	+7.3	+7.3
Fixed-income securities	Yield increase +50 basis points	-406.3	-319.7
	Yield increase +100 basis points	-796.6	-625.7
	Yield decrease -50 basis points	+419.5	+331.0
	Yield decrease -100 basis points	+854.8	+675.7

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 in order to keep the risk as small as possible: a Security Committee continuously monitors their credit status and approves measures where necessary to secure receivables that appear to be at risk of default.

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.

In terms of the Hannover Re Group's major companies, EUR 271.3 million (8.6%) of our accounts receivable from reinsurance business totalling EUR 3,144.2 million were older than 90 days as at the balance sheet date. The average default rate over the past three years was 0.01%.

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. The measurement and monitoring mechanisms that have been put in place result in a prudent, broadly diversified investment strategy.

In our understanding, operational risks encompass the risk of losses occurring because of the inadequacy or failure of internal processes or as a result of events triggered by employee-

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	84.0	4,567.7	61.2	3,325.2	3.0	180.4	73.6	2,937.7
AA	4.4	240.5	34.8	1,891.6	17.9	1,091.4	15.7	628.1
A	5.6	305.2	3.3	179.2	55.8	3,410.6	0.6	23.4
BBB	5.5	301.2	0.6	30.5	19.8	1,211.1	2.5	100.8
< BBB	0.5	24.4	0.1	4.6	3.5	213.7	7.6	302.1
Total	100.0	5,439.0	100.0	5,431.1	100.0	6,107.2	100.0	3,992.1

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

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.

Of material importance to our company in the category of other risks are primarily emerging risks, strategic risks, reputational risks and liquidity risks. Given the broad spectrum of operational and other risks, there is a wide range of different management and monitoring measures tailored to individual types of risk – including contingency plans, set communication channels and regular liquidity planning. The range of tools is rounded off with line-independent monitoring of risk management by Internal Auditing and the internal control system.

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 Group Annual Report 2010.

A further positive special effect derived from a refund of taxes and interest. This was due to a decision by the Federal Fiscal Court (BFH) on 13 October 2010 regarding the taxation of foreign-sourced income under the Foreign Transactions Tax Act. Whereas in the previous year we were able to release provisions that we had set aside, the effect this year is related to the fact that large portions of the taxes already paid for prior years had to be refunded. This gave rise to a positive non-recurring amount of EUR 113.5 million for the first quarter.

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.

Outlook

While the 2011 financial year is already notable for a high incidence of major losses, the general business prospects for our company – as a financially strong reinsurer – nevertheless remain good. This is true of both non-life and life/health reinsurance. Market opportunities are opening up to us, inter alia with an eye to the preparations for Solvency II. The importance of reinsurance as a risk optimisation tool is growing in light of more exacting capital requirements. This applies to both traditional reinsurance covers and structured reinsurance products.

At constant exchange rates, our total net premium volume is expected to grow by 7–8%.

After prices in non-life reinsurance had been flat of late or even declined in some lines, substantial rate increases could be anticipated in the wake of the recent major loss events. We were therefore satisfied with the outcome of our treaty renewals as at 1 April 2011 for Japan, Australia and New Zealand as well as in marine and aviation business.

In the Japanese market long-term business relations traditionally play a vital role, as a consequence of which we set particularly great store by serving as a reliable reinsurance partner for our clients – especially in this difficult time – and reinforcing the enduring nature of our relationship. We have provided our clients with the necessary capacity and modestly increased our premium volume for the Japanese market. As expected, price increases were obtained for non-proportional earthquake covers along with improved conditions under proportional treaties. Prices also moved higher in personal accident reinsurance and under industrial fire programmes.

The treaty renewals in other Asian countries were similarly satisfactory; we modestly enlarged our premium volume in these markets.

In view of the events in Japan we are now looking to price increases for property catastrophe covers in North America as well; the next treaty renewals for this market will take place on 1 June and 1 July 2011.

The outcome of the treaty negotiations for Australia and New Zealand as at 1 April 2011 was also gratifying. Appreciable price rises were pushed through under both loss-impacted programmes and those that had remained unaffected; this was

especially true of New Zealand, which has experienced heavy losses from earthquakes in both 2010 and 2011.

Treaty renewals also took place in the marine and aviation lines as at 1 April 2011. The positive trend here was sustained: indeed, in marine business it was even possible to generate double-digit price increases for exposures relating to offshore oil exploration. Prices in worldwide aviation reinsurance remained stable.

In total non-life reinsurance we anticipate net premium growth of around 5% in the original currencies in the current financial year.

The prospects in international life and health reinsurance are very positive. A particularly significant factor here is the demographic trend in established insurance markets such as the United States, Japan, the United Kingdom and Germany. The increasing ageing of the population is thus beneficial to annuity and health insurance. Financially oriented reinsurance solutions, i.e. models designed to strengthen the equity base of primary insurers, are enjoying sustained demand. Business involving longevity risks is also likely to offer healthy growth

opportunities, particularly in the United Kingdom; this applies both to enhanced annuities and the assumption of risks associated with existing pension funds. For the current financial year we are looking to grow net premium in life and health reinsurance by 10% to 12%, with an anticipated 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.

In view of the business opportunities that are opening up and the advantageous situation on reinsurance markets, we currently expect to generate – despite the major loss expenditure incurred to date – Group net income in the order of EUR 500 million. This is subject to the premise that further major losses do not significantly exceed a level of around EUR 410 million and also assumes that there are no drastic downturns on capital markets.

Quarterly financial report of the Hannover Re Group

Consolidated balance sheet

Assets in EUR thousand	31.3.2011	31.12.2010
Fixed-income securities – held to maturity	2,849,224	3,028,018
Fixed-income securities – loans and receivables	2,374,048	2,314,429
Fixed-income securities – available for sale	15,574,690	15,877,634
Fixed-income securities – at fair value through profit or loss	171,430	217,597
Equity securities – available for sale	36,661	536,755
Other financial assets – at fair value through profit or loss	80,728	54,756
Real estate and real estate funds	392,916	394,087
Investments in associated companies	130,298	127,644
Other invested assets	838,503	841,896
Short-term investments	1,770,022	1,570,502
Cash	604,934	447,753
Total investments and cash under own management	24,823,454	25,411,071
Funds withheld	11,861,206	11,920,725
Contract deposits	116,622	715,353
Total investments	36,801,282	38,047,149
Reinsurance recoverables on unpaid claims	1,375,369	1,025,332
Reinsurance recoverables on benefit reserve	341,853	347,069
Prepaid reinsurance premium	127,133	83,224
Reinsurance recoverables on other technical reserves	3,353	1,831
Deferred acquisition costs	1,837,844	1,834,496
Accounts receivable	3,144,233	2,841,303
Goodwill	44,902	45,773
Deferred tax assets	662,031	622,136
Other assets	452,958	336,443
Accrued interest and rent	9,636	11,182
Assets held for sale	1,421,179	1,529,355
Total assets	46,221,773	46,725,293

Liabilities in EUR thousand	31.3.2011	31.12.2010
Loss and loss adjustment expense reserve	18,574,841	18,065,395
Benefit reserves	8,837,299	8,939,190
Unearned premium reserve	2,181,356	1,910,422
Other technical provisions	176,349	184,528
Funds withheld	594,259	1,187,723
Contract deposits	4,582,198	4,704,267
Reinsurance payable	713,723	733,473
Provisions for pensions	83,026	81,657
Taxes	272,036	286,394
Provision for deferred taxes	1,659,602	1,632,527
Other liabilities	415,639	443,932
Long-term debt and subordinated capital	1,907,359	2,056,797
Liabilities related to assets held for sale	1,285,637	1,381,120
Total liabilities	41,283,324	41,607,425
Shareholders' equity		
Common shares	120,597	120,597
Nominal value: 120,597		
Conditional capital: 60,299		
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	279,019	372,094
Cumulative foreign currency translation adjustment	(170,274)	(52,954)
Other changes in cumulative other comprehensive income	(9,263)	(6,450)
Total other comprehensive income	99,482	312,690
Retained earnings	3,403,403	3,351,116
Equity attributable to shareholders of Hannover Re	4,348,044	4,508,965
Non-controlling interests	590,405	608,903
Total shareholders' equity	4,938,449	5,117,868
Total liabilities	46,221,773	46,725,293

Figures in EUR thousand	1.1.–31.3.2011	1.1.–31.3.2010 ¹
Gross written premium	3,143,146	2,850,080
Ceded written premium	337,832	262,228
Change in gross unearned premium	(363,801)	(361,597)
Change in ceded unearned premium	49,206	63,336
Net premium earned	2,490,719	2,289,591
Ordinary investment income	222,744	214,168
Profit/loss from investments in associated companies	2,377	1,696
Realised gains and losses on investments	39,178	21,350
Unrealised gains and losses on investments	69,017	(12,887)
Total depreciation, impairments and appreciation of investments	(413)	4,868
Other investment expenses	17,588	13,931
Net income from investments under own management	316,141	205,528
Income/expense on funds withheld and contract deposits	75,860	73,957
Net investment income	392,001	279,485
Other technical income	3,043	5,427
Total revenues	2,885,763	2,574,503
Claims and claims expenses	2,148,562	1,673,012
Change in benefit reserves	114,412	100,459
Commission and brokerage, change in deferred acquisition costs	527,123	489,427
Other acquisition costs	1,914	4,171
Other technical expenses	3,153	11,543
Administrative expenses	81,261	65,521
Total technical expenses	2,876,425	2,344,133
Other income and expenses	36,805	8,435
Operating profit/loss (EBIT)	46,143	238,805
Interest on hybrid capital	25,614	18,927
Net income before taxes	20,529	219,878
Taxes	(58,567)	59,152
Net income	79,096	160,726
thereof		
Non-controlling interest in profit and loss	26,809	9,724
Group net income	52,287	151,002
Earnings per share		
Basic earnings per share in EUR	0.43	1.25
Diluted earnings per share in EUR	0.43	1.25

¹ Adjusted on the basis of IAS 8

Consolidated statement of comprehensive income

as at 31 March 2011

Figures in EUR thousand	1.1.–31.3.2011	1.1.–31.3.2010
Net income	79,096	160,726
Unrealised gains and losses on investments		
Gains (losses) recognised directly in equity	(77,153)	175,870
Transferred to the consolidated statement of income	(36,872)	(17,719)
Tax income (expense)	16,886	(31,407)
	(97,139)	126,744
Currency translation		
Gains (losses) recognised directly in equity	(134,287)	111,762
Transferred to the consolidated statement of income	–	275
Tax income (expense)	12,054	(7,931)
	(122,233)	104,106
Other changes		
Gains (losses) recognised directly in equity	(3,841)	(2,525)
Tax income (expense)	1,028	(40)
	(2,813)	(2,565)
Total income and expense recognised directly in equity		
Gains (losses) recognised directly in equity	(215,281)	285,107
Transferred to the consolidated statement of income	(36,872)	(17,444)
Tax income (expense)	29,968	(39,378)
	(222,185)	228,285
Changes in the consolidated group	32	–
Total recognised income and expense	(143,057)	389,011
thereof:		
Attributable to non-controlling interests	17,864	21,703
Attributable to shareholders of Hannover Re	(160,921)	367,308

Consolidated statement of changes in shareholders' equity

Figures in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)			Retained earnings ¹	Non-controlling interests	Shareholders' equity ¹
			Currency translation	Unrealised gains/ losses	Other			
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	–	–	32	(236)	–	(378)	7,344	6,762
Capital increases/ additions	–	–	–	–	–	–	56	56
Capital repayments	–	–	–	–	–	–	(1,396)	(1,396)
Total income and expense recognised after tax	–	–	100,027	118,844	–2,565	151,002	21,703	389,011
Dividends paid	–	–	–	–	–	–	(29,138)	(29,138)
Balance as at 31.3.2010	120,597	724,562	(124,025)	360,177	(7,293)	3,007,153	540,681	4,621,852
Balance as at 1.1.2011	120,597	724,562	(52,954)	372,094	(6,450)	3,351,116	608,903	5,117,868
Capital increases/ additions	–	–	–	–	–	–	30	30
Capital repayments	–	–	–	–	–	–	(8)	(8)
Total income and expense recognised after tax	–	–	(117,320)	(93,075)	(2,813)	52,287	17,864	(143,057)
Dividends paid	–	–	–	–	–	–	(36,384)	(36,384)
Balance as at 31.3.2011	120,597	724,562	(170,274)	279,019	(9,263)	3,403,403	590,405	4,938,449

1 Adjusted on the basis of IAS 8

Figures in EUR thousand	1.1.–31.3.2011	1.1.–31.3.2010 ¹
I. Cash flow from operating activities		
Net income	79,096	160,726
Appreciation/depreciation	6,676	7,839
Net realised gains and losses on investments	(39,178)	(21,350)
Amortisation of investments	12,554	4,425
Changes in funds withheld	(898,574)	(317,190)
Net changes in contract deposits	666,850	198,381
Changes in prepaid reinsurance premium (net)	314,442	297,584
Changes in tax assets/provisions for taxes	(93,616)	18,768
Changes in benefit reserve (net)	181,986	82,790
Changes in claims reserves (net)	793,095	338,483
Changes in deferred acquisition costs	(76,422)	(11,896)
Changes in other technical provisions	(1,746)	7,506
Changes in clearing balances	(414,389)	(435,797)
Changes in other assets and liabilities (net)	(58,253)	5,496
Cash flow from operating activities	472,521	335,765

1 Adjusted on the basis of IAS 8

Figures in EUR thousand	1.1.–31.3.2011	1.1.–31.3.2010 ¹
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	109,075	10,347
Fixed-income securities – loans and receivables		
Maturities, sales	56,332	95,338
Purchases	(173,399)	(382,867)
Fixed-income securities – available for sale		
Maturities, sales	2,078,654	1,868,954
Purchases	(2,474,253)	(1,909,839)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	42,998	11,810
Purchases	(3,148)	(2,700)
Equity securities – available for sale		
Sales	725,910	145
Purchases	(268,295)	(23)
Equity securities – at fair value through profit or loss		
Sales	–	327
Other invested assets		
Sales	19,314	36,306
Purchases	(27,869)	(25,407)
Affiliated companies and participating interests		
Sales	32	–
Purchases	(8,483)	(2,545)
Real estate and real estate funds		
Sales	132	2,870
Purchases	(11,030)	(51,165)
Short-term investments		
Changes	(186,173)	147,776
Other changes (net)	(2,968)	(4,770)
Cash flow from investing activities	(123,171)	(205,443)

1 Adjusted on the basis of IAS 8

Figures in EUR thousand	1.1.-31.3.2011	1.1.-31.3.2010 ¹
III. Cash flow from financing activities		
Payment on capital measures	(2,635)	(1,505)
Structural change without loss of control		7,046
Dividends paid	(36,384)	(29,138)
Repayment of long-term debts	(138,338)	(2,549)
Cash flow from financing activities	(177,357)	(26,146)
IV. Exchange rate differences on cash	(23,247)	23,809
Cash and cash equivalents at the beginning of the period	475,227	457,412
thereof cash and cash equivalents of disposal groups: 27.474		
Change in cash and cash equivalents (I.+II.+III.+IV.)	148,746	127,985
Cash and cash equivalents at the end of the period	623,973	585,397
thereof cash and cash equivalents of disposal groups	19,039	–
Cash and cash equivalents at the end of the period excluding disposal groups	604,934	585,397
Income tax paid	10,591	(43,827)
Interest paid	(57,397)	(56,338)

1 Adjusted on the basis of IAS 8

Consolidated segmental report

Segmentation of assets in EUR thousand	Non-life reinsurance	
	31. 3. 2011	31. 12. 2010
Assets		
Held to maturity	2,545,454	2,724,546
Loans and receivables	2,335,434	2,259,375
Available for sale	11,197,260	11,725,861
At fair value through profit or loss	138,430	152,028
Other invested assets	1,324,816	1,330,693
Short-term investments	1,507,303	1,259,804
Cash	460,089	325,518
Total investments and cash under own management	19,508,786	19,777,825
Funds withheld	708,080	695,709
Contract deposits	-	-
Total investments	20,216,866	20,473,534
Reinsurance recoverables on unpaid claims	1,225,089	859,533
Reinsurance recoverables on benefit reserve	-	-
Prepaid reinsurance premium	124,936	81,256
Reinsurance recoverables on other reserves	420	422
Deferred acquisition costs	399,667	362,080
Accounts receivable	2,174,506	1,805,883
Other assets in the segment	1,351,055	1,262,674
Assets held for sale	1,421,179	1,529,355
Total assets	26,913,718	26,374,737
Segmentation of technical and other liabilities in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	16,111,323	15,634,491
Benefit reserve	-	-
Unearned premium reserve	2,088,090	1,812,861
Provisions for contingent commissions	119,138	130,726
Funds withheld	239,068	218,084
Contract deposits	94,703	102,109
Reinsurance payable	517,694	456,496
Long-term liabilities	175,193	187,690
Other liabilities in the segment	1,597,665	1,564,020
Liabilities related to assets held for sale	1,285,637	1,381,120
Total	22,228,511	21,487,597

Life/health reinsurance		Consolidation		Total	
31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010
3,258	3,528	300,512	299,944	2,849,224	3,028,018
28,173	44,735	10,441	10,319	2,374,048	2,314,429
4,235,154	4,409,009	178,937	279,519	15,611,351	16,414,389
84,556	91,888	29,172	28,437	252,158	272,353
34,651	32,813	2,250	121	1,361,717	1,363,627
214,117	273,051	48,602	37,647	1,770,022	1,570,502
143,939	120,176	906	2,059	604,934	447,753
4,743,848	4,975,200	570,820	658,046	24,823,454	25,411,071
11,153,173	11,225,065	(47)	(49)	11,861,206	11,920,725
116,622	715,353	-	-	116,622	715,353
16,013,643	16,915,618	570,773	657,997	36,801,282	38,047,149
150,502	165,938	(222)	(139)	1,375,369	1,025,332
341,853	347,069	-	-	341,853	347,069
4,100	3,755	(1,903)	(1,787)	127,133	83,224
2,933	1,409	-	-	3,353	1,831
1,438,177	1,472,416	-	-	1,837,844	1,834,496
970,419	1,035,542	(692)	(122)	3,144,233	2,841,303
508,059	507,199	(689,587)	(754,339)	1,169,527	1,015,534
-	-	-	-	1,421,179	1,529,355
19,429,686	20,448,946	(121,631)	(98,390)	46,221,773	46,725,293
2,463,739	2,431,045	(221)	(141)	18,574,841	18,065,395
8,839,202	8,941,021	(1,903)	(1,831)	8,837,299	8,939,190
93,266	97,561	-	-	2,181,356	1,910,422
57,211	53,802	-	-	176,349	184,528
355,191	969,639	-	-	594,259	1,187,723
4,487,495	4,602,158	-	-	4,582,198	4,704,267
197,193	277,817	(1,164)	(840)	713,723	733,473
-	-	1,732,166	1,869,107	1,907,359	2,056,797
1,484,263	1,579,525	(651,625)	(699,035)	2,430,303	2,444,510
-	-	-	-	1,285,637	1,381,120
17,977,560	18,952,568	1,077,253	1,167,260	41,283,324	41,607,425

Consolidated segmental report

Segmental statement of income in EUR thousand	Non-life reinsurance	
	1.1.–31.3.2011	1.1.–31.3.2010
Gross written premium	1,924,278	1,721,940
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	1,924,278	1,721,940
Net premium earned	1,376,341	1,258,013
Net investment income	250,263	166,401
thereof		
Deposit interest and expenses	3,118	2,795
Claims and claims expenses	1,354,070	931,104
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	306,605	282,352
Administrative expenses	46,551	39,076
Other income and expenses	56,086	(6,233)
Operating profit/loss (EBIT)	(24,536)	165,649
Interest on hybrid capital	–	–
Net income before taxes	(24,536)	165,649
Taxes	(67,513)	47,415
Net income	42,977	118,234
thereof		
Non-controlling interest in profit or loss	25,710	8,848
Group net income	17,267	109,386

Life/health reinsurance		Consolidation		Total	
1.1.–31.3.2011	1.1.–31.3.2010	1.1.–31.3.2011	1.1.–31.3.2010 ¹	1.1.–31.3.2011	1.1.–31.3.2010 ¹
1,219,359	1,128,140	(491)	–	3,143,146	2,850,080
491	–	(491)	–	–	–
1,218,868	1,128,140	–	–	3,143,146	2,850,080
1,114,453	1,031,578	(75)	–	2,490,719	2,289,591
127,799	100,749	13,939	12,335	392,001	279,485
72,742	71,162	–	–	75,860	73,957
794,717	742,059	(225)	(151)	2,148,562	1,673,012
114,486	100,459	(74)	–	114,412	100,459
223,462	218,781	(920)	(1,419)	529,147	499,714
35,424	27,317	(714)	(872)	81,261	65,521
(15,731)	18,869	(3,550)	(4,201)	36,805	8,435
58,432	62,580	12,247	10,576	46,143	238,805
–	–	25,614	18,927	25,614	18,927
58,432	62,580	(13,367)	(8,351)	20,529	219,878
15,830	15,878	(6,884)	(4,141)	(58,567)	59,152
42,602	46,702	(6,483)	(4,210)	79,096	160,726
1,099	876	–	–	26,809	9,724
41,503	45,826	(6,483)	(4,210)	52,287	151,002

1 Adjusted on the basis of IAS 8

1. General reporting principles

The parent company Hannover Rückversicherung AG (“Hannover Re”) and its subsidiaries (collectively referred to as the “Hannover Re Group”) are 50.22% owned by Talanx AG and included in its consolidated financial statement. Talanx AG is wholly owned by HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI). Hannover Re is obliged to prepare a consolidated financial statement and group management report in accordance with § 290 German Commercial Code (HGB). Furthermore, HDI is required by §§ 341 i et seq. German Commercial Code (HGB) to prepare consolidated annual accounts that include the annual financial statements of Hannover Re and its subsidiaries.

The consolidated financial statement of Hannover Re was drawn up in compliance with the International Financial Reporting Standards (IFRS) that are to be used within the European Union. This also applies to all figures provided in this report for previous periods. Since 2002 the standards adopted by the International Accounting Standards Board (IASB) have been referred to as IFRS; the standards dating from earlier years still bear the name “International Accounting Standards (IAS)”. Standards are cited in our Notes accordingly; unless the Notes make explicit reference to a particular standard, both terms are used synonymously.

The consolidated quarterly financial report has been compiled in accordance with IAS 34 “Interim Financial Reporting”. As provided for by IAS 34, in our preparation of the consolidated quarterly financial statement, consisting of the consolidated balance sheet, consolidated statement of income, consolidated statement of comprehensive income, consolidated cash flow statement, consolidated statement of changes in shareholders’ equity and selected explanatory notes, we draw on estimates and assumptions to a greater extent than is the case with the annual financial reporting. This can have implications for items in the balance sheet and the statement of income as well as for other financial obligations. Although the estimates are always based on realistic premises, they are of course subject to uncertainties that may be reflected accordingly in the result. Losses from natural disasters and other catastrophic losses impact the result of the reporting period in which they occur. Furthermore, belatedly reported claims for major loss events can also lead to substantial fluctuations in individual quarterly results. Gains and losses on the disposal of investments are accounted for in the quarter in which the investments are sold.

The present consolidated quarterly financial statement was prepared by the Executive Board on 18 April 2011 and released for publication.

2. Accounting principles including major accounting policies

The quarterly accounts of the consolidated companies included in the consolidated financial statement were drawn up as at 31 March 2011.

All standards adopted by the IASB as at 31 March 2011 with binding effect for the period under review have been observed in the consolidated financial statement.

New accounting standards or accounting standards applied for the first time

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

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

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

In November 2009 the IASB issued IFRS 9 “Financial Instruments” on the classification and measurement of financial instruments. IFRS 9 is the first step in a three-phase project intended to replace IAS 39 “Financial Instruments: Recognition and Measurement” with a new standard. IFRS 9 introduces new requirements for classifying and measuring financial assets. The provisions of IFRS 9 were expanded in October 2010 with an eye to financial liabilities for which the fair value option is chosen. The standard, 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.

Standard/Interpretation	Applicable to financial years beginning on or after	Adoption by European Commission
Amendments to IFRS 7 Financial Instruments: Disclosures	1 July 2011	Pending
Deferred tax: Recovery of Underlying Assets (Amendments to IAS 12)	1 January 2012	Pending

Key exchange rates

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.

Key exchange rates				1 EUR corresponds to:	
	31.3.2011	31.12.2010	1.1.–31.3.2011	1.1.–31.3.2010	
	Mean rate of exchange on the balance sheet date		Average rate of exchange		
AUD	1.3741	1.3068	1.3545	1.5411	
BHD	0.5359	0.4997	0.5182	0.5219	
CAD	1.3776	1.3259	1.3558	1.4496	
CNY	9.3042	8.7511	9.0448	9.4493	
GBP	0.8842	0.8585	0.8639	0.8878	
HKD	11.0621	10.3146	10.7043	10.7452	
KRW	1,555.2905	1,501.6346	1,537.7077	1,598.4235	
MYR	4.3021	4.0869	4.1990	4.6742	
SEK	8.9298	9.0119	8.8938	9.9953	
USD	1.4215	1.3254	1.3745	1.3843	
ZAR	9.6586	8.7907	9.4824	10.3877	

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 1,450.2 million as at 31 March 2010. The decrease in these balance sheet items in the opening balance sheet as at 1 January 2010 amounted to EUR 1,429.2 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 quarterly financial statement as at 31 March 2010.

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

Adjustments pursuant to IAS 8 in EUR thousand	1.1.2010	31.3.2010
Funds withheld	-1,429,178	-1,450,158)
Other assets	+2,527	-3,684
Total change in assets	-1,426,651	-1,453,842
Contract deposits	-1,429,178	-1,450,158
Retained earnings	+2,527	-3,684
Total change in liabilities	-1,426,651	-1,453,842
		1.1.-31.12.2010
Other income and expenses		-6,211
Total change in items of the statement of income		-6,211
Change in basic and diluted earnings per share (in EUR)		-0.05

With respect to collateralised debt obligations, collateralised loan obligations and high-yield funds Hannover Re has adjusted the calculation logic used for model-based fair value measurement and for establishing the share of fair value changes attributable to impairments with the aim of measuring such items on a more market-oriented basis. This represents a change in an accounting estimate, which pursuant to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” is to be performed prospectively in the period under review without adjustment of the comparative figures for previous years.

Retention of the parameters and methods used until 31 December 2010 would have reduced the impairments in the period under review by EUR 4.0 million and increased the write-ups by EUR 5.8 million. The amount recognised for the fair values of the specified instruments would have been EUR 7.8 million higher. The effect of this adjustment of the calculation logic in future reporting periods could only have been determined with a disproportionately high effort.

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".

We would also refer to the relevant information in the consolidated financial statement as at 31 December 2010.

3. Consolidated companies and consolidation principles

Major disposals

On 21 December 2010 Hannover Re reached agreement on the sale of its US subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton/Bermuda, a company specialising in the run-off of insurance business. Hannover Re holds all shares of CIGI indirectly through the intermediate holding company Hannover Finance, Inc. (HFI), Wilmington, which is also included in full in the consolidated financial statement. The 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 constitutes a disposal group, which is to be measured at the lower of the carrying amount and fair value less costs to sell. The measurement of the disposal group gave rise to income of EUR 10.5 million in the current financial year, which reduced the provision established as at 31 December 2010 accordingly. The income was recognised in other income and expenses.

The cumulative other comprehensive income of –EUR 25.8 million (31 December 2010: –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 2.1 million (31 December 2010: 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	31.3.2011	31.12.2010
Assets		
Total investments	575,323	643,060
Cash	19,039	27,474
Reinsurance recoverables on unpaid claims	806,068	831,093
Accounts receivable	5,146	16,916
Other assets	15,603	10,812
Assets held for sale	1,421,179	1,529,355
Liabilities		
Technical provisions	1,234,760	1,309,860
Funds withheld	17,932	26,713
Reinsurance payable	11,017	17,612
Other liabilities	21,928	26,935
Liabilities related to assets held for sale	1,285,637	1,381,120

Capital consolidation

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

The capital consolidation is based on the acquisition method. In the context of the “acquisition” method the acquisition costs measured at the fair value of the consideration transferred at the acquisition date 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 at fair value 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. Costs attributable to the acquisition are expensed.

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.

Non-controlling interests in shareholders’ equity are reported separately within Group shareholders’ equity in accordance with IAS 1 “Presentation of Financial Statements”. The non-controlling interest in profit or loss, which forms part of net income and is shown separately after net income as a “thereof” note, amounted to EUR 26.8 million (EUR 9.7 million) as at 31 March 2011.

For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2010.

Consolidation of business transactions within the Group

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

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

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.

A major transaction is “FacPool Re”, under which Hannover Re transferred a portfolio of facultative reinsurance risks to the capital market from September 2009 to January 2011. The contracts, which are now in run-off, were 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 consisted of a quota share reinsurance arrangement and two non-proportional cessions. A number of special purpose entities participated in the reinsurance cessions within “FacPool Re”; Hannover Re did not hold any shares in these special purpose entities and did not bear the majority of the economic benefits or risks arising out of their activities through any of its business relations.

Securitisation of reinsurance risks

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

Effective 30 March 2011 a structured transaction was entered into in order to finance the statutory reserves (so-called XXX reserves) of a US cedant. The structure necessitates the involvement of a special purpose entity, namely the Delaware-based Maricopa LLC. The special purpose entity carries extreme mortality risks securitised by the cedant above a contractually defined retention and transfers these risks by way of a fixed/floating swap with a ten-year term to a Group company of the Hannover Re Group. The maximum capacity of the transaction is USD 500.0 million; an amount of USD 250.0 million was initially taken up upon contract closing. The

variable payments to the special purpose entity guaranteed by Hannover Re cover its payment obligations. By way of a compensation agreement Hannover Re is reimbursed by the cedant’s parent company for all payments resulting from the swap in the event of a claim. Since Hannover Re does not bear the majority of the economic risks or benefits arising out of its business relations with the special purpose entity and does not exercise a controlling influence over it, there is no consolidation requirement for Hannover Re. Under IAS 39 this transaction is to be recognised at fair value as a financial guarantee. To this end Hannover Re uses the net method, according to which the present value of the agreed fixed swap premiums is netted with the present value of the guarantee commitment. The fair value on initial recognition therefore

amounted to zero. The higher of the fair value and the amount carried as a provision on the liabilities side pursuant to IAS 37 is recognised at the point in time when utilisation is considered probable. In this case the reimbursement claims from the compensation agreement are to be capitalised separately from and up to the amount of the provision.

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

Investments

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

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 on multiple occasions, was equivalent to EUR 235.7 million (EUR 248.5 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 2010/2011 until 31 December 2012/2013. 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.

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. Notes on the individual items of the balance sheet

4.1 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.

For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2010.

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

Investments ¹ in EUR thousand	31.3.2011	31.12.2010
Regional origin		
Germany	5,797,586	6,402,667
United Kingdom	1,801,672	1,731,362
France	2,455,861	2,188,048
Other	4,835,482	4,856,718
Europe	14,890,601	15,178,795
USA	5,748,776	6,145,130
Other	1,125,193	1,057,850
North America	6,873,969	7,202,980
Asia	755,952	673,879
Australia	1,527,351	1,577,157
Australasia	2,283,303	2,251,036
Africa	422,543	409,767
Other	353,038	368,493
Total	24,823,454	25,411,071

1 After elimination of internal transactions within the Group across segments

Maturities of the fixed-income and variable-yield securities				in EUR thousand	
	31. 3. 2011		31.12. 2010		
	Amortised cost ¹	Fair value	Amortised cost ¹	Fair value	
Held to maturity					
due in one year	322,349	326,701	293,247	296,019	
due after one through two years	475,629	491,215	481,951	497,863	
due after two through three years	582,527	608,929	530,917	556,296	
due after three through four years	309,893	324,735	402,290	435,132	
due after four through five years	915,298	958,185	842,291	896,024	
due after five through ten years	225,437	243,823	458,201	489,910	
due after ten years	18,091	17,651	19,121	18,143	
Total	2,849,224	2,971,239	3,028,018	3,189,387	
Loans and receivables					
due in one year	118,179	118,248	61,280	61,845	
due after one through two years	115,980	116,726	129,327	129,184	
due after two through three years	366,192	367,264	348,915	356,739	
due after three through four years	533,222	539,984	576,421	592,242	
due after four through five years	294,305	298,589	330,110	342,088	
due after five through ten years	890,629	903,251	806,953	840,900	
due after ten years	55,541	52,217	61,423	58,741	
Total	2,374,048	2,396,279	2,314,429	2,381,739	
Available for sale					
due in one year ²	4,458,739	4,471,906	4,127,663	4,146,256	
due after one through two years	1,998,759	2,022,907	1,856,401	1,892,437	
due after two through three years	2,027,522	2,062,780	1,841,265	1,892,893	
due after three through four years	1,695,814	1,717,196	2,184,191	2,238,279	
due after four through five years	2,106,765	2,097,881	2,277,464	2,294,991	
due after five through ten years	3,872,159	3,872,489	3,710,502	3,727,430	
due after ten years	1,648,000	1,704,487	1,629,312	1,703,603	
Total	17,807,758	17,949,646	17,626,798	17,895,889	
Financial assets at fair value through profit or loss					
due in one year	31,095	31,095	76,542	76,542	
due after one through two years	16,525	16,525	28,498	28,498	
due after two through three years	70,358	70,358	60,257	60,257	
due after three through four years	4,742	4,742	4,876	4,876	
due after four through five years	–	–	–	–	
due after five through ten years	–	–	–	–	
due after ten years	48,710	48,710	47,424	47,424	
Total	171,430	171,430	217,597	217,597	

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 its fair value						Figures in EUR thousand
	31.3.2011					
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value	
Investments held to maturity						
Fixed-income securities						
Government debt securities of EU member states	323,072	5,216	845	4,742	332,185	
US treasury notes	357,543	36,760	–	4,514	398,817	
Other foreign government debt securities	10,839	508	–	108	11,455	
Debt securities issued by semi-governmental entities	592,709	26,588	470	8,709	627,536	
Corporate securities	546,055	21,691	878	12,263	579,131	
Covered bonds/asset-backed securities	971,505	35,952	2,507	17,165	1,022,115	
Total	2,801,723	126,715	4,700	47,501	2,971,239	

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as held to maturity as well as its fair value						Figures in EUR thousand
	31.12.2010					
	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 loans and receivables as well as their fair value**

Figures in EUR thousand

	31.3.2011				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	10,450	–	69	314	10,695
Debt securities issued by semi-governmental entities	1,054,378	14,329	3,877	9,459	1,074,289
Corporate securities	446,522	7,557	2,586	8,025	459,518
Covered bonds/asset-backed securities	834,456	15,317	8,440	10,444	851,777
Total	2,345,806	37,203	14,972	28,242	2,396,279

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

Figures in EUR thousand

	31.12.2010				
	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 the portfolio of investments classified as available for sale as well as its fair value						Figures in EUR thousand
	31.3.2011					
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value	
Available for sale						
Fixed-income securities						
Government debt securities of EU member states	2,038,918	13,478	40,805	26,835	2,038,426	
US treasury notes	1,747,067	43,512	4,653	7,755	1,793,681	
Other foreign government debt securities	859,572	9,203	1,519	7,112	874,368	
Debt securities issued by semi-governmental entities	3,655,610	62,425	14,840	52,652	3,755,847	
Corporate securities	4,832,128	81,179	76,586	83,478	4,920,199	
Covered bonds/asset-backed securities	2,001,345	99,409	33,438	24,958	2,092,274	
Investment funds	95,579	7,682	3,366	–	99,895	
	15,230,219	316,888	175,207	202,790	15,574,690	
Equity securities						
Shares	13,510	5,621	2	–	19,129	
Investment funds	16,548	1,035	51	–	17,532	
	30,058	6,656	53	–	36,661	
Short-term investments	1,768,301	657	450	1,514	1,770,022	
Total	17,028,578	324,201	175,710	204,304	17,381,373	

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as available for sale as well as its fair value						Figures in EUR thousand
	31.12.2010					
	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	

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
	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010	
	Fair value before accrued interest		Accrued interest		Fair value		
Financial assets at fair value through profit or loss							
Fixed-income securities							
Debt securities of semi-governmental entities	9,919	9,995	11	80	9,930	10,075	
Corporate securities	96,313	97,770	198	542	96,511	98,312	
Covered bonds/asset-backed securities	64,586	108,598	403	612	64,989	109,210	
	170,818	216,363	612	1,234	171,430	217,597	
Other financial assets							
Derivatives	80,728	54,756	–	–	80,728	54,756	
	80,728	54,756	–	–	80,728	54,756	
Total	251,546	271,119	612	1,234	252,158	272,353	

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

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

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

Non-controlling 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, registered no-par-value 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.

Furthermore, the Executive Board is authorised – with the consent of the Supervisory Board – to acquire treasury shares of up to 10% of the existing share capital. The authorisation is limited until 3 May 2015.

IAS 1 requires separate disclosure of treasury shares in shareholders' equity. The company was not in possession of treasury shares at any time during the period under review.

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

5.1 Gross written premium

Gross written premium ¹ in EUR thousand	1.1.–31.3.2011	1.1.–31.3.2010
Regional origin		
Germany	403,349	391,591
United Kingdom	659,070	469,510
France	158,659	163,298
Other	402,715	430,567
Europe	1,623,793	1,454,966
USA	693,001	745,452
Other	108,110	84,673
North America	801,111	830,125
Asia	245,843	183,557
Australia	162,714	114,786
Australasia	408,557	298,343
Africa	114,868	93,608
Other	194,817	173,038
Total	3,143,146	2,850,080

1 After elimination of internal transactions within the Group across segments

5.2 Investment income

Investment income in EUR thousand	31.3.2011	31.3.2010
Income from real estate	8,992	6,106
Dividends	2,104	719
Interest income	215,694	205,049
Other investment income	(4,046)	2,294
Ordinary investment income	222,744	214,168
Profit or loss on shares in associated companies	2,377	1,696
Appreciation	14,067	6,520
Realised gains on investments	83,841	37,854
Realised losses on investments	44,663	16,504
Unrealised gains and losses on investments	69,017	(12,887)
Impairments on real estate	2,265	1,693
Impairments on equity securities	–	516
Impairments on fixed-income securities	4,636	4,775
Impairments on participating interests and other financial assets	6,753	4,404
Other investment expenses	17,588	13,931
Net income from assets under own management	316,141	205,528
Interest income on funds withheld and contract deposits	120,120	102,248
Interest expense on funds withheld and contract deposits	44,260	28,291
Total investment income	392,001	279,485

Of the impairments totalling EUR 11.5 million, an amount of EUR 11.4 million was attributable to alternative investments. This includes impairments on private equity of EUR 6.8 million and impairments on structured fixed-income products of EUR 4.6 million. No impairments had to be recognised on other fixed-income securities. The write-downs contrasted with write-ups of EUR 14.1 million attributable exclusively to structured fixed-income secur-

ities. No impairments were recognised on equities in the period under review because our portfolio did not contain any 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. 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	31.3.2011	31.3.2010
Fixed-income securities – held to maturity	31,288	31,236
Fixed-income securities – loans and receivables	18,366	22,342
Fixed-income securities – available for sale	158,552	140,307
Financial assets – at fair value through profit or loss	1,202	3,012
Other	6,286	8,152
Total	215,694	205,049

6. Other notes

6.1 Derivative financial instruments

Hannover Re's portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange contracts predominantly taken out to hedge cash flows from reinsurance contracts. The resulting liabilities of EUR 27.4 million (31 December 2010: EUR 34.9 million) were recognised under 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 1.8 million (31 December 2010: EUR 2.3 million).

Hannover Re holds derivative financial instruments to hedge inflation risks associated with the loss reserves in the technical account. These transactions resulted in the recognition of other financial assets at fair value through profit or loss in an amount of EUR 31.0 million (31 December 2010: other liabilities amounting to EUR 31.4 million as well as other financial assets at fair value through profit or loss in an amount of EUR 0.2 million).

The net changes in the fair value of these instruments improved the result of the period under review by EUR 68.1 million (31 March 2010: charge of EUR 6.3 million to the result of the period under review).

Certain reinsurance treaties meet criteria which require application of the prescriptions in IFRS 4 governing embedded derivatives. These accounting regulations require that derivatives embedded in reinsurance contracts be separated from the underlying insurance contract ("host contract") according to the conditions specified in IFRS 4 and IAS 39 and recognised separately at fair value in accordance with IAS 39. Fluctuations in the fair value of the derivative components are to be recognised in income in subsequent periods.

On this basis Hannover Re reported as financial assets at fair value through profit or loss technical derivatives in an amount of EUR 49.6 million as at 31 March 2011 (31 December 2010: EUR 54.5 million) that were separated from the underlying transaction and measured at fair value.

In addition, liabilities from derivatives in connection with the technical account totalling EUR 8.1 million (31 December 2010: EUR 8.5 million) were recognised under other liabilities as at the balance sheet date.

Of the derivatives carried on the assets side fair values of EUR 40.3 million (31 December 2010: EUR 45.2 million) were attributable as at the balance sheet date to derivatives embedded in "modified coinsurance" and "coinsurance funds withheld" (ModCo) reinsurance treaties.

Within the scope of the accounting of 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.

Owing to a slight widening of credit spreads in the course of the year, the ModCo derivatives gave rise to a charge against investment income of EUR 1.9 million before tax as at 31 March 2011 (31 March 2010: charge against investment income of EUR 12.5 million).

6.2 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 period under review the following significant business relations existed with related parties.

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. Assets in special funds are managed by AmpegaGerling Investment GmbH. 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, fire, 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. All transactions were effected at usual market conditions.

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

The major reinsurance relationships with related parties in the period under review are listed in the following table.

Business assumed and ceded in Germany and abroad in EUR thousand	31.3.2011	
	Premium	Underwriting result
Business assumed		
Non-life reinsurance	115,126	23,260
Life and health reinsurance	55,274	4,684
	170,400	27,944
Business ceded		
Non-life reinsurance	(2,413)	4,379
Life and health reinsurance	(2,284)	(1,452)
	(4,697)	2,927
Total	165,703	30,871

6.3 Staff

The average number of staff employed at the companies included in the consolidated financial statement of the Hannover Re Group was 2,202 during the period under review (2010 financial year: 2,130).

As at the balance sheet date altogether 2,211 (2,192) staff were employed by the Hannover Re Group, with 1,100 (1,089) employed in Germany and 1,111 (1,103) working for the consolidated Group companies abroad.

6.4 Taxes on income

On the basis of a decision of the Federal Fiscal Court (BFH) in October 2010 regarding the taxation of investment income generated by the Group's reinsurance subsidiaries domiciled in Ireland as foreign-sourced income pursuant to the Foreign Transactions Tax Act, taxes already paid for earlier years were in large measure refunded in the first quarter. Assessments regarding the taxation of foreign-sourced income for the companies Hannover Reinsurance (Ireland) Ltd. and Hannover Life Reassurance (Ireland) Ltd. were rendered immaterial

by cancellation notices dated 8 February 2011 and 31 March 2011 respectively. Subsequent assessment notices regarding corporation tax were issued for Hannover Re and E+S Rück on 7 March 2011. In total, the refund of taxes and interest as well as the capitalisation of tax and interest receivables for amounts still to be reimbursed resulted in an improvement of EUR 113.5 million in Group net income in the period under review.

6.5 Earnings per share

Calculation of the earnings per share	1.1.–31.3.2011	1.1.–31.3.2010 ¹
Group net income in EUR thousand	52,287	151,002
Weighted average of issued shares	120,597,134	120,597,134
Basic earnings per share in EUR	0.43	1.25
Diluted earnings per share in EUR	0.43	1.25

1 Adjusted on the basis of IAS 8

Neither in the period under review nor in the previous reporting period were there any dilutive effects.

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

6.6 Contingent liabilities and commitments

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

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

The guarantees given by Hannover Re for the subordinated debts take effect 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 2,385.6 million (31 December 2010: EUR 2,576.3 million) and EUR 8.8 million (EUR 9.5 million) respectively as at the balance sheet date. In addition, we extended further collateral to our cedants in an amount of EUR 273.4 million (31 December 2010: EUR 298.6 million) through so-called "single trust funds".

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

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 1,796.9 million (31 December 2010: EUR 1,851.4 million) as at the balance sheet date.

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

As security for our technical liabilities, various financial institutions have furnished guarantees for our company in the form of letters of credit. The total amount as at the balance sheet date was EUR 2,353.8 million (31 December 2010: EUR 2,766.6 million).

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 274.2 million as at the balance sheet date (31 December 2010: EUR 257.5 million).

Outstanding capital commitments with respect to alternative investments exist on the part of the Group in the amount of EUR 312.6 million (31 December 2010: EUR 272.6 million). These primarily involve as yet unfulfilled payment obligations from participations entered into in private equity funds and venture capital firms.

6.7 Events after the end of the quarter

As announced in a press release dated 18 April 2011, Hannover Re has reached agreement with Scottish Re (U.S.), Inc., Charlotte/United States, on the acquisition of a reinsurance portfolio. The acquired portfolio covers the mortality risk under term life and endowment policies that were reinsured by

Scottish Re in the underwriting years 2000 to 2003. The business, which is 100% assumed by Hannover Re with effect from 1 January 2011, will likely generate an annual premium volume of around USD 80 million. The transaction is expected to close in May 2011 and still requires regulatory approval.

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