

somewhat
different

Interim Report 1/2010

hannover **re**[®]

Key figures

Figures in EUR million	2010		2009	
	1.1.–31.3.	+/- previous Year	1.1.–31.3.	31.12.
Results				
Gross written premium	2,850.1	+7.1%	2,661.9	
Net premium earned	2,289.6	+9.5%	2,091.3	
Net underwriting result	(49.1)		(1.7)	
Net investment income	279.5	+41.0%	198.2	
Operating result (EBIT)	245.0	-20.2%	307.0	
Group net income (loss)	157.2	-31.2%	228.6	
Balance sheet (as at the end of the quarter)				
Policyholders' surplus	5,991.7	+6.6%		5,619.1
Total shareholders' equity	4,084.9	+10.0%		3,711.9
Minority interests	540.7	-0.3%		542.1
Hybrid capital	1,366.2	+0.1%		1,365.1
Investments (excl. funds withheld by ceding companies)	23,746.5	+5.5%		22,507.0
Total assets	44,694.2	+5.7%		42,264.2
Share				
Earnings per share (diluted) in EUR	1.30	-31.2%	1.90	
Book value per share in EUR	33.87	+10.0%	24.35	30.78
Share price at the end of the period in EUR	36.56	+11.8%	24.00	32.71
Market capitalisation at the end of the period	4,409.0	+11.8%	2,894.3	3,944.7
Ratios				
Combined ratio (non-life reinsurance) ¹	99.3%		95.0%	
Major losses as percentage of net premium earned (non-life reinsurance) ²	21.0%		8.4%	
Retention	90.8%		91.7%	
Return on investment (excl. funds withheld by ceding companies)	3.6%		2.7%	
EBIT margin ³	10.7%		14.7%	
Return on equity	16.1%		31.7%	

1 Including funds withheld

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

3 Operating profit (EBIT)/net premium earned



Ulrich Wallin
Chairman of the Executive Board

Dear shareholders, Ladies and Gentlemen,

Despite a very substantial major loss incidence in the first quarter, your company got off to a good start in the 2010 financial year. Particularly as a consequence of the devastating earthquake in Chile with a net strain of some EUR 185 million, the burden of catastrophe losses in the first quarter came in significantly higher than our expectation – a figure arrived at from actuarial calculations and relevant empirical values. We nevertheless generated net income after taxes of EUR 157 million as at 31 March 2010. On an annualised basis this is equivalent to a return on equity in excess of 15%, hence entirely living up to our expectations for the full financial year as far as profitability is concerned. The same is true of the growth in premium income, which – with a double-digit increase in life/health reinsurance as well as gains of 4% in non-life reinsurance and 7.1% overall – reaffirmed unreservedly the development that we had anticipated for the full year.

That we succeeded in generating the aforementioned highly satisfactory result in spite of the above-average burden of major losses can be attributed in large measure to the following circumstances: developments in the first three months led to a favourable run-off of the loss reserves in the first quarter. This derived in particular from the run-off of catastrophe losses and major claims incurred in previous years as well as from our German business. In addition, we booked a very positive result from our life and health reinsurance in the first quarter and also recorded thoroughly satisfactory investment income.

We were again very pleased with the development of our shareholders' equity, which grew by 10 % and for the first time at Hannover Re surpassed the EUR 4 billion threshold. Including minority interests, shareholders' equity amounted

to as much as EUR 4.6 billion. Along with our good result, this increase was attributable to price appreciation in our portfolio of fixed-income securities and favourable movements in exchange rates.

The treaty renewals as at 1 January 2010 in non-life reinsurance passed off satisfactorily for our company: rates and conditions remained broadly stable. Although modest rate erosion was observed in some property lines, we were able to obtain price increases in certain segments – including aviation business as well as credit and surety reinsurance.

All in all, reinsurance continues to be a highly prized tool among primary insurers. The preparations being made by European insurers for the future regulatory framework of Solvency II, under which the equity requirements for primary insurers will rise, are a further factor here.

As part of our risk management activities we again drew upon the capital market to obtain underwriting capacity for catastrophe risks. We were able to increase the "K6" transaction launched in 2009 by the targeted maximum amount of USD 152 million to a total volume of USD 329 million.

Our second business group, life and health reinsurance, also progressed well. The acquisition completed last year in the United States significantly advanced the planned expansion of our risk-oriented life portfolio.

The healthy organic growth in the first quarter testifies to the opportunities that are opening up for annuity and health insurance in the face of demographic change – i.e. the increasing ageing in the developed industrial nations. In the United Kingdom, where we are particularly active in annuity and pension business, we have reinsured a substantial share of an existing pension fund that covers the biometric risk of longevity. Our goal continues to be the ongoing enlargement of our life and health reinsurance portfolio – which is less volatile than non-life reinsurance – in order to improve still further the diversification of our revenue streams.

The performance of our investments in the first three months was satisfactory. Despite the fall in the level of interest rates around the world, our ordinary income increased year-on-year – primarily thanks to enlarged holdings of fixed-income securities. The development of the fair values in our portfolios is gratifying. We are profiting here in particular from the movement in the yield level, especially for euro-denominated bonds. Only a minimal volume of impairments

had to be taken, and some write-ups were also made. With a view to further diversifying our portfolio we acted on opportunities in the German and US real estate markets in the first quarter of 2010.

I am especially pleased to report to you, our valued shareholders, that our share price developed very favourably in the first quarter. The Hannover Re share surged by 11.8% to EUR 36.56, thereby outpacing both the DAX and MDAX.

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,

A handwritten signature in blue ink, appearing to read 'Ulrich Wallin'.

Ulrich Wallin
Chairman of the Executive Board

Boards and officers

Supervisory Board (Aufsichtsrat)

Herbert K. Haas^{1, 2, 3}
Chairman
Burgwedel

Dr. Klaus Sturany¹
Deputy Chairman
Dortmund

Wolf-Dieter Baumgartl^{1, 2, 3}
Berg

Uwe Kramp⁴
Hannover

Karl Heinz Midunsky³
Gauting

Ass. jur. Otto Müller⁴
Hannover

Dr. Immo Querner
Ehlershausen

Dr. Erhard Schipporeit²
Hannover

Gert Waechtler⁴
Burgwedel

Executive Board (Vorstand)

Ulrich Wallin
Chairman
Hannover

André Arrago
Hannover

Dr. Wolf Becke
Hannover

Jürgen Gräber
Ronnenberg

Dr. Michael Pickel
Isernhagen

Roland Vogel
Deputy Member
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

Even though the burden of major losses was higher than expected, we are satisfied with the development of our two business groups – non-life reinsurance and life/health reinsurance – in the first quarter of 2010. In view of our robust financial strength and good competitive position, we continue to profit from sustained demand for reinsurance solutions.

Following the vigorous growth booked in the corresponding quarter of the previous year, gross written premium in total business increased by a further 7.1% to EUR 2.9 billion (EUR 2.7 billion) as at 31 March 2010. The effects of exchange rate movements here were only marginal. The level of retained premium slipped to 90.8% (91.7%). Net premium climbed by 9.5% to EUR 2.3 billion (EUR 2.1 billion).

We are satisfied with the development of our investments in the first quarter. Thanks in part to the inflow of cash from the technical account, but principally due to favourable movements in the fair values of our investments attributable to interest rate and exchange rate effects, the volume of assets under own management grew to EUR 23.7 billion (EUR 22.5 billion). Despite a significantly lower interest rate level, ordinary investment income excluding interest on deposits thus also surpassed the corresponding period of the previous year to reach EUR 214.2 million (EUR 199.3 million). Interest on deposits climbed to EUR 74.0 million (EUR 57.9 million).

Impairment losses of EUR 9.9 million (EUR 50.1 million) were recognised on investments. Of this amount, EUR 4.8 million was attributable to fixed-income securities and EUR 4.4 million to alternative investments. The write-downs contrasted with write-ups of EUR 6.5 million, thereof EUR 3.9 million on fixed-income securities and EUR 2.6 million on alternative investments.

The unrealised losses on our asset holdings recognised at fair value through profit or loss totalled EUR 12.9 million (EUR 33.7 million). The bulk of this amount – specifically EUR 12.5 million (EUR 5.1 million) – stemmed from securities deposits held by ceding companies for our account (ModCo).

Net investment income was boosted relative to the corresponding period of the previous year; it reached EUR 279.5 million (EUR 198.2 million) as at 31 March 2010.

The operating profit (EBIT) stood at EUR 245.0 million (EUR 307.0 million). Adjusted for the positive special effect of EUR 86.4 million recognised in the corresponding quarter of the previous year in connection with the acquisition of the ING life reinsurance portfolio, EBIT would have grown by 11.1%. Group net income as at 31 March 2010 totalled EUR 157.2 million (EUR 228.6 million). Here, growth of 10.6% would have been booked if the special effect of EUR 86.4 million were eliminated. Earnings per share came in at EUR 1.30 (EUR 1.90) and the annualised return on equity stood at 16.1% (31.7%).

Shareholders' equity improved by EUR 372.9 million on the level of 31 December 2009 to reach EUR 4.1 billion. The book value per share consequently also increased to EUR 33.87 (EUR 30.78). The policyholders' surplus, comprised of shareholders' equity, minority interests and hybrid capital, amounted to EUR 6.0 billion (EUR 5.6 billion).

Non-life reinsurance

The situation on the international reinsurance markets is broadly favourable, and the renewal season as at 1 January 2010 in non-life reinsurance consequently thus passed off satisfactorily for our company. Rates and conditions remained largely stable. While modest rate erosion was observed in some property lines, price increases were obtained in other segments. This was the case in aviation business, and it was also again true of credit and surety reinsurance. The treaty renewals in Germany proved to be more positive than expected. This year we were again able to enlarge our market share in Germany thanks to new customer relationships and hence consolidated our position as one of the leading reinsurers in the profitable German market.

The treaty renewals in North America were in line with our expectations, although in many segments we do not consider the rate level here to be adequate. We were therefore cautious when it came to accepting additional risks.

In credit and surety business we pushed through increases sometimes running into double-digit percentages and extended our market position, despite the growing capacity available on the market.

In worldwide catastrophe business prices for reinsurance covers declined as expected owing to the relatively unremarkable major loss experience of 2009 and the improved capital resources at primary insurers. Rate reductions were especially marked in the United States, although in some regions it was also possible to secure price increases under loss-impacted programmes.

The development of structured reinsurance products was also thoroughly satisfactory. We made particularly strong gains here in Asia, although demand continued to pick up in the United States as well.

In the area of facultative reinsurance, i.e. the underwriting of individual risks, we were able to obtain rates that satisfied our margin requirements in virtually all markets. It should, however, be noted that premiums have come under pressure due to increasing competition.

All in all, the volume growth in our non-life reinsurance business group was highly gratifying. Gross premium as at 31 March 2010 increased by 4.0% relative to the corresponding period of the previous year to stand at EUR 1.7 billion (EUR 1.7 billion). At constant exchange rates, especially against the US dollar, growth would have come in at 4.5%. The level of retained premium retreated to 90.1% (92.4%). Net premium earned climbed 6.5% to EUR 1.3 billion (EUR 1.2 billion).

The incidence of major losses in the first quarter was considerably higher than in the comparable quarter of the previous year: the largest single loss for our company was

the severe earthquake in Chile with a net strain of EUR 185.1 million. The devastating earthquake in Haiti produced loss expenditure in the order of EUR 25.5 million owing to lower insured values. We have set aside reserves of around EUR 40 million for European winter storm "Xynthia".

Altogether, the net burden of major losses for the first quarter totalled EUR 264.4 million (EUR 98.8 million) – a figure well in excess of our expectations. The combined ratio of 99.3% (95.0%) was assisted by positive effects from the run-off of reserves for prior years.

The net underwriting result declined from EUR 53.6 million in the corresponding quarter of the previous year to EUR 5.5 million. The operating profit (EBIT) in non-life reinsurance fell by 11.7% to EUR 165.6 million (EUR 187.6 million). Group net income contracted by 13.2% to EUR 109.4 million (EUR 126.1 million), producing earnings per share of EUR 0.91 (EUR 1.05).

Key figures for non-life reinsurance			in EUR million
	2010		2009
	1.1.–31.3.	+/- previous year	1.1.–31.3.
Gross written premium	1,721.9	+4.0%	1,656.0
Net premium earned	1,258.0	+6.5%	1,180.9
Underwriting result	5.5	-89.8%	53.6
Net investment income (loss)	166.4	+41.2%	117.8
Operating profit/loss (EBIT)	165.6	-11.7%	187.6
Group net income (loss)	109.4	-13.2%	126.1
Earnings per share in EUR	0.91	-13.2%	1.05
Combined ratio ¹	99.3%		95.0%
Retention	90.1%		92.4%

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 developed insurance markets such as the United States, Japan, United Kingdom and Germany is generating heightened awareness of the need for provision. This is of particular benefit to annuity and health insurance products. Increasing urbanisation in leading emerging markets such as China, India and Brazil is fostering a rapidly growing middle class, which to a greater extent than before is clamouring for insurance solutions designed to protect surviving dependants and afford individual retirement provision.

Our products and services in life and health reinsurance remain concentrated on five subsegments: financial solutions, new markets, bancassurance, multinational clients and conventional reinsurance.

We significantly strengthened our position in the area of risk-oriented reinsurance through the acquisition of the US ING life reinsurance portfolio last year and thereby charted a course for further profitable growth. The United States is now our largest market in life and health reinsurance following the ING acquisition.

In the United Kingdom – our second-largest market – annuity and pension business constitutes a vigorous growth sector in which we cover the biometric risk of longevity. In the first quarter we reinsured a substantial share of an existing pension fund of a major automobile manufacturer. We expect this to generate annual gross premium of around GBP 80 million. Further, albeit more modest, transactions will follow.

A special focus of our strategy continues to be on the BRIC markets (Brazil, Russia, India and China), although Korea – one of the largest life reinsurance markets in Asia – also offers us good growth prospects. Further significant markets for our company are Australia, Germany, France and South Africa.

Gross written premium in life and health reinsurance climbed 12.2% to EUR 1.1 billion (EUR 1.0 billion) as at 31 March 2010. At constant exchange rates growth would have come in at 10.8%. The level of retained premium nudged slightly higher to 91.8% (90.6%). Net premium earned increased by 13.3% to EUR 1.0 billion (EUR 0.9 billion).

The operating profit (EBIT) amounted to EUR 68.8 million (EUR 118.6 million) as at 31 March 2010. EBIT growth of 113.6% would have been recorded if the positive special effect of EUR 86.4 million in the comparable period of the previous year due to acquisition of the ING life reinsurance portfolio were factored out. The EBIT margin for the first quarter was 6.7%, a figure well within our target corridor of 6% to 7%. Group net income reached EUR 52.0 million (EUR 110.5 million). Earnings per share amounted to EUR 0.43 (EUR 0.92).

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 comprises a valuation of the life and health reinsurance portfolio until its complete run-off as well as of the allocated capital and hence provides a basis for assessing the long-term profitability of a life (re)insurance undertaking.

Key figures for life and health reinsurance	in EUR million		
	2010		2009
	1.1.–31.3.	+/- previous year	1.1.–31.3.
Gross written premium	1,128.1	+12.2%	1,005.9
Net premium earned	1,031.6	+13.3%	910.4
Net investment income	100.7	+32.9%	75.8
Operating profit/loss (EBIT)	68.8	-42.0%	118.6
Group net income (loss)	52.0	-52.9%	110.5
Earnings per share in EUR	0.43	-52.9%	0.92
Retention	91.8 %		90.6 %
EBIT margin ¹	6.7 %		13.0 %

¹ Operating profit/loss (EBIT)/net premium earned

Bearing in mind the present state of capital markets, the MCEV developed very well as at 31 December 2009. It amounted to EUR 2.2 billion (EUR 1.7 billion), equivalent to an increase of 33.8%.

Investments

While US treasury securities scarcely saw any movements in the yield structure during the first quarter of 2010, European government bonds experienced declines in yields across all duration ranges. The fair values of our fixed-income securities were favourably influenced by the further reduction of credit spreads on corporate bonds, the unrealised gains on which climbed to EUR 641.9 million (EUR 431.3 million) in the course of the first quarter. Largely owing to these effects, but also due to movements in exchange rates and the positive operating cash flow, our portfolio of assets under own management grew to EUR 23.7 billion (EUR 22.5 billion).

The ordinary income from assets under own management of EUR 214.2 million improved on the corresponding period of the previous year (EUR 199.3 million), despite the low level of interest rates. Interest on deposits increased from EUR 57.9 million to EUR 74.0 million.

Impairments of altogether EUR 11.4 million (EUR 50.3 million) were taken. Of this amount, EUR 4.8 million was attributable to fixed-income securities and EUR 4.4 million

to alternative investments. Scheduled depreciation on directly held real estate rose to EUR 1.5 million (EUR 0.1 million), a reflection of our increased involvement in this sector. The total volume of write-downs contrasted with write-ups of EUR 6.5 million, of which EUR 3.9 million was apportionable to fixed-income securities and EUR 2.6 million to alternative investments.

We recognise a derivative (B36) for the credit risk associated with special life reinsurance treaties under which securities deposits are held by cedants for our account; the performance of this derivative during the reporting period gave rise to unrealised losses of EUR 12.5 million (EUR 5.1 million) which were recognised in income. Positive effects of EUR 10.4 million derived from the measurement of structured fixed-income securities at fair value through profit or loss. In the corresponding quarter of the previous year unrealised losses of EUR 25.4 million had been recognised in this context.

In view of higher interest income, the decrease in unrealised losses and a reduced volume of write-downs, we were again able to boost our net investment income: it rose to EUR 279.5 million for the first quarter (EUR 198.2 million).

Net investment income	in EUR million		
	2010		2009
	1.1.–31.3.	+/- previous year	1.1.–31.3.
Ordinary investment income ¹	214.2	+7.5%	199.3
Results from participation in associated companies	1.7		0.1
Appreciation	6.5		–
Realised gains/losses	21.3	–43.5%	37.8
Impairments ²	11.4	–77.3%	50.3
Unrealised gains/losses ³	(12.9)	–61.8%	(33.7)
Investment expenses	(13.9)	+7.4%	(13.0)
Net investment income from assets under own management	205.5	+46.5%	140.3
Net investment income from funds withheld	74.0	+27.8%	57.9
Net investment income	279.5	+41.0%	198.2

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

Risk report

As an internationally operating reinsurer we are confronted with a broad diversity of risks that are indivisibly bound up with our entrepreneurial activities and which manifest themselves differently in the individual business groups and geographical regions.

The overriding goal of our risk management is to adhere to our strategically defined risk positions and to ensure that our capital resources are adequate at all times. We attach central importance to the following elements of our risk management system:

- Management and monitoring of individual risks so that the total risk remains within the permissible tolerances
- Separation of functions between divisions that enter into and manage risks, on the one hand, and those that monitor risks (Group Risk Management), on the other
- Process-independent monitoring by Internal Auditing
- Regular review of the efficiency of systems and, as appropriate, adjustment to the business environment and/or the changed risk situation within the scope of our internal risk management and control system
- 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
- Ad hoc reports as necessary
- 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

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 company strategy with a special eye to capital protection. The Framework Guideline puts in place a consistent appreciation of controls as well as a uniform procedure and standards for implementation of the ICS across all organisational units of Hannover Re. The ICS consists of systematically structured organisational and technical measures/controls within the enterprise. 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.

Material risks

The risk situation of Hannover Re is essentially defined by comprehensive analysis of the following risk categories:

- Technical risks in non-life reinsurance
- Technical risks in life and health reinsurance
- Market risks
- Credit risks
- Operational risks
- Other risks

Risks emanating from non-life reinsurance are of crucial significance to our business operations. We make a fundamental distinction here between risks that result from business operations of past years and those stemming from activities in the current or future years.

The reserving risk, i.e. the risk of under-reserving losses, is a material technical risk. The loss reserves are calculated using actuarial methods, primarily on the basis of information provided by our ceding companies, and supplemented where necessary by additional reserves based on our own loss estimations. We also establish the so-called IBNR (incurred but not reported) reserve for losses that have already occurred but have not yet been reported to us. Annual audits conducted by external actuaries and auditors play an important part in the quality assurance of our own calculations regarding the adequacy of the reserves.

The risk of losses exceeding premiums derives from the fact that the initially calculated premiums may not suffice to pay compensation and long-term benefit commitments in the required amount. The combined ratio in non-life reinsurance is tracked over time and shown in the table with an eye to the risk of losses exceeding premiums.

All risks directly connected with the life of an insured person are referred to as biometric risks (miscalculation of mortality, life expectancy, morbidity and occupational disability); they constitute material risks for our company in the area of life and health reinsurance.

The Market Consistent Embedded Value (MCEV) is a ratio used to evaluate life insurance and reinsurance business; it is calculated as the present value of the future shareholders' earnings from the worldwide life and health reinsurance portfolio plus the allocated capital. The calculation makes appropriate allowance for all risks underlying the covered business. For further explanation we would refer to the MCEV for the 2009 financial year, which is published on our website at the same time as the report on the first quarter of 2010.

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. The overriding principle guiding our investment strategy is capital preservation while giving adequate consideration to the security, liquidity, mix and spread of the assets. Potential market price risks are reduced with the aid of a broad range of risk-steering measures.

The "value at risk" (VaR) is a 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.

Development of combined and catastrophe ratio											
Figures in %	Q1 2010	2009	2008	2007	2006	2005 ¹	2004 ¹	2003 ^{1,2}	2002 ^{1,2}	2001 ^{1,2}	2000 ^{1,2}
Combined ratio (non-life reinsurance)	99.3	96.6	95.4	99.7	100.8	112.8	97.2	96.0	96.3	116.5	107.8
thereof major losses ³	21.0	4.6	10.7	6.3	2.3	26.3	8.3	1.5	5.2	23.0	3.7

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 as percentage of net premium earned

Scenarios for changes in the fair value of our securities				in EUR million	
	Scenario	Portfolio change based on fair value	Change in shareholder equity before tax		
Equity securities	Share prices -10%	(1.9)	(1.9)		
	Share prices -20%	(3.8)	(3.8)		
	Share prices +10%	+1.9	+1.9		
	Share prices +20%	+3.8	+3.8		
Fixed-income securities	Yield increase +50 basis points	(403.4)	(281.5)		
	Yield increase +100 basis points	(794.3)	(554.0)		
	Yield decrease -50 basis points	+409.1	+288.5		
	Yield decrease -100 basis points	+830.7	+585.9		

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	85.3%	5,197.8	56.5%	3,500.8	4.9%	232.6	76.2%	2,804.7
AA	5.3%	324.2	39.2%	2,428.8	17.8%	842.6	14.7%	541.8
A	5.3%	323.6	3.6%	223.5	57.6%	2,726.0	1.4%	51.7
BBB	3.8%	232.0	0.3%	22.0	15.4%	726.0	2.6%	95.3
<BBB	0.3%	17.5	0.4%	23.7	4.3%	201.1	5.1%	186.0
Total	100.0%	6,095.1	100.0%	6,198.8	100.0%	4,728.3	100.0%	3,679.5

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

Further information on the risk concentrations of our investments can be obtained from the tables on the rating structure of fixed-income securities.

The credit risk consists primarily of the complete or partial failure of the counterparty and the associated default on payment. Since the business that we accept is not always fully retained, but instead portions are retroceded as necessary, the credit risk is also material for our company – especially in non-life reinsurance. Our retrocession partners are carefully selected in light of credit considerations in order to keep this risk as small as possible. In terms of the Hannover Re Group's major companies, EUR 193.4 million (6.2%) of our accounts receivable from reinsurance business totalling EUR 3,124.8 million were older than 90 days as at the balance sheet date. The average default rate over the past three years was 0.2%.

Assessment of the risk situation

The above remarks describe the material risks to which we, as an internationally operating reinsurance group, 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.

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.

We would refer to the risk report in the Group annual report 2009 for further remarks.

Outlook

In view of the rather favourable conditions prevailing on the international reinsurance markets, we have good prospects of achieving our growth and profit targets in 2010. We are well positioned and thanks to our excellent rating will benefit accordingly from the available market opportunities. As they prepare for the more exacting capital requirements of Solvency II, reinsurance is continuing to gain in importance as a risk optimisation tool for our clients; against this backdrop, then, we see growth stimuli in both traditional and structured reinsurance. At constant exchange rates the net premium volume is expected to grow by around 5%.

In **non-life reinsurance** the markets still offer adequate prices overall. In keeping with our active cycle management, we are expanding our business in those markets or segments that promise strong profitability, while scaling back our involvement in areas where prices are not commensurate with the assumed risks.

Following the round of treaty renewals in January, when a good two-thirds of our portfolio was renegotiated, further important renewals were completed on 1 April, including in Japan and South Korea. In Japan prices in the property lines softened slightly as expected; in casualty business, on the other hand, rates largely held stable. We maintained our portfolio on a constant level, meaning that we did not enlarge the volume but we also did not reduce our shares.

Prices in Korea came under appreciable pressure, prompting us to slightly scale back our non-proportional business.

The treaty renewals in worldwide aviation reinsurance were thoroughly satisfactory: we obtained slightly higher prices here for the most part. In marine business, by contrast, prices for non-proportional covers slipped slightly.

For non-life reinsurance overall we anticipate net premium growth of around 4% in the original currencies as well as a healthy profit contribution in the current financial year. This is dependent upon the burden of major losses remaining within the bounds of our expectations and the disproportionately heavy strain incurred in the first quarter not being sustained in the months ahead.

The general climate in international [life and health reinsurance](#) continues to be very positive. A particularly significant factor here is the demographic trend in established insurance markets such as the United States, Japan, United Kingdom and Germany. Annuity and health insurance are consequently benefiting from the increasing ageing of the population.

Financially oriented reinsurance solutions, i.e. models designed to strengthen the solvency base of primary insurers, are enjoying sustained demand. In the United Kingdom it is our assumption that business involving the biometric risk of longevity – both in the form of enhanced annuities with a reduced payment period and through the assumption of risks associated with existing pension funds – will prove to be a significant growth sector. In life and health reinsurance we are planning to grow net premium by roughly 10% in the current year. The EBIT margin is expected to come in within the target range of 6% to 7%.

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.

Our risk from government bonds issued by Greece, Portugal, Spain, Italy and Ireland is limited. Our total exposure in this regard is around EUR 460 million; this is equivalent to a mere 2% of our assets under own management. We have only a minimal investment of EUR 35 million in Greek government bonds.

We are targeting a return on investment of 3.5% for 2010.

All in all, we believe that the 2010 financial year has a realistic chance of building on the good performance of 2009 – after special effects are factored out. As things currently stand, we anticipate a return on equity of at least 15%. This is always subject to the premise that the major loss burden's overshoot of the expected level in the first quarter does not continue to grow in the course of the year and also assumes that there are no drastically adverse movements on capital markets. As for the dividend, we continue to aim for a payout ratio in the range of 35% to 40% of Group net income.

Quarterly financial report of the Hannover Re Group

Consolidated balance sheet

Assets in EUR thousand	31.3.2010	31.12.2009
Fixed-income securities – held to maturity	2,999,556	2,953,489
Fixed-income securities – loans and receivables	3,034,483	2,701,831
Fixed-income securities – available for sale	14,419,975	13,805,048
Fixed-income securities – at fair value through profit or loss	247,721	235,149
Equity securities – available for sale	18,928	19,357
Other financial assets – at fair value through profit or loss	48,215	58,273
Real estate and real estate funds	276,835	216,801
Investments in associated companies	130,129	128,316
Other invested assets	704,879	578,861
Short-term investments	1,280,343	1,352,475
Cash	585,397	457,412
Total investments and cash under own management	23,746,461	22,507,012
Funds withheld	12,281,380	11,589,558
Contract deposits	680,792	625,481
Total investments	36,708,633	34,722,051
Reinsurance recoverables on unpaid claims	1,786,978	1,747,991
Reinsurance recoverables on benefit reserve	107,270	104,868
Prepaid reinsurance premium	113,173	47,651
Reinsurance recoverables on other technical reserves	4,030	400
Deferred acquisition costs	1,910,211	1,838,450
Accounts receivable	3,124,756	2,869,874
Goodwill	44,694	44,393
Deferred tax assets	488,189	515,867
Other assets	399,033	369,485
Accrued interest and rent	7,280	3,189
Total assets	44,694,247	42,264,219

Liabilities in EUR thousand	31.3.2010	31.12.2009
Loss and loss adjustment expense reserve	18,415,955	17,425,293
Benefit reserves	8,238,558	7,952,640
Unearned premium reserve	1,940,909	1,512,840
Other technical provisions	168,529	148,827
Funds withheld	938,768	857,440
Contract deposits	5,876,997	5,467,598
Reinsurance payable	751,624	1,021,364
Provisions for pensions	78,793	77,497
Taxes	297,077	266,747
Provision for deferred taxes	1,499,391	1,485,157
Other liabilities	374,872	313,450
Long-term debt and subordinated capital	1,487,238	1,481,336
Total liabilities	40,068,711	38,010,189
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	360,177	241,569
Cumulative foreign currency translation adjustment	(124,025)	(224,084)
Other changes in cumulative other comprehensive income	(7,293)	(4,728)
Total other comprehensive income	228,859	12,757
Retained earnings	3,010,837	2,854,002
Shareholders' equity before minorities	4,084,855	3,711,918
Minority interests	540,681	542,112
Total shareholders' equity	4,625,536	4,254,030
Total liabilities	44,694,247	42,264,219

Consolidated statement of income

as at 31 March 2010

Figures in EUR thousand	1.1.-31.3.2010	1.1.-31.3.2009
Gross written premium	2,850,080	2,661,865
Ceded written premium	262,228	220,941
Change in gross unearned premium	(361,597)	(399,961)
Change in ceded unearned premium	63,336	50,374
Net premium earned	2,289,591	2,091,337
Ordinary investment income	214,168	199,310
Profit/loss from investments in associated companies	1,696	87
Realised gains and losses on investments	21,350	37,799
Unrealised gains and losses on investments	(12,887)	(33,692)
Total depreciation, impairments and appreciation of investments	4,868	50,258
Other investment expenses	13,931	12,965
Net income from investments under own management	205,528	140,281
Income/expense on funds withheld and contract deposits	73,957	57,883
Net investment income	279,485	198,164
Other technical income	5,427	518
Total revenues	2,574,503	2,290,019
Claims and claims expenses	1,673,012	1,477,884
Change in benefit reserves	100,459	165,362
Commission and brokerage, change in deferred acquisition costs	489,427	381,647
Other acquisition costs	4,171	3,286
Other technical expenses	11,543	7,514
Administrative expenses	65,521	57,892
Total technical expenses	2,344,133	2,093,585
Other income and expenses	14,646	110,561
Operating profit/loss (EBIT)	245,016	306,995
Interest on hybrid capital	18,927	19,035
Net income before taxes	226,089	287,960
Taxes	59,152	56,551
Net income (loss)	166,937	231,409
thereof		
Minority interest in profit and loss	9,724	2,836
Group net income (loss)	157,213	228,573
Earnings per share		
Earnings per share in EUR	1.30	1.90

Consolidated statement of comprehensive income

as at 31 March 2010

Figures in EUR thousand	1.1.-31.3.2010	1.1.-31.3.2009
Net income	166,937	231,409
Unrealised gains and losses on investments		
Gains (losses) recognised directly in equity	175,870	(239,341)
Transferred to the consolidated statement of income	(17,719)	(16,841)
Tax income (expense)	(31,407)	57,685
	126,744	(198,497)
Currency translation		
Gains (losses) recognised directly in equity	111,762	82,684
Transferred to the consolidated statement of income	275	(298)
Tax income (expense)	(7,931)	(9,501)
	104,106	72,885
Changes from the measurement of associated companies		
Gains (losses) recognised directly in equity	–	(518)
	–	(518)
Other changes		
Gains (losses) recognised directly in equity	(2,525)	11,746
Tax income (expense)	(40)	(2,630)
	(2,565)	9,116
Total income and expense recognised directly in equity		
Gains (losses) recognised directly in equity	285,107	(145,429)
Transferred to the consolidated statement of income	(17,444)	(17,139)
Tax income (expense)	(39,378)	45,554
	228,285	117,014
Total recognised income and expense	395,222	114,395
thereof		
Attributable to minority interests	21,703	(5,064)
Attributable to the Group	373,519	119,459

Consolidated statement of changes in shareholders' equity 2010

Figures in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)			Retained earnings	Minority interests	Share- holders' equity
			Currency translation	Unrealised gains/ losses	Other			
Balance as at 1.1.2009	120,597	724,562	(247,565)	113,864	(4,577)	2,123,178	501,434	3,331,493
Total income and expense recognised after tax	-	-	70,547	(188,826)	9,167	228,571	(5,064)	114,395
Dividends paid	-	-	-	-	-	-	(12,535)	(12,535)
Balance as at 31.3.2009	120,597	724,562	(177,018)	(74,962)	4,590	2,351,749	483,835	3,433,353
Balance as at 1.1.2010	120,597	724,562	(224,084)	241,569	(4,728)	2,854,002	542,112	4,254,030
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)	157,213	21,703	395,222
Dividends paid	-	-	-	-	-	-	(29,138)	(29,138)
Balance as at 31.3.2010	120,597	724,562	(124,025)	360,177	(7,293)	3,010,837	540,681	4,625,536

Figures in EUR thousand	1.1.-31.3.2010	1.1.-31.3.2009 ¹
I. Cash flow from operating activities		
Net income	166,937	231,409
Appreciation/depreciation	7,839	40,053
Net realised gains and losses on investments	(21,350)	(37,799)
Income from the recognition of negative goodwill	–	(92,653)
Amortisation	4,425	8,032
Changes in funds withheld	(338,170)	(632,973)
Net changes in contract deposits	219,361	483,710
Changes in prepaid reinsurance premium (net)	297,584	349,641
Changes in tax assets/provisions for taxes	18,768	21,210
Changes in benefit reserve (net)	82,790	177,394
Changes in claims reserves (net)	338,483	446,553
Changes in deferred acquisition costs	(11,896)	(58,241)
Changes in other technical provisions	7,506	(5,199)
Changes in clearing balances	(435,797)	(558,242)
Changes in other assets and liabilities (net)	(715)	51,335
Cash flow from operating activities	335,765	424,230

1 Adjusted on the basis of IAS 8

Figures in EUR thousand	1.1.-31.3.2010	1.1.-31.3.2009 ¹
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	10,347	–
Fixed-income securities – loans and receivables		
Maturities, sales	95,338	44,557
Purchases	(382,867)	(37,751)
Fixed-income securities – available for sale		
Maturities, sales	1,868,954	2,995,691
Purchases	(1,909,839)	(3,413,282)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	11,810	8,820
Purchases	(2,700)	(8,403)
Equity securities – available for sale		
Sales	145	1,865
Purchases	(23)	(154)
Equity securities – at fair value through profit or loss		
Sales	327	242
Other invested assets		
Sales	36,306	2,493
Purchases	(25,407)	(27,225)
Affiliated companies and participating interests		
Sales	–	460
Purchases	(2,545)	(641)
Acquisition of ING life reinsurance portfolio		
Acquisition of cash in hand	–	117,170
Purchase price paid for other assets acquired	–	(12,878)
Real estate and real estate funds		
Sales	2,870	83
Purchases	(51,165)	(849)
Short-term investments		
Changes	147,776	(77,503)
Other changes (net)	(4,770)	(8,404)
Cash flow from investing activities	(205,443)	(415,709)

1 Adjusted on the basis of IAS 8

Figures in EUR thousand	1.1.-31.3.2010	1.1.-31.3.2009 ¹
III. Cash flow from financing activities		
Contribution from capital measures	(1,505)	(3,189)
Structural change without loss of control	7,046	–
Dividends paid	(29,138)	(12,535)
Repayment of long-term debts	(2,549)	(15,420)
Cash flow from financing activities	(26,146)	(31,144)
IV. Exchange rate differences on cash	23,809	10,459
Cash and cash equivalents at the beginning of the period	457,412	430,225
Change in cash and cash equivalents (I.+II.+III.+IV.)	127,985	(12,164)
Cash and cash equivalents at the end of the period	585,397	418,061
Income taxes	(43,827)	(32,655)
Interest paid	(56,338)	(60,682)

1 Adjusted on the basis of IAS 8

Segmental report

Segmentation of assets in EUR thousand	Non-life reinsurance	
	31. 3. 2010	31. 12. 2009
Assets		
Held to maturity	2,696,898	2,651,188
Loans and receivables	2,975,839	2,624,702
Available for sale	10,231,341	9,820,513
At fair value through profit or loss	158,645	154,707
Other invested assets	1,080,866	894,289
Short-term investments	1,008,151	1,031,880
Cash	404,834	253,797
Total investments and cash under own management	18,556,574	17,431,076
Funds withheld by ceding companies	743,221	625,753
Contract deposits	-	-
Total investments	19,299,795	18,056,829
Reinsurance recoverables on unpaid claims	1,629,411	1,589,438
Reinsurance recoverables on benefit reserve	-	-
Prepaid reinsurance premium	109,876	44,607
Reinsurance recoverables on other reserves	3,461	305
Deferred acquisition costs	381,537	331,091
Accounts receivable	2,022,429	1,896,362
Other assets in the segment	1,373,712	1,429,320
Total assets	24,820,221	23,347,952
Segmentation of technical and other liabilities in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	16,151,809	15,393,548
Benefit reserve	-	-
Unearned premium reserve	1,856,159	1,437,490
Provisions for contingent commissions	115,961	106,313
Funds withheld	250,157	209,925
Contract deposits	112,552	123,927
Reinsurance payable	547,509	701,103
Long-term liabilities	121,042	116,286
Other liabilities in the segment	1,521,031	1,461,588
Total	20,676,220	19,550,180

Life/health reinsurance		Consolidation		Total	
31.3.2010	31.12.2009	31.3.2010	31.12.2009	31.3.2010	31.12.2009
4,247	4,039	298,411	298,262	2,999,556	2,953,489
47,672	45,064	10,972	32,065	3,034,483	2,701,831
3,888,732	3,653,073	318,830	350,819	14,438,903	13,824,405
88,393	94,244	48,898	44,471	295,936	293,422
30,977	29,689	-	-	1,111,843	923,978
268,822	266,657	3,370	53,938	1,280,343	1,352,475
180,017	201,211	546	2,404	585,397	457,412
4,508,860	4,293,977	681,027	781,959	23,746,461	22,507,012
11,538,208	10,966,112	(49)	(2,307)	12,281,380	11,589,558
680,792	625,481	-	-	680,792	625,481
16,727,860	15,885,570	680,978	779,652	36,708,633	34,722,051
157,591	158,576	(24)	(23)	1,786,978	1,747,991
107,270	104,868	-	-	107,270	104,868
4,342	4,089	(1,045)	(1,045)	113,173	47,651
569	95	-	-	4,030	400
1,528,674	1,507,359	-	-	1,910,211	1,838,450
1,103,537	974,751	(1,210)	(1,239)	3,124,756	2,869,874
431,819	375,532	(866,335)	(871,918)	939,196	932,934
20,061,662	19,010,840	(187,636)	(94,573)	44,694,247	42,264,219
2,264,168	2,031,768	(22)	(23)	18,415,955	17,425,293
8,239,603	7,953,685	(1,045)	(1,045)	8,238,558	7,952,640
84,750	75,350	-	-	1,940,909	1,512,840
52,568	42,514	-	-	168,529	148,827
688,686	649,841	(75)	(2,326)	938,768	857,440
5,764,445	5,343,671	-	-	5,876,997	5,467,598
205,540	321,869	(1,425)	(1,608)	751,624	1,021,364
-	-	1,366,196	1,365,050	1,487,238	1,481,336
1,576,787	1,507,029	(847,685)	(825,766)	2,250,133	2,142,851
18,876,547	17,925,727	515,944	534,282	40,068,711	38,010,189

Segmental report

Segmental statement of income in TEUR	Non-life reinsurance	
	1.1.-31.3.2010	1.1.-31.3.2009
Gross written premium	1,721,940	1,655,987
thereof		
from insurance business with other segments	–	–
from insurance business with external third parties	1,721,940	1,655,987
Net premium earned	1,258,013	1,180,899
Net investment income	166,401	117,816
thereof		
Deposit interest and expenses	2,795	5,203
Claims and claims expenses	931,104	868,988
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	282,352	219,187
Administrative expenses	39,076	39,096
Other income and expenses	(6,233)	16,153
Operating profit/loss (EBIT)	165,649	187,597
Interest on hybrid capital	–	–
Net income before taxes	165,649	187,597
Taxes	47,415	58,629
Net income	118,234	128,968
thereof		
Minority interest in profit or loss	8,848	2,877
Group net income	109,386	126,091

Life/health reinsurance		Consolidation		Total	
1.1.-31.3.2010	1.1.-31.3.2009	1.1.-31.3.2010	1.1.-31.3.2009	1.1.-31.3.2010	1.1.-31.3.2009
1,128,140	1,005,879	-	(1)	2,850,080	2,661,865
-	1	-	(1)	-	-
1,128,140	1,005,878	-	-	2,850,080	2,661,865
1,031,578	910,438	-	-	2,289,591	2,091,337
100,749	75,798	12,335	4,550	279,485	198,164
71,162	52,678	-	2	73,957	57,883
742,059	609,043	(151)	(147)	1,673,012	1,477,884
100,459	165,362	-	-	100,459	165,362
218,781	174,082	(1,419)	(1,340)	499,714	391,929
27,317	19,267	(872)	(471)	65,521	57,892
25,080	100,163	(4,201)	(5,755)	14,646	110,561
68,791	118,645	10,576	753	245,016	306,995
-	-	18,927	19,035	18,927	19,035
68,791	118,645	(8,351)	(18,282)	226,089	287,960
15,878	8,228	(4,141)	(10,306)	59,152	56,551
52,913	110,417	(4,210)	(7,976)	166,937	231,409
876	(41)	-	-	9,724	2,836
52,037	110,458	(4,210)	(7,976)	157,213	228,573

1. General reporting principles

The parent company Hannover Rückversicherung AG (“Hannover Re”) and its subsidiaries (collectively referred to as the “Hannover Re Group”) belong to Talanx AG, which in turn 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 34.41, 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 at its meeting on 20 April 2010 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 2010.

All standards adopted by the IASB as at 31 March 2010 with binding effect for the reporting period have been observed in the consolidated financial statement.

New accounting standards or accounting standards applied for the first time

In June 2009 the IASB published amendments to IFRS 2 “Group Cash-settled Share-based Payment Transactions”. The amendments do not have any significant implications for Hannover Re.

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

In November 2009 the IASB published the revised IAS 24 “Related Party Disclosures”. A major new feature of IAS 24 (rev.) is the requirement for disclosures of “commitments”, for example guarantees, undertakings and other commitments, which are dependent upon whether (or not) a particular event occurs in the future. The definition of a related entity or a related person is also clarified. The standard, the implications of which for Hannover Re are currently under review, has not yet been ratified by the European Union.

In November 2009 the IASB also issued IFRS 9 “Financial Instruments” on the classification and measurement of financial instruments. IFRS 9 is the first step in a three-phase project intended to replace IAS 39 “Financial Instruments: Recognition and Measurement” with a new standard. IFRS 9 introduces new requirements for classifying and measuring financial assets. This standard has similarly not yet been ratified by the European Union.

Changes in accounting policies

In the 2009 financial year Hannover Re corrected the balance sheet recognition of a life reinsurance contract with a US cedant. In accordance with IAS 8 we have therefore adjusted the comparative figures as at 31 March 2009 in the present consolidated financial statement. Contrary to the figures originally shown, the balance sheet items “funds withheld” (assets side) and “contract deposits” (liabilities side) are each reduced by EUR 536.4 million; Group net income remained unchanged. For further details please see the relevant information in the consolidated financial statement as at 31 December 2009.

On 20 February 2009 Hannover Re completed the acquisition of the US ING life reinsurance portfolio and initially included the acquired business in the consolidated quarterly financial statement on a provisional basis. In the context of this provisional recognition pursuant to IFRS 3 the provisional carrying amounts of the assets and liabilities assumed in this transaction in the previous year were analysed and consequently adjusted with retroactive effect in the consolidated quarterly financial statement as at 31 March 2009. Overall, the balance sheet total for the first quarter of 2009 decreased by EUR 22.0 million relative to the amount provisionally recognised on the basis of these adjustments, while the resulting profit increase amounted to EUR 12.4 million after taxes. We would also refer to the relevant information in the consolidated financial statement as at 31 December 2009.

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” (GAS 3) of the German Accounting Standards Board as well as the requirements of GAS 3–20 “Segment Reporting of Insurance Enterprises”.

We would also refer to the relevant information in the consolidated financial statement as at 31 December 2009.

3. Consolidated companies and consolidation principles

Consolidated companies

Effective 8 March 2010 Hannover Rück Beteiligung Verwaltungs-GmbH (HRBV), which is wholly owned by Hannover Re, reached agreement with a third party outside the Group on the sale of 0.5% of its stake in E+S Rück – by way of a share reduction without a change of control status. Upon closing of the transaction HRBV held an interest of 63.69% in E+S Rück.

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 capital consolidation is based on the revaluation method. In the context of the “acquisition method” the acquisition costs of the parent company are netted with the proportionate shareholders’ equity of the subsidiary at the time when it is first included in the consolidated financial statement after the revaluation of all assets and liabilities. After recognition of all acquired intangible assets that in accordance with IFRS 3 “Business Combinations” are to be accounted for separately from goodwill, the difference between the revalued shareholders’ equity of the subsidiary and the purchase price is recognised as goodwill. As at the balance sheet date Hannover Re had not exercised the option available under IFRS 3 to recognise on a transaction-by-transaction basis the entire goodwill instead of merely the portion of total goodwill corresponding to the proportionate interest acquired. Under IFRS 3 scheduled amortisation is not taken on goodwill. Instead, unscheduled amortisation is taken where necessary on the basis of annual impairment tests. Immaterial and negative goodwill are recognised in the statement of income in the year of their occurrence.

Companies over which Hannover Re is able to exercise a significant influence (“associated companies”) are normally consolidated “at equity” 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.

Minority interests in shareholders’ equity are reported separately within Group shareholders’ equity in accordance with IAS 1 “Presentation of Financial Statements”. The minority interest in profit or loss, which forms part of net income and is shown separately after net income as a “thereof” note, amounted to EUR 9.7 million (EUR 2.8 million) as at 31 March 2010.

Debt consolidation

Receivables and liabilities between the companies included in the consolidated financial statement were offset against each other.

Consolidation of expenses and profit

The effects of business transactions within the Group were eliminated.

Consolidation of special purpose entities

Securitisation of reinsurance risks

The securitisation of reinsurance risks is largely structured through the use of special purpose entities. The existence of a consolidation requirement in respect of such entities is to be examined in accordance with SIC-12 “Consolidation – Special Purpose Entities”. In cases where IFRS do not currently contain any specific standards, Hannover Re’s analysis – in application of IAS 8.12 – also falls back on the relevant standards of US GAAP.

With the aim of transferring to the capital market peak natural catastrophe exposures deriving from European windstorm events, Hannover Re issued a catastrophe (“CAT”) bond that can be traded on a secondary market for the second time in July 2009. The CAT bond, which has a volume of EUR 150.0 million, 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.

In September 2009, in a transaction referred to as “Fac Pool Re”, Hannover Re for the first time transferred a portfolio of facultative reinsurance risks to the capital market as part of its extended insurance-linked securities (ILS) activities. The contracts, which cover worldwide individual risks, are mediated by an external reinsurance intermediary, written by Hannover Re and placed on the capital market in conjunction with a service provider. The “Fac Pool Re” transaction consists of a quota share reinsurance arrangement and two non-proportional cessions. The total amount of capital provided stands at USD 60 million (equivalent to EUR 44.5 million), with Hannover Re keeping a share of approximately USD 5 million (equivalent to EUR 3.7 million) and additionally assuming losses that exceed the capacity of “Fac Pool Re”. A number of special purpose entities participate in the reinsurance cessions within “Fac Pool Re”; Hannover Re does not hold any shares in these special purpose entities and does not bear the majority of the economic benefits or risks arising out of their activities through any of its business relations.

With effect from 1 January 2009 Hannover Re again used the capital market to obtain underwriting capacity for catastrophe risks. The “K5” transaction, which ended on 31 December 2008, was replaced by the successor transaction “K6”. The volume of “K6”, which was equivalent to EUR 120.3 million as at 31 December 2009, was increased to USD 329.4 million on 1 January 2010 and is now equivalent to EUR 244.3 million. This securitisation, which was again 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. As with the “K3” and “K5” transactions, Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is being used for the securitisation. The planned term of the transaction runs until 31 December 2011, or 31 December 2012 in the case of the additional interests placed on 1 January 2010. In addition, Hannover Re uses the special purpose entity Kaith Re Ltd. for various retrocessions of its traditional covers to institutional investors. In accordance with SIC-12 Kaith Re Ltd. is included in the consolidated financial statement.

In 2007 the Hannover Re Group transferred risks from reinsurance recoverables to the capital market. By way of this securitisation, which has a term of five years, the default risk associated with reinsurance recoverables is reduced. The portfolio of recoverables underlying the transaction has a nominal value of EUR 1.0 billion and is comprised of exposures to retrocessionaires. The securities serving as collateral are issued through the special purpose entity Merlin CDO I B.V. A payment to Hannover Re is triggered by the insolvency of one or more retrocessionaires as soon as Hannover Re's contractually defined cumulative deductible of EUR 60.0 million over the term of the contract is exceeded. As at the balance sheet date Hannover Re had purchased securitisations issued by Merlin with a nominal value of altogether EUR 33.9 million (31 December 2009: EUR 33.9 million) on the secondary market, which it holds in its asset portfolio. Hannover Re does not derive the majority of the economic benefits or risks arising out of the special purpose entity's activities through any of its business relations.

In March 2010 Hannover Re made use of its right of early cancellation and terminated the credit default swap underlying the transaction effective 26 April 2010.

Investments

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

Hannover Re participates – primarily through the companies Secquaero ILS Fund Ltd., Hannover Insurance-Linked Securities GmbH & Co. KG and Hannover Re (Bermuda) Ltd. – in a number of special purpose entities for the securitisation of catastrophe risks by taking up certain capital market securities known as “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, available for sale, financial assets at fair value through profit or loss and held for trading. The allocation and measurement of investments are determined by the investment intent.

Fixed-income securities classified as held to maturity as well as loans and receivables originated by the entity that are not listed on an active market or sold at short notice are measured at purchase cost – i.e. fair value as at purchase date including directly allocable transaction costs – plus amortised cost. The amortised cost derives from the difference between the nominal value and purchase cost and is spread over the time to maturity of the fixed-income securities.

Fixed-income securities classified as available for sale are measured at fair value. The difference between the fair value and amortised cost is recognised outside the statement of income until realisation. Financial assets at fair value through profit or loss and securities held for trading are measured at fair value. The difference between the fair value and amortised cost is recognised in the statement of income.

The investments under own management also encompass investments in associated companies, real estate and real estate funds (also includes: investment property), other invested assets, short-term investments and cash. The other investments primarily consist of shares in private equity limited partnerships. For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2009.

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

Investments in EUR thousand	31.3.2010	31.12.2009
Germany	7,168,697	6,560,026
United Kingdom	1,530,131	1,363,938
France	1,701,960	1,865,540
Other	4,119,549	3,928,606
Europe	14,520,337	13,718,110
USA	6,204,007	6,007,409
Other	958,176	840,207
North America	7,162,183	6,847,616
Asia	561,982	530,497
Australia	1,021,192	941,664
Australasia	1,583,174	1,472,161
Africa	450,464	416,139
Other	30,303	52,986
Total	23,746,461	22,507,012

Maturities of the fixed-income and variable-yield securities				
in EUR thousand	31.3.2010		31.12.2009	
	Cost or amortised cost ¹	Fair value	Cost or amortised cost ¹	Fair value
Held to maturity				
due in one year	206,900	220,525	106,788	117,125
due after one through two years	322,491	336,712	280,725	290,471
due after two through three years	481,330	510,132	469,248	490,878
due after three through four years	501,387	527,067	521,196	542,714
due after four through five years	315,033	338,167	298,115	315,856
due after five through ten years	1,153,532	1,233,024	1,259,917	1,319,098
due after ten years	18,883	16,188	17,500	15,852
Total	2,999,556	3,181,815	2,953,489	3,091,994
Loans and receivables				
due in one year	131,432	132,094	220,814	221,111
due after one through two years	101,575	103,330	80,127	82,095
due after two through three years	86,123	87,836	41,048	41,219
due after three through four years	366,948	379,717	332,716	339,025
due after four through five years	633,452	650,933	485,554	490,978
due after five through ten years	1,499,821	1,566,257	1,294,842	1,323,459
due after ten years	215,132	212,096	246,730	244,384
Total	3,034,483	3,132,263	2,701,831	2,742,271
Available for sale				
due in one year ²	4,012,478	4,033,581	3,890,651	3,926,328
due after one through two years	2,016,583	2,060,890	1,686,180	1,725,646
due after two through three years	1,722,942	1,776,688	1,656,235	1,698,765
due after three through four years	2,020,739	2,087,922	1,718,907	1,782,188
due after four through five years	1,683,950	1,734,329	1,875,448	1,907,847
due after five through ten years	3,014,341	3,089,050	3,151,562	3,196,970
due after ten years	1,451,995	1,503,255	1,383,350	1,377,191
Total	15,923,078	16,285,715	15,362,333	15,614,935
Financial assets at fair value through profit or loss				
due in one year	22,934	22,934	22,145	22,145
due after one through two years	63,123	63,123	70,245	70,245
due after two through three years	44,723	44,723	18,358	18,358
due after three through four years	25,547	25,547	39,155	39,155
due after four through five years	2,442	2,442	4,541	4,541
due after five through ten years	12,474	12,474	11,239	11,239
due after ten years	76,478	76,478	69,466	69,466
Total	247,721	247,721	235,149	235,149

1 Including accrued interest

2 Including short-term investments and cash

The stated maturities may in individual cases diverge from the contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty. Variable-rate bonds (so-called “floaters”) are shown under the maturities due in one year and constitute our interest-related, within-the-year reinvestment risk.

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as held to maturity as well as their fair value					
Figures in EUR thousand	31.3.2010				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	323,918	9,887	62	4,741	338,484
US treasury notes	374,647	38,913	686	4,760	417,634
Other foreign government debt securities	14,316	697	–	108	15,121
Debt securities issued by semi-governmental entities	699,971	36,769	3,224	9,751	743,267
Corporate securities	564,642	35,113	455	12,348	611,648
Covered bonds/asset-backed securities	973,021	65,307	–	17,333	1,055,661
Total	2,950,515	186,686	4,427	49,041	3,181,815

Figures in EUR thousand	31.12.2009				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	323,510	3,065	946	6,854	332,483
US treasury notes	351,776	36,182	825	2,808	389,941
Other foreign government debt securities	13,445	664	–	25	14,134
Debt securities issued by semi-governmental entities	685,126	30,212	2,052	12,932	726,218
Corporate securities	559,900	27,107	1,121	12,334	598,220
Covered bonds/asset-backed securities	964,236	46,223	4	20,543	1,030,998
Total	2,897,993	143,453	4,948	55,496	3,091,994

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value					
Figures in EUR thousand	31.3.2010				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	79,520	3,346	–	1,333	84,199
Debt securities issued by semi-governmental entities	1,315,859	33,548	263	12,934	1,362,078
Corporate securities	518,294	27,626	624	9,971	555,267
Covered bonds/asset-backed securities	822,420	37,252	3,105	11,452	868,019
Other	199,889	–	–	62,811	262,700
Total	2,935,982	101,772	3,992	98,501	3,132,263

Figures in EUR thousand	31.12.2009				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	79,498	1,713	415	739	81,535
Debt securities issued by semi-governmental entities	1,148,549	8,579	2,597	11,531	1,166,062
Corporate securities	543,718	16,508	1,163	9,470	568,533
Covered bonds/asset-backed securities	639,446	20,322	2,507	9,279	666,540
Other	200,036	–	–	59,565	259,601
Total	2,611,247	47,122	6,682	90,584	2,742,271

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

Figures in EUR thousand	31.3.2010				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	2,351,865	48,961	2,209	35,021	2,433,638
US treasury notes	2,181,720	34,889	9,266	14,179	2,221,522
Other foreign government debt securities	611,105	6,155	1,870	3,810	619,200
Debt securities issued by semi-governmental entities	3,979,062	118,381	6,388	62,156	4,153,211
Corporate securities	3,013,171	109,602	11,689	51,233	3,162,317
Covered bonds/asset-backed securities	1,655,213	111,405	37,757	23,244	1,752,105
Investment funds	76,310	5,578	3,906	–	77,982
	13,868,446	434,971	73,085	189,643	14,419,975
Equity securities					
Shares	13,543	3,001	39	–	16,505
Investment funds	2,024	473	74	–	2,423
	15,567	3,474	113	–	18,928
Short-term investments	1,278,935	822	21	607	1,280,343
Total	15,162,948	439,267	73,219	190,250	15,719,246

Figures in EUR thousand	31.12.2009				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	2,179,903	39,399	4,675	28,867	2,243,494
US treasury notes	1,986,505	27,876	13,049	14,483	2,015,815
Other foreign government debt securities	568,788	5,798	3,135	3,044	574,495
Debt securities issued by semi-governmental entities	3,755,392	94,194	6,731	53,603	3,896,458
Corporate securities	3,151,323	96,853	27,921	54,645	3,274,900
Covered bonds/asset-backed securities	1,573,093	85,303	50,824	20,937	1,628,509
Investment funds	162,156	27,466	18,245	–	171,377
	13,377,160	376,889	124,580	175,579	13,805,048
Equity securities					
Shares	14,086	3,100	189	–	16,997
Investment funds	1,959	479	78	–	2,360
	16,045	3,579	267	–	19,357
Short-term investments	1,351,309	354	61	873	1,352,475
Total	14,744,514	380,822	124,908	176,452	15,176,880

Fair value of financial assets at fair value through profit or loss as well as accrued interest on such financial assets						
Figures in EUR thousand	31.3.2010	31.12.2009	31.3.2010	31.12.2009	31.3.2010	31.12.2009
	Fair value before accrued interest		Accrued interest		Fair value	
Financial assets at fair value through profit or loss						
Fixed-income securities						
Other foreign government debt securities	7,066	–	8	–	7,074	–
Debt securities of semi-governmental entities	131,988	7,066	5,512	162	137,500	7,228
Corporate securities	102,741	121,589	406	5,208	103,147	126,797
Covered bonds/asset-backed securities	–	100,775	–	349	–	101,124
	241,795	229,430	5,926	5,719	247,721	235,149
Other financial assets						
Derivatives	48,215	58,273	–	–	48,215	58,273
	48,215	58,273	–	–	48,215	58,273
Total	290,010	287,703	5,926	5,719	295,936	293,422

4.2 Shareholders' equity, minority interests and treasury shares

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

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

Minority interests are established in accordance with the shares held by companies outside the Group in the shareholders' equity of the subsidiaries. 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.

IAS 1 requires separate disclosure of treasury shares in shareholders' equity. By a resolution of the Annual General Meeting of Hannover Rückversicherung AG adopted on 5 May 2009, the company was authorised until 31 October 2010 to acquire treasury shares of up to 10% of the share capital existing on the date of the resolution. The company was not in possession of treasury shares at any time during the reporting period.

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

5.1 Gross written premium

Gross written premium in EUR thousand	1.1.-31.3.2010	1.1.-31.3.2009
Regional origin		
Germany	391,591	435,031
United Kingdom	469,510	438,477
France	163,298	143,170
Other	430,567	335,549
Europe	1,454,966	1,352,227
USA	745,452	734,533
Other	84,673	88,012
North America	830,125	822,545
Asia	183,557	183,661
Australia	114,786	79,586
Australasia	298,343	263,247
Africa	93,608	77,744
Other	173,038	146,102
Total	2,850,080	2,661,865

5.2 Investment income

Investment income in EUR thousand	31.3.2010	31.3.2009
Income from real estate	6,106	308
Dividends	719	237
Interest income	205,049	196,662
Other income	2,294	2,103
Ordinary investment income	214,168	199,310
Profit or loss on shares in associated companies	1,696	87
Appreciation	6,520	-
Realised gains on investments	37,854	45,927
Realised losses on investments	16,504	8,128
Unrealised gains and losses on investments	(12,887)	(33,692)
Impairments/depreciation on real estate	1,693	200
Impairments on equity securities	516	2,596
Impairments on fixed-income securities	4,775	13,824
Impairments on participating interests and other financial assets	4,404	33,638
Other investment expenses	13,931	12,965
Net income from assets under own management	205,528	140,281
Interest income on funds withheld and contract deposits	102,248	74,435
Interest expense on funds withheld and contract deposits	28,291	16,552
Total investment income	279,485	198,164

Of the impairments totalling EUR 9.9 million, an amount of EUR 4.4 million was attributable to alternative investments. This includes impairments taken on private equity amounting to EUR 4.3 million. The impairments on fixed-income securities of EUR 4.8 million were taken predominantly on structured assets. An impairment loss of EUR 0.5 million was recognised on equities whose fair value had fallen significantly – i.e. by at least 20% – or for a prolonged period – i.e. for at least nine months – below acquisition cost. 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	31.3.2010	31.3.2009
Fixed-income securities – held to maturity	31,236	12,904
Fixed-income securities – loans and receivables	22,342	15,021
Fixed-income securities – available for sale	140,307	151,367
Financial assets – at fair value through profit or loss	3,012	3,132
Other	8,152	14,238
Total	205,049	196,662

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 that were taken out chiefly to hedge cash flows from re-insurance contracts. These transactions gave rise to recognition of other financial assets at fair value through profit or loss in an amount of EUR 0.4 million (31 December 2009: EUR 0.3 million) and other liabilities in an amount of EUR 24.3 million (31 December 2009: EUR 17.8 million). The net changes in the fair value of these instruments produced a charge to investment income of EUR 6.3 million in the period under review (31 March 2009: EUR 4.7 million).

Certain reinsurance treaties meet criteria which require application of the prescriptions in IFRS 4.7 to 4.9 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 47.8 million as at 31 March 2010 (31 December 2009: EUR 58.0 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 7.8 million (31 December 2009: EUR 3.3 million) were recognised under other liabilities.

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.

Of the derivatives carried on the assets side fair values of EUR 21.0 million (31 December 2009: EUR 31.9 million) were attributable as at the balance sheet date to derivatives embedded in “modified coinsurance” and “coinsurance funds withheld” (ModCo) reinsurance treaties.

Principally due to a widening of credit spreads in the securities portfolios, investment income from the ModCo derivatives took a charge of EUR 12.5 million before taxes as at 31 March 2010 (31 March 2009: EUR 5.1 million).

6.2 Related party disclosures

IAS 24 defines related parties inter alia as parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself. In the reporting period the following significant business relations existed with related parties.

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

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

Within the contractually agreed framework AmpegaGerling Asset Management GmbH performs investment and asset management services for Hannover Re and some of its subsidiaries. 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.

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				
Figures in EUR thousand	31.3.2010		31.3.2009	
	Premium	Underwriting result	Premium	Underwriting result
Business assumed				
Non-life reinsurance	86,368	84,529	113,829	57,755
Life and health reinsurance	69,217	3,095	77,424	42,012
	155,585	87,624	191,253	99,767
Business ceded				
Non-life reinsurance	–	706	647	271
Life and health reinsurance	(2,455)	(1,184)	–	–
	(2,455)	(478)	647	271
Total	153,130	87,146	191,900	100,038

6.3 Staff

The average number of staff employed at the companies included in the consolidated financial statement of the Hannover Re Group was 2,084 during the reporting period (2009 financial year: 1,984).

As at the balance sheet date altogether 2,099 (2,069) staff were employed by the Hannover Re Group, with 1,054 (1,032) employed in Germany and 1,045 (1,037) working for the consolidated Group companies abroad.

6.4 Earnings per share

Calculation of the earnings per share	1.1.-31.3.2010	1.1.-31.3.2009
Group net income in EUR thousand	157,213	228,573
Weighted average of issued shares	120,597,134	120,597,134
Earnings per share in EUR	1.30	1.90

Neither in the year 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.

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

6.5 Contingent liabilities and commitments

Hannover Re has placed three subordinated debts on the European capital markets through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured by subordinated guarantee both the debt issued in 2001, the volume of which now stands at EUR 138.1 million, and the debts from financial years 2004 and 2005 in amounts of EUR 750.0 million and EUR 500.0 million respectively. For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2009.

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

As security for technical liabilities to our US clients, we have established two trust accounts (master trust and supplemental trust) in the United States. As at the balance sheet date they amounted to EUR 2,507.3 million (31 December 2009: EUR 2,341.3 million) and EUR 7.8 million (31 December 2009: –) respectively. In addition, we extended further collateral to our cedants in an amount of EUR 335.4 million (31 December 2009: EUR 309.6 million) through so-called “single trust funds”.

As part of our business activities we hold collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the Group’s major companies was EUR 1,696.7 million (31 December 2009: EUR 1,587.8 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 2,616.0 million (31 December 2009: EUR 2,552.2 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 186.9 million as at the balance sheet date (31 December 2009: EUR 174.4 million).

Outstanding capital commitments with respect to alternative investments exist on the part of the Group in the amount of EUR 354.5 million (31 December 2009: EUR 328.8 million). These primarily involve as yet unfulfilled payment obligations from participations entered into in private equity funds and venture capital firms.

6.6 Currency translation

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	Mean rate of exchange on the balance sheet date		Average rate of exchange	
	31.3.2010	31.12.2009	1.1.-31.3.2010	1.1.-31.3.2009
1 EUR corresponds to:				
AUD	1.4708	1.6048	1.5411	1.9823
BHD	0.5082	0.5404	0.5219	0.4981
CAD	1.3686	1.5048	1.4496	1.6409
CNY	9.2019	9.7847	9.4493	9.0275
GBP	0.8892	0.9042	0.8878	0.9192
HKD	10.4668	11.1172	10.7452	10.2283
KRW	1,525.2852	1,669.5842	1,598.4235	1,830.2500
MYR	4.3974	4.9113	4.6742	4.7564
SEK	9.7173	10.2986	9.9953	10.9850
USD	1.3481	1.4336	1.3843	1.3194
ZAR	9.8914	10.6121	10.3877	12.8631

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