

Interim Report 2/2010

Key figures

Figures in EUR million	2010					2009 ¹		
	1.1.– 31.3. ¹	1.4.– 30.6.	+/- previous Year	1.1.– 30.6.	+/- previous Year	1.4.– 30.6.	1.1.– 30.6.	31.12.
Results								
Gross written premium	2,850.1	2,832.2	+9.4%	5,682.3	+8.2%	2,588.7	5,250.5	
Net premium earned	2,289.6	2,530.1	+6.5%	4,819.7	+7.9%	2,374.6	4,465.9	
Net underwriting result	(49.1)	(71.0)	-3.2%	(120.1)	+60.0%	(73.3)	(75.1)	
Net investment income	279.5	271.9	-26.7%	551.4	-3.1%	371.0	569.2	
Operating result (EBIT)	238.8	251.9	-16.1%	490.7	-18.7%	300.1	603.3	
Group net income	151.0	159.6	-23.5%	310.6	-28.3%	208.7	433.5	
Balance sheet (as at the end of the period)								
Policyholders' surplus	5,988.0			6,167.8	+9.7%			5,621.6
Total shareholders' equity	4,081.2			4,239.4	+14.1%			3,714.4
Minority interests	540.7			561.4	+3.6%			542.1
Hybrid capital	1,366.2			1,367.0	+0.1%			1,365.1
Investments (excl. funds withheld by ceding companies)	23,746.5			25,360.1	+12.7%			22,507.0
Total assets	44,690.6			48,205.2	+14.0%			42,266.7
Share								
Earnings per share (diluted) in EUR	1.25	1.32	-23.5%	2.58	-28.3%	1.73	3.59	
Book value per share in EUR	33.84			35.15	+14.1%		26.42	30.80
Share price at the end of the period in EUR	36.56	35.30	+33.9%	35.30	+7.9%	26.36	26.36	32.71
Market capitalisation at the end of the period	4,409.0			4,257.1	+7.9%		3,178.9	3,944.7
Ratios								
Combined ratio (non-life reinsurance) ²	99.3%	99.5%		99.5%		98.9%	97.1%	
Major losses as percentage of net premium earned (non-life reinsurance) ³	21.0%	10.4%		15.4%		5.0%	6.6%	
Retention	90.8%	89.8%		90.3%		94.4%	93.0%	
Return on investment (excl. funds withheld by ceding companies)	3.6%	3.2%		3.3%		5.4%	4.1%	
EBIT margin ⁴	10.4%	10.0%		10.2%		12.6%	13.5%	
Return on equity	15.5%	15.3%		15.6%		27.2%	28.8%	

1 Figures adjusted

2 Including funds withheld

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

4 Operating profit (EBIT)/net premium earned



ULRICH WALLIN
Chairman of the Executive Board

Dear shareholders, Ladies and Gentlemen,

Your company's business developed in line with our expectations in the second quarter. We were thus able to generate net income after taxes of more than EUR 300 million in the first half of 2010. This continues to offer a good platform for achieving our goals for the full financial year.

We accomplished this performance despite the fact that the major loss incidence in non-life reinsurance was again considerably higher than expected in the second quarter. The additional strain was offset by a thoroughly favourable underlying loss experience, further good results in our life and health reinsurance business group and satisfactory investment income. Unlike in the first quarter, the run-off of the loss reserves was broadly neutral.

The situation in non-life and life/health reinsurance is satisfactory for your company: we continue to experience a level of demand among primary insurers – our clients – that enables us to grow our business at conditions commensurate with the risks. The preparations being made by the European insurance industry for the future supervisory framework under Solvency II are another factor here. This involves a risk-based solvency system that renders the function of reinsurance in managing the required capital and cost of capital even more transparent than has hitherto been the case. Smaller and mid-sized insurance undertakings, in particular, are consequently facing a sometimes considerable challenge in relation to both the quantitative and qualitative components that determine their risk-based capital. As a service provider for the primary insurance industry, we are engaged in a lively exchange of information with our

clients in this regard, inter alia concerning the current requirements of the so-called Quantitative Impact Study (QIS5) as well as questions relating to the implementation of risk management systems.

In non-life reinsurance we are observing a trend towards gradual softening on the markets, as a consequence of which the improvements in conditions obtained for reinsurers in the past year have in some instances already been relinquished again. It should, however, be noted that this market softening is not equally evident in all areas of non-life reinsurance. In sectors that have been impacted by losses the markets continue to be able to push through the necessary improvements in conditions. Active cycle management geared specifically to the various subsegments of non-life reinsurance is therefore of crucial importance. In areas where we observe that conditions remain attractive, we are in a position to enlarge our business volume. We scale back our involvement, on the other hand, if it is our assessment that conditions no longer suffice to cover the cost of the invested capital.

I would now like to return to the burden of major losses: although this decreased sharply compared to the first quarter, it nevertheless again exceeded our expected level in the second quarter. The largest individual loss was the "Deepwater Horizon" drilling rig in April, which – in addition to the direct loss of the oil platform itself – has caused and continues to cause quite considerable environmental damage. Particularly with regard to possible liability claims, there are still many unanswered questions; at this point in time, therefore, it is still difficult to estimate the loss for the insurance industry and hence for reinsurers. The loss reserves that we have established – giving rise to a net strain of EUR 89 million – reflect all concrete and potential exposures of our portfolio from this loss complex that are currently known to us.

We are highly satisfied with the development of life and health reinsurance. In view of the lower volatility of results in this business group, we also set ourselves targets for premium growth in life and health reinsurance. We achieved these goals in the first half-year 2010 with double-digit growth. Yet in life/health reinsurance – as in non-life reinsurance – we attach even greater importance to profitability than to premium growth. With net income after taxes of more than EUR 110 million in the first half-year, it is gratifying to report that we exceeded our profit targets. That this result fell short of the comparable period

can be attributed entirely to non-recurring effects observed in the previous year, chiefly in connection with the acquisition of the ING portfolio. In addition to maintaining our growth in developed markets – most notably the United Kingdom and United States – we were also able to generate disproportionately strong percentage increases in the growth markets of East Asia – and here above all in China.

Taking into consideration the prevailing low interest rate level as well as our risk-averse asset allocation, we are satisfied with the investment income for the first half-year 2010. Particularly noteworthy in this connection is the increase in ordinary income of more than 10%, which was due principally to the further growth in holdings of fixed-income securities. The development of the fair values in our portfolios is gratifying. We are profiting here in particular from the further fall in the interest rate level for high-quality government bonds, especially those denominated in euro and US dollar. With an eye to broadening the diversification of our portfolio we made the most of opportunities in the first half of 2010 to invest in the German and US real estate markets.

As part of our risk management activities we took out inflation swaps in the second quarter in view of the danger of a significant medium-term rise in inflation rates. In this way we are hedging against the risk of an inflation-induced increase in the payments made for reserved claims, which could lead to losses on the run-off of loss reserves. Since inflation expectations have decreased overall, the fair values of these swaps have declined – as reflected in the investment income from unrealised gains and losses. Should the diminished inflation expectations actually materialise, we can assume that these strains will be more than offset by positive loss reserve run-offs.

The development of our shareholders' equity was again pleasing. Despite the dividend paid out for the previous year to you, our valued shareholders, in the second quarter of 2010, the shareholders' equity of your company grew in this quarter by 4% to more than EUR 4.2 billion. This was assisted firstly by the increased fair values of our investments and, secondly, by positive movements in exchange rates, especially that of the US dollar.

I am pleased to report that the favourable development of your company has also been reflected in a rise in the share price, which improved by 5.6% on the corresponding period of the previous year.

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', with a stylized flourish at the end.

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

Völksen

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

We are satisfied with the development of our two business groups – non-life reinsurance and life/health reinsurance – in the second quarter. Although the burden of major losses was considerably lower than in the first quarter, the level for the second quarter again exceeded our expectations.

Demand for reinsurance solutions remains very strong, a situation from which we profited thanks to our solid financial strength and good competitive position. Prices in non-life reinsurance are broadly commensurate with the risks, and we therefore slightly expanded our portfolio in this business group. In life and health reinsurance, where we intend to continue to grow going forward, demand remains undiminished.

Gross written premium in total business increased by a further 8.2% to EUR 5.7 billion (EUR 5.3 billion) as at 30 June 2010. At constant exchange rates, especially relative to the US dollar, growth would have come in at 5.7%. The level of retained premium retreated to 90.3% (93.0%). Net premium earned climbed by 7.9% to EUR 4.8 billion (EUR 4.5 billion).

Bearing in mind our risk-averse asset allocation and the prevailing low interest rate level, we are satisfied with the development of our investments in the first half-year. Due in part to the inflow of cash from the technical account, but thanks principally to the favourable development of their fair values owing to interest rate and currency effects, the volume of assets under own management grew to EUR 25.4 billion (EUR 22.5 billion). Despite a significantly lower interest rate level, ordinary income excluding interest on deposits thus also surpassed the corresponding period of the previous year to reach EUR 441.2 million (EUR 398.8 million). Interest on deposits climbed to EUR 151.2 million (EUR 144.9 million).

Impairment losses of EUR 13.4 million (EUR 93.1 million) were recognised on investments. Of this amount, EUR 7.1 million was attributable to fixed-income securities and EUR 5.3 million to alternative investments. The write-downs contrasted with write-ups of EUR 11.8 million, thereof EUR 8.8 million on fixed-income securities and EUR 3.0 million on alternative investments.

The unrealised losses on our asset holdings recognised at fair value through profit or loss totalled EUR 86.2 million.

This contrasted with unrealised gains of EUR 87.2 million in the corresponding period of the previous year. The bulk of the unrealised losses – specifically EUR 53.2 million – derived from the fair value development of inflation swaps taken out to hedge inflation risks associated with the loss reserves in the technical account, while an amount of EUR 15.4 million stemmed from the performance of securities deposits held by ceding companies for our account.

Thanks to the further rise in ordinary income and the reduced impairment losses, our net investment income remained virtually on the level of the previous year despite the unrealised losses; it totalled EUR 551.4 million (EUR 569.2 million) as at 30 June 2010.

The operating profit (EBIT) stood at EUR 490.7 million (EUR 603.3 million) as at 30 June 2010. The comparable period had, however, been influenced by positive special effects in life and health reinsurance of around EUR 161 million due to the acquisition of the ING life reinsurance portfolio as well as the reversal of unrealised losses on deposits held by US clients on behalf of Hannover Re (ModCo derivatives). Adjusted for these special effects, EBIT would have grown by 11%. Group net income came in at EUR 310.6 million (EUR 433.5 million). Here, special effects had influenced the previous year's result by an amount of roughly EUR 144 million; if these effects are factored out, Group net income would have grown by 7% as at 30 June 2010. Earnings per share of EUR 2.58 (EUR 3.59) were generated, while the annualised return on equity stood at 15.6% (28.8%).

Driven by Group net income, positive movements in exchange rates and unrealised gains on investments, shareholders' equity improved on the level of 31 December 2009 by EUR 524.9 million to reach EUR 4.2 billion despite the dividend payment made in the second quarter. The book value per share consequently also increased to EUR 35.15 (EUR 30.80). The policyholders' surplus, comprised of shareholders' equity, minority interests and hybrid capital, amounted to EUR 6.2 billion (EUR 5.6 billion).

Non-life reinsurance

Prices on non-life reinsurance markets were for the most part adequate. In keeping with our policy of active cycle management, we enlarge our portfolio only in markets and segments that promise a return in line with our margin requirements. In areas where premiums do not reflect the assumed risks, on the other hand, we reduce our involvement.

Treaties in Japan and South Korea as well as for aviation and marine business came up for renewal on 1 April 2010. In Japan prices in the property lines softened slightly, but remained stable in casualty business. We were, however, thoroughly satisfied with the treaty renewals in worldwide aviation reinsurance: we were generally able to obtain modestly higher prices here. In marine business the prices for non-proportional covers declined.

Growth opportunities are available to us in facultative reinsurance, i.e. the underwriting of individual risks, and – as in the past – credit and surety reinsurance. We were also able to further enlarge our portfolio of agricultural covers.

All in all, the volume growth in our non-life reinsurance business group was highly gratifying. Gross premium as at 30 June 2010 increased by 6.2% relative to the corresponding period of the previous year to reach EUR 3.3 billion (EUR 3.1 billion). At constant exchange rates, especially against the US dollar, growth would have come in at 4.6%. The level of retained premium fell to 90.1% (94.1%). Net premium earned climbed by 6.3% to EUR 2.6 billion (EUR 2.5 billion).

While the burden of major losses was significantly lower than in the first quarter, it again exceeded our expectations for the second quarter. This can be attributed principally to a more prudent estimation of the "Deepwater Horizon" loss. Given the considerable uncertainties surrounding possible liability claims, we raised our IBNR reserve to EUR 89 million. Altogether, the net burden of major losses for Hannover Re in the first half-year totalled EUR 407.6 million (EUR 163.3 million). The combined ratio stood at 99.5% (97.1%).

The net underwriting result declined from EUR 57.3 million in the corresponding period of the previous year to EUR 7.2 million. The operating profit (EBIT) in non-life reinsurance increased by 5.3% as at 30 June 2010 to EUR 333.8 million (EUR 317.1 million). Group net income contracted by 3.6% to EUR 215.1 million (EUR 223.2 million), producing earnings per share of EUR 1.78 (EUR 1.85).

Key figures for non-life reinsurance						figures in EUR million	
	2010					2009	
	1.1.–31.3.	1.4.–30.6.	+/- previous year	1.1.–30.6.	+/- previous year	1.4.–30.6.	1.1.–30.6.
Gross written premium	1,721.9	1,549.8	+8.7%	3,271.7	+6.2%	1,425.5	3,081.5
Net premium earned	1,258.0	1,380.2	+6.1%	2,638.2	+6.3%	1,301.0	2,481.9
Underwriting result	5.5	1.7	-54.5%	7.2	-87.5%	3.7	57.3
Net investment income	166.4	142.3	+18.5%	308.7	+29.7%	120.1	237.9
Operating result (EBIT)	165.6	168.2	+29.9%	333.8	+5.3%	129.5	317.1
Group net income	109.4	105.7	+8.9%	215.1	-3.6%	97.1	223.2
Earnings per share in EUR	0.91	0.88	+8.9%	1.78	-3.6%	0.81	1.85
Combined ratio ¹	99.3%	99.5%		99.5%		98.9%	97.1%
Retention	90.1%	90.1%		90.1%		96.0%	94.1%

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 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 providers of annuity and health insurance products. Increasing urbanisation in leading emerging markets such as China, India or 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.

In the first half-year we recorded organic growth across a broad front. Breaking the premium development down across the various subsegments, growth was especially striking in longevity business. As to regional markets, particularly strong impetus derived from East Asia, Australia and South Africa. China delivered the most vigorous growth in percentage terms. The very low insurance density here contrasts with a sharply expanding middle class. Hannover Re has substantially enlarged its business over the past three years and anticipates growth in excess of 20% for 2010.

In the United States we strengthened our position in traditional risk-oriented reinsurance substantially last year with the acquisition of the US ING life reinsurance portfolio. Our subsidiary Hannover Life Re America boosted its premium volume in the original currency by roughly 4%. In the United Kingdom – our second-largest market – annuity and pension business continues to offer considerable growth potential. Working together here with specialist providers,

we cover the biometric risk of longevity but do not assume any interest rate guarantees. The development of our business in Germany also gave us very good grounds for satisfaction in light of the difficult market climate.

Gross written premium in life and health reinsurance showed further double-digit growth of 11.2% as at 30 June 2010 to reach EUR 2.4 billion (EUR 2.2 billion). At constant exchange rates growth would have come in at 7.2%. The level of retained premium dipped slightly to 90.6% (91.6%). Net premium earned increased by 10.0% to EUR 2.2 billion (EUR 2.0 billion).

Profitability was similarly gratifying as at 30 June 2010: the operating profit (EBIT) amounted to EUR 145.5 million (EUR 269.3 million). The result for the comparable period had been influenced by positive special effects from the acquisition of the US ING life reinsurance portfolio as well as from the reversal of unrealised losses on deposits held by US clients on behalf of Hannover Re in an amount of some EUR 161 million. If these effects are factored out, we would have booked EBIT growth of 34%. The EBIT margin stood at 6.7%, a figure comfortably within our target corridor of 6% to 7%. Group net income came in at EUR 113.8 million (EUR 227.0 million). Excluding the special effects of around EUR 144 million in the corresponding period of the previous year, Group net income would have risen by 37%. Earnings per share stood at EUR 0.94 (EUR 1.88).

Key figures for life and health reinsurance						figures in EUR million	
	2010					2009	
	1.1.–31.3.	1.4.–30.6.	+/- previous year	1.1.–30.6.	+/- previous year	1.4.–30.6.	1.1.–30.6.
Gross written premium	1,128.1	1,283.0	+10.3%	2,411.1	+11.2%	1,163.2	2,169.1
Net premium earned	1,031.6	1,149.9	+7.1%	2,638.2	+10.0%	1,073.6	1,984.0
Net investment income	100.7	127.6	-46.4%	7.2	-27.3%	238.2	314.0
Operating result (EBIT)	62.6	82.9	-46.4%	308.7	-46.0%	154.5	269.3
Group net income	45.8	68.0	-43.5%	333.8	-49.9%	120.3	227.0
Earnings per share in EUR	0.38	0.56	-43.5%	215.10	-49.9%	1.00	1.88
Retention	91.8%	89.5%		178.0%		92.4%	91.6%
EBIT margin ¹	6.1%	7.2%		99.5%		14.4%	13.6%

¹ Operating result (EBIT)/net premium earned

Investments

Credit spreads in the area of European corporate bonds widened particularly markedly in the first half of 2010. US treasury securities and European government bonds, on the other hand, experienced yield declines across virtually all duration ranges. The unrealised gains on our fixed-income securities consequently climbed to EUR 832.8 million (EUR 431.3 million). 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 25.4 billion (EUR 22.5 billion).

The ordinary income from assets under own management of EUR 441.2 million improved on the corresponding period of the previous year (EUR 398.8 million), despite the low level of interest rates. Interest on deposits increased from EUR 144.9 million to EUR 151.2 million.

Impairments of altogether EUR 16.7 million (EUR 93.4 million) were taken. Of this amount, EUR 7.1 million was attributable to fixed-income securities and EUR 5.3 million to alternative investments. Scheduled depreciation on directly held real estate rose to EUR 3.3 million (EUR 0.3 million), a reflection of our increased involvement in this area. The total volume of write-downs contrasted with write-ups of EUR 11.8 million, of which EUR 8.8 million was attributable to fixed-income securities and EUR 3.0 million to alternative investments.

We recognise a derivative (ModCo) 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 15.4 million (gains of EUR 122.4 million) which were recognised in income. Further unrealised losses of EUR 53.2 million derived from the performance of inflation swaps that we took out in response to the fundamental risk of a significant medium-term rise in interest rates in Hannover Re's core markets. These swaps hedge part of the inflation risks to which our loss reserves are exposed. Potential inflation-induced increases in loss reserves are thus opposed by positive effects from the swaps. The nominal volumes of the inflation swaps amounted to EUR 830 million and USD 2,260 million.

Pursuant to IAS 39 inflation swaps are derivatives, the changes in the fair values of which are to be recognised in income. We show them under the net income on investments. Since inflationary expectations have lessened somewhat since the inflation swaps were purchased, they show a change in fair value of –EUR 53.2 million as at the quarterly closing date. Given that they serve to hedge inflation exposures in the technical account, this position is opposed by anticipated positive effects in connection with the development of the loss reserves.

Net investment income	figures in EUR million						
	2010			2009			
	1.1.–31.3.	1.4.–30.6.	+/- previous year	1.1.–30.6.	+/- previous year	1.4.–30.6.	1.1.–30.6.
Ordinary investment income ¹	214.2	227.0	+13.8%	441.2	+10.6%	199.5	398.8
Results from participation in associated companies	1.7	0.7	–141.6%	2.4	–254.4%	(1.6)	(1.5)
Appreciation	6.5	5.3	–	11.8	–	–	–
Realised gains/losses	21.3	56.0	+216.9%	77.3	+39.4%	17.7	55.5
Impairments ²	11.4	5.3	–87.7%	16.7	–82.1%	43.1	93.4
Unrealised gains/losses ²	(12.9)	(73.3)	–160.6%	(86.2)	–198.8%	120.9	87.2
Investment expenses	(13.9)	(15.7)	+67.5%	(29.7)	+32.7%	(9.4)	(22.4)
Net investment income from assets under own management	205.5	194.6	–31.5%	400.2	–5.7%	284.0	424.2
Net investment income from funds withheld	74.0	77.3	–11.3%	151.2	+4.3%	87.0	144.9
Net investment income	279.5	271.9	–26.7%	551.4	–3.1%	371.0	569.2

- 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

Thanks to the further rise in ordinary income and the reduced volume of write-downs, our net investment income came in virtually on a par with the previous year despite the unrealised losses; it amounted to EUR 551.4 million (EUR 569.2 million) as at 30 June 2010.

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, 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

Particularly in the area of non-life reinsurance, the reserving risk – which results from the under-reserving of losses – constitutes 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.

Catastrophe risks from natural hazards (earthquakes, windstorms) are also material for our company. Licensed scientific simulation models, supplemented by the expertise of our own specialist departments, are used to assess these risks. Furthermore, we establish the risk to our portfolio from various scenarios (e.g. hurricanes in the US, windstorms in Europe, earthquakes in the US) in the form of probability distributions. 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 monitored within the scope of risk management activities.

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.

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.

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 274.9 million (8.0%) of our accounts receivable from reinsurance business totalling EUR 3,421.0 million were older than 90 days as at the balance sheet date. The average default rate over the past three years was 0.14%.

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-related, system-induced or external factors. The operational risk also extends to legal risks. 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.

Combined and catastrophe ratio											
Figures in %	1H 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)	99.5	96.6	95.4	99.7	100.8	112.8	97.2	96.0	96.3	116.5	107.8
thereof major losses ³	15.4	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 percent 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	(410.4)	(294.6)
	Yield increase +100 basis points	(808.4)	(580.2)
	Yield decrease -50 basis points	+420.1	+301.5
	Yield decrease -100 basis points	+852.4	+612.0

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	85.6	5,244.8	61.0	3,964.9	5.0	249.7	77.8	3,153.1
AA	4.5	278.3	34.9	2,273.9	18.9	941.8	13.6	551.1
A	5.6	345.0	3.6	232.8	58.2	2,901.9	1.3	54.1
BBB	3.5	213.4	0.3	20.7	13.4	670.4	2.1	85.4
<BBB	0.8	49.6	0.2	10.2	4.5	224.9	5.2	209.6
Total	100.0	6,131.1	100.0	6,502.4	100.0	4,988.7	100.0	4,053.3

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

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.

Additional information on the risk situation is provided in the Group Annual Report 2009.

Outlook

In view of the broadly satisfactory 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 for 2010 is expected to grow by around 5%.

By and large, markets in **non-life reinsurance** are still seeing adequate prices. There is, however, no mistaking the fact that the substantial capacity offered by reinsurers relative to the demand for their products is leading to more in-

tense competitive pressure. Consequently, rate increases can now only be obtained in loss-impacted sectors of the business. In view of the oil platform disaster in the Gulf of Mexico we expect to see market hardening – i.e. rising prices – in the offshore insurance market. This should affect property insurance and to an even greater degree the casualty sector. On the reinsurance side, too, we expect substantial rate increases. Any move to step up our involvement will depend upon whether the price increases prove to be sufficient. In this respect it remains to be seen what the treaty renewals on 1 January 2011 will bring.

The treaty renewal phases for part of our North American business as well as for the portfolio in Australia and New Zealand were completed on 1 July 2010. Given that the capacity available in the American market is entirely sufficient, rate increases were for the most part recorded only under loss-impacted programmes. Treaties in property catastrophe business were generally renewed after rate reductions. Against this backdrop, we did not increase our participations. In casualty business, including for example workers' compensation covers, prices remained stable. In the absence of significant loss events we do not expect to see any hardening of the market in the near future. A modest premium decline relative to 2009 is anticipated in special liability lines. Our focus here is on maintaining the business written with our target clients.

The influx of new reinsurance capacities in Australia put pressure on prices for non-proportional catastrophe covers of small and mid-sized insurance companies. Despite two hail events in Melbourne and Perth in the first quarter – each causing estimated insured losses of AUD 1 billion –, rates under the affected programmes fell short of expectations. We therefore scaled back our participations. In casualty business Hannover Re continues to profit from its very good rating. Moderate erosion of reinsurance premiums was, however, observed here. We slightly reduced our portfolio in accordance with our underwriting policy, which remains geared to profitability.

For non-life reinsurance overall we continue to 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 in the second half-year.

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

We are standing by the profit forecast for the 2010 financial year that we made at the beginning of the year. We are on track to build on the good performance of 2009 – after special effects are factored out. As things currently stand, we are looking to generate [Group net income](#) of around EUR 600 million. This is subject to the premise that the major loss burden in the second half of the year does not exceed the expected level of roughly EUR 280 million 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.

Consolidated balance sheet

Assets in EUR thousand	30.6.2010	31.12.2009 ¹
Fixed-income securities – held to maturity	3,102,633	2,953,489
Fixed-income securities – loans and receivables	3,030,529	2,701,831
Fixed-income securities – available for sale	15,315,068	13,805,048
Fixed-income securities – at fair value through profit or loss	227,271	235,149
Equity securities – available for sale	18,806	19,357
Other financial assets – at fair value through profit or loss	30,891	58,273
Real estate and real estate funds	338,043	216,801
Investments in associated companies	129,038	128,316
Other invested assets	821,566	578,861
Short-term investments	1,819,912	1,352,475
Cash	526,339	457,412
Total investments and cash under own management	25,360,096	22,507,012
Funds withheld	13,335,514	11,589,558
Contract deposits	725,299	625,481
Total investments	39,420,909	34,722,051
Reinsurance recoverables on unpaid claims	1,893,186	1,747,991
Reinsurance recoverables on benefit reserve	370,257	104,868
Prepaid reinsurance premium	125,555	47,651
Reinsurance recoverables on other technical reserves	1,225	400
Deferred acquisition costs	1,989,839	1,838,450
Accounts receivable	3,421,026	2,869,874
Goodwill	45,185	44,393
Deferred tax assets	499,383	515,867
Other assets	427,881	372,012
Accrued interest and rent	10,705	3,189
Total assets	48,205,151	42,266,746

¹ Adjusted on the basis of IAS 8 and IFRS 3. For details please see Section 2, subsection "Changes in accounting policies".

Liabilities in EUR thousand	30.6.2010	31.12.2009 ¹
Loss and loss adjustment expense reserve	19,738,483	17,425,293
Benefit reserves	8,933,115	7,952,640
Unearned premium reserve	2,080,914	1,512,840
Other technical provisions	198,977	148,827
Funds withheld	1,288,562	857,440
Contract deposits	6,402,899	5,467,598
Reinsurance payable	848,296	1,021,364
Provisions for pensions	79,970	77,497
Taxes	318,303	266,747
Provision for deferred taxes	1,550,424	1,485,157
Other liabilities	411,328	313,450
Long-term debt and subordinated capital	1,553,157	1,481,336
Total liabilities	43,404,428	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	471,848	241,569
Cumulative foreign currency translation adjustment	25,567	(224,084)
Other changes in cumulative other comprehensive income	(16,460)	(4,728)
Total other comprehensive income	480,955	12,757
Retained earnings	2,913,237	2,856,529
Shareholders' equity before minorities	4,239,351	3,714,445
Minority interests	561,372	542,112
Total shareholders' equity	4,800,723	4,256,557
Total liabilities	48,205,151	42,266,746

¹ Adjusted on the basis of IAS 8 and IFRS 3

Figures in EUR thousand	1.4.–30.6.2010	1.1.–30.6.2010	1.4.–30.6.2009 ¹	1.1.–30.6.2009 ¹
Gross written premium	2,832,246	5,682,326	2,588,664	5,250,529
Ceded written premium	288,122	550,350	145,608	366,549
Change in gross unearned premium	(16,549)	(378,146)	(40,190)	(440,151)
Change in ceded unearned premium	2,503	65,839	(28,263)	22,111
Net premium earned	2,530,078	4,819,669	2,374,603	4,465,940
Ordinary investment income	227,033	441,201	199,512	398,822
Profit/loss from investments in associated companies	674	2,370	(1,622)	(1,535)
Realised gains and losses on investments	55,969	77,319	17,663	55,462
Unrealised gains and losses on investments	(73,298)	(86,185)	120,930	87,238
Total depreciation, impairments and appreciation of investments	5	4,873	43,126	93,384
Other investment expenses	15,734	29,665	9,394	22,359
Net income from investments under own management	194,639	400,167	283,963	424,244
Income/expense on funds withheld and contract deposits	77,254	151,211	87,048	144,931
Net investment income	271,893	551,378	371,011	569,175
Other technical income	2,549	7,976	1,245	1,763
Total revenues	2,804,520	5,379,023	2,746,859	5,036,878
Claims and claims expenses	1,774,864	3,447,876	1,676,331	3,154,215
Change in benefit reserves	186,615	287,074	164,040	329,402
Commission and brokerage, change in deferred acquisition costs	555,207	1,044,634	532,334	913,981
Other acquisition costs	2,531	6,702	3,697	6,983
Other technical expenses	10,562	22,105	10,323	17,837
Administrative expenses	73,818	139,339	62,464	120,356
Total technical expenses	2,603,597	4,947,730	2,449,189	4,542,774
Other income and expenses	50,933	59,368	2,415	109,185
Operating profit (EBIT)	251,856	490,661	300,085	603,289
Interest on hybrid capital	19,137	38,064	19,135	38,170
Net income before taxes	232,719	452,497	280,950	565,119
Taxes	57,177	116,329	56,501	113,052
Net income	175,542	336,268	224,449	452,067
thereof				
Minority interest in profit and loss	15,911	25,635	15,727	18,563
Group net income	159,631	310,633	208,722	433,504
Earnings per share				
Earnings per share in EUR	1.32	2.58	1.73	3.59

¹ Adjusted on the basis of IAS 8 and IFRS 3

Consolidated statement of comprehensive income

as at 30 June 2010

Figures in EUR thousand	1.4.–30.6.2010	1.1.–30.6.2010	1.4.–30.6.2009 ¹	1.1.–30.6.2009 ¹
Net income	175,542	336,268	224,449	452,067
Unrealised gains and losses on investments				
Gains (losses) recognised directly in equity	205,014	380,884	19,271	(220,070)
Transferred to the consolidated statement of income	(54,648)	(72,367)	57,816	40,975
Tax income (expense)	(39,700)	(71,107)	(11,849)	45,836
	110,666	237,410	65,238	(133,259)
Currency translation				
Gains (losses) recognised directly in equity	162,874	274,636	(45,180)	37,504
Transferred to the consolidated statement of income	7,105	7,380	466	168
Tax income (expense)	(14,484)	(22,415)	12,663	3,162
	155,495	259,601	(32,051)	40,834
Changes from the measurement of associated companies				
Gains (losses) recognised directly in equity	–	–	2,900	2,382
	–	–	2,900	2,382
Other changes				
Gains (losses) recognised directly in equity	(15,963)	(18,488)	(1,914)	9,832
Tax income (expense)	6,796	6,756	(946)	(3,576)
	(9,167)	(11,732)	(2,860)	6,256
Total income and expense recognised directly in equity				
Gains (losses) recognised directly in equity	351,925	637,032	(24,923)	(170,352)
Transferred to the consolidated statement of income	(47,543)	(64,987)	58,282	41,143
Tax income (expense)	(47,388)	(86,766)	(132)	45,422
	256,994	485,279	33,227	(83,787)
Changes in the consolidated group	–	–	5	5
Total recognised income and expense	432,536	821,547	257,681	368,285
thereof:				
Attributable to minority interests	20,775	42,478	17,688	12,624
Attributable to the Group	411,761	779,069	239,993	355,661

1 Adjusted on the basis of IAS 8 and IFRS 3

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
Capital increases/ additions	–	–	–	–	–	–	160	160
Capital repayments	–	–	–	–	–	–	(34)	(34)
Total income and expense recognised after tax ¹	–	–	40,537	(124,646)	6,266	433,504	12,624	368,285
Dividends paid	–	–	–	–	–	–	(12,838)	(12,838)
Balance as at 30.6.2009¹	120,597	724,562	(207,028)	(10,782)	1,689	2,556,682	501,346	3,687,066
Balance as at 1.1.2010¹	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	–	–	(2)	(236)	–	(378)	7,351	6,735
Capital increases/ additions	–	–	–	–	–	–	53	53
Capital repayments	–	–	–	–	–	–	(1,481)	(1,481)
Acquisition/disposal of treasury shares	–	–	–	–	–	(293)	–	(293)
Total income and expense recognised after tax	–	–	249,653	230,515	(11,732)	310,633	42,478	821,547
Dividends paid	–	–	–	–	–	(253,254)	(29,141)	(282,395)
Balance as at 30.6.2010	120,597	724,562	25,567	471,848	(16,460)	2,913,237	561,372	4,800,723

¹ Adjusted on the basis of IAS 8 and IFRS 3

Figures in EUR thousand	1.1.–30.6.2010	1.1.–30.6.2009 ¹
I. Cash flow from operating activities		
Net income	336,268	452,067
Appreciation/depreciation	(31,705)	84,975
Net realised gains and losses on investments	(77,319)	(55,462)
Net realised gains and losses from disposal of discontinued operation	–	5
Income from the recognition of negative goodwill	–	(92,653)
Amortisation of investments	(1,674)	7,781
Changes in funds withheld	(426,922)	(1,057,073)
Net changes in contract deposits	438,180	593,408
Changes in prepaid reinsurance premium (net)	311,003	418,070
Changes in tax assets/provisions for taxes	39,118	65,053
Changes in benefit reserve (net)	15,237	406,160
Changes in claims reserves (net)	647,012	733,329
Changes in deferred acquisition costs	21,219	(74,478)
Changes in other technical provisions	27,389	2,560
Changes in clearing balances	(449,270)	(651,061)
Changes in other assets and liabilities (net)	(62,712)	(141,081)
Cash flow from operating activities	785,824	691,600

1 Adjusted on the basis of IAS 8 and IFRS 3

Figures in EUR thousand	1.1.–30.6.2010	1.1.–30.6.2009 ¹
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	16,590	36,235
Purchases	–	(32,271)
Fixed-income securities – loans and receivables		
Maturities, sales	298,330	70,187
Purchases	(498,240)	(68,920)
Fixed-income securities – available for sale		
Maturities, sales	4,120,108	5,994,270
Purchases	(4,069,712)	(6,580,345)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	39,591	53,303
Purchases	(5,781)	(46,054)
Equity securities – available for sale		
Sales	932	14,993
Purchases	(809)	(14,030)
Equity securities – at fair value through profit or loss		
Sales	1,573	–
Purchases	–	(123)
Other invested assets		
Sales	41,771	3,161
Purchases	(81,301)	(42,362)
Affiliated companies and participating interests		
Sales	21	461
Purchases	(4,254)	(1,266)
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	3,121	40
Purchases	(90,212)	(3,993)
Short-term investments		
Changes	(313,792)	(161,744)
Other changes (net)	(9,762)	(5,809)
Cash flow from investing activities	(551,826)	(679,975)

1 Adjusted on the basis of IAS 8 and IFRS 3

Figures in EUR thousand	1.1.–30.6.2010	1.1.–30.6.2009 ¹
III. Cash flow from financing activities		
Contribution from capital measures	(1,271)	(4,520)
Structural change without loss of control	7,018	–
Dividends paid	(282,395)	(12,838)
Proceeds from long-term debts	49,306	28
Repayment of long-term debts	(2,817)	(15,383)
Acquisition/disposal of treasury shares	(293)	–
Cash flow from financing activities	(230,452)	(32,713)
IV. Exchange rate differences on cash	65,381	4,639
Cash and cash equivalents at the beginning of the period	457,412	430,225
Change in cash and cash equivalents (I.+II.+III.+IV.)	68,927	(16,449)
Cash and cash equivalents at the end of the period	526,339	413,776
Income taxes	(86,354)	(57,144)
Interest paid	(93,185)	(91,905)

1 Adjusted on the basis of IAS 8 and IFRS 3

Segmental report

Segmentation of assets in EUR thousand	Non-life reinsurance	
	30. 6. 2010	31. 12. 2009
Assets		
Held to maturity	2,799,168	2,651,188
Loans and receivables	2,968,550	2,624,702
Available for sale	10,975,886	9,820,513
At fair value through profit or loss	144,870	154,707
Other invested assets	1,256,595	894,289
Short-term investments	1,275,658	1,031,880
Cash	360,000	253,797
Total investments and cash under own management	19,780,727	17,431,076
Funds withheld by ceding companies	794,095	625,753
Contract deposits	-	-
Total investments	20,574,822	18,056,829
Reinsurance recoverables on unpaid claims	1,729,358	1,589,438
Reinsurance recoverables on benefit reserve	-	-
Prepaid reinsurance premium	123,196	44,607
Reinsurance recoverables on other reserves	846	305
Deferred acquisition costs	412,421	331,091
Accounts receivable	2,177,520	1,896,362
Other assets in the segment	1,446,672	1,429,320
Total assets	26,464,835	23,347,952
Segmentation of technical and other liabilities in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	17,300,121	15,393,548
Benefit reserve	-	-
Unearned premium reserve	1,991,421	1,437,490
Provisions for contingent commissions	128,856	106,313
Funds withheld	276,967	209,925
Contract deposits	131,796	123,927
Reinsurance payable	612,545	701,103
Long-term liabilities	186,126	116,286
Other liabilities in the segment	1,644,657	1,461,588
Total liabilities	22,272,489	19,550,180

1 Adjusted on the basis of IAS 8 and IFRS 3

Life/health reinsurance		Consolidation		Total	
30. 6. 2010	31. 12. 2009 ¹	30. 6. 2010	31. 12. 2009	30. 6. 2010	31. 12. 2009 ¹
4,692	4,039	298,773	298,262	3,102,633	2,953,489
51,621	45,064	10,358	32,065	3,030,529	2,701,831
4,049,272	3,653,073	308,716	350,819	15,333,874	13,824,405
87,046	94,244	26,246	44,471	258,162	293,422
32,052	29,689	-	-	1,288,647	923,978
519,878	266,657	24,376	53,938	1,819,912	1,352,475
164,212	201,211	2,127	2,404	526,339	457,412
4,908,773	4,293,977	670,596	781,959	25,360,096	22,507,012
12,541,473	10,966,112	(54)	(2,307)	13,335,514	11,589,558
725,299	625,481	-	-	725,299	625,481
18,175,545	15,885,570	670,542	779,652	39,420,909	34,722,051
164,455	158,576	(627)	(23)	1,893,186	1,747,991
370,257	104,868	-	-	370,257	104,868
3,448	4,089	(1,089)	(1,045)	125,555	47,651
379	95	-	-	1,225	400
1,577,418	1,507,359	-	-	1,989,839	1,838,450
1,245,044	974,751	(1,538)	(1,239)	3,421,026	2,869,874
384,911	378,059	(848,429)	(871,918)	983,154	935,461
21,921,457	19,013,367	(180,141)	(94,573)	48,205,151	42,266,746
2,438,965	2,031,768	(603)	(23)	19,738,483	17,425,293
8,934,165	7,953,685	(1,050)	(1,045)	8,933,115	7,952,640
89,493	75,350	-	-	2,080,914	1,512,840
70,121	42,514	-	-	198,977	148,827
1,011,677	649,841	(82)	(2,326)	1,288,562	857,440
6,271,103	5,343,671	-	-	6,402,899	5,467,598
237,307	321,869	(1,556)	(1,608)	848,296	1,021,364
-	-	1,367,031	1,365,050	1,553,157	1,481,336
1,556,659	1,507,029	(841,291)	(825,766)	2,360,025	2,142,851
20,609,490	17,925,727	522,449	534,282	43,404,428	38,010,189

Segmental report

Segmental statement of income in EUR thousand	Non-life reinsurance	
	1.1.–30.6.2010	1.1.–30.6.2009
Gross written premium	3,271,740	3,081,463
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	3,271,740	3,081,463
Net premium earned	2,638,216	2,481,898
Net investment income	308,689	237,917
thereof		
Deposit interest and expenses	7,336	15,623
Claims and claims expenses	1,958,893	1,832,771
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	590,631	513,526
Administrative expenses	81,522	78,261
Other income and expenses	17,972	21,830
Operating profit (EBIT)	333,831	317,087
Interest on hybrid capital	–	–
Net income before taxes	333,831	317,087
Taxes	96,163	77,665
Net income	237,668	239,422
thereof		
Minority interest in profit or loss	22,546	16,215
Group net income	215,122	223,207

1 Adjusted on the basis of IAS 8 and IFRS 3

Life/health reinsurance		Consolidation		Total	
1.1.–30.6.2010	1.1.–30.6.2009 ¹	1.1.–30.6.2010	1.1.–30.6.2009	1.1.–30.6.2010	1.1.–30.6.2009 ¹
2,411,103	2,169,067	(517)	(1)	5,682,326	5,250,529
517	1	(517)	(1)	–	–
2,410,586	2,169,066	–	–	5,682,326	5,250,529
2,181,457	1,984,042	(4)	–	4,819,669	4,465,940
228,367	314,047	14,322	17,211	551,378	569,175
143,875	129,310	–	(2)	151,211	144,931
1,489,324	1,321,755	(341)	(311)	3,447,876	3,154,215
287,079	329,402	(5)	–	287,074	329,402
477,783	426,284	(2,949)	(2,772)	1,065,465	937,038
59,233	43,244	(1,416)	(1,149)	139,339	120,356
49,051	91,931	(7,655)	(4,576)	59,368	109,185
145,456	269,335	11,374	16,867	490,661	603,289
–	–	38,064	38,170	38,064	38,170
145,456	269,335	(26,690)	(21,303)	452,597	565,119
28,589	40,016	(8,423)	(4,629)	116,329	113,052
116,867	229,319	(18,267)	(16,674)	336,268	452,067
3,089	2,348	–	–	25,635	18,563
113,778	226,971	(18,267)	(16,674)	310,633	433,504

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 on 23 July 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 30 June 2010.

All standards adopted by the IASB as at 30 June 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, was ratified by the European Union effective 20 July 2010 and must be applied from 1 January 2011 onwards.

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 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 30 June 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 506.1 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 were adjusted in the quarterly financial statement as at 30 June 2009. At the same time, the translation of intangible assets held in foreign currencies that were recognised as part of the acquisition of the ING life reinsurance portfolio had to be adjusted pursuant to IAS 8 in the quarterly financial statement as at 30 June 2009 and in the financial statement as at 31 December 2009. The effects of the adjustments connected with the ING life reinsurance portfolio on items of the consolidated balance sheet and consolidated statement of income as at 30 June 2009 and 31 December 2009 were as follows:

Adjustments pursuant to IFRS 3 and IAS 8 in connection with the ING life reinsurance portfolio		
Figures in EUR thousand	30. 6. 2009	31. 12. 2009
Reinsurance recoverables on benefit reserve	(26,855)	
Deferred tax assets	(8,600)	
Other assets	+16,268	+2,527
Total change in assets	(19,187)	+2,527
Benefit reserves	(30,197)	
Reinsurance payable	+3,342	
Provision for deferred taxes	+1,775	
Other liabilities	(8,599)	
Retained earnings	+14,492	+2,527
Total change in liabilities	(19,187)	+2,527
	1. 1.–30. 6. 2009	1. 1.–31. 12. 2009
Other income and expenses	+3,236	+2,527
Taxes	+11,256	
Total change in items of the statement of income	+14,492	+2,527
Change in earnings per share (in EUR)	+0.12	+0.02

Hannover Re has refined the calculation logic used to determine the fair value of derivatives in connection with modified coinsurance and coinsurance funds withheld reinsurance treaties. This represents a change in an accounting estimate, which pursuant to IAS 8.36 was made in the year under review without adjustment of the comparative figures for previous years. For further details please see the remarks on derivative financial instruments in Section 6.1 “Derivative financial instruments”.

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.

Effective 26 April 2010 the share capital of E+S Rück was increased out of retained earnings without the issue of new shares by an amount of EUR 2.8 million from EUR 42.6 million to EUR 45.5 million. The nominal value per share now stands at EUR 600. This did not give rise to a change of control status.

With effect from the second quarter Inter Hannover (No. 1) Limited, London, was included in the consolidated financial statement for the first time. All shares in the company are held by International Insurance Company of Hannover Ltd., Bracknell. The object of the company, which is a corporate member of Lloyd's of London with limited liability, is to participate in the business of one or more Lloyd's syndicates.

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 25.6 million (EUR 18.6 million) as at 30 June 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 Euris 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 “FacPool 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 “FacPool 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 48.8 million), with Hannover Re keeping a share of approximately USD 5 million (equivalent to EUR 4.1 million) and additionally assuming losses that exceed the capacity of “FacPool Re”. A number of special purpose entities participate in the reinsurance cessions within “FacPool Re”; Hannover Re does not hold any shares in these special purpose entities and does not bear the majority of the economic benefits or risks arising out of their activities through any of its business relations.

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 268.1 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. The securitisation had a term of five years; the securities serving as collateral were issued through the special purpose entity Merlin CDO I B.V. In March 2010 Hannover Re made use of its right of early cancellation and terminated the credit default swap underlying the “Merlin” transaction effective 26 April 2010. The derivative established by the “Merlin” transaction was therefore derecognised in the second quarter, causing a decrease in net income.

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	30. 6. 2010	31. 12. 2009
Germany	7,232,791	6,560,026
United Kingdom	1,527,220	1,363,938
France	1,742,094	1,865,540
Other	4,294,136	3,928,606
Europe	14,796,241	13,718,110
USA	7,048,230	6,007,409
Other	1,130,300	840,207
North America	8,178,530	6,847,616
Asia	614,909	530,497
Australia	1,232,003	941,664
Australasia	1,846,912	1,472,161
Africa	492,865	416,139
Other	45,548	52,986
Total	25,360,096	22,507,012

Maturities of the fixed-income and variable-yield securities				
in EUR thousand	30. 6. 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	270,895	288,732	106,788	117,125
due after one through two years	407,850	424,144	280,725	290,471
due after two through three years	529,721	561,193	469,248	490,878
due after three through four years	413,198	436,874	521,196	542,714
due after four through five years	535,492	583,164	298,115	315,856
due after five through ten years	924,952	1,004,658	1,259,917	1,319,098
due after ten years	20,525	17,401	17,500	15,852
Total	3,102,633	3,316,166	2,953,489	3,091,994
Loans and receivables				
due in one year	138,557	139,708	220,814	221,111
due after one through two years	130,603	131,108	80,127	82,095
due after two through three years	117,398	119,435	41,048	41,219
due after three through four years	435,316	448,631	332,716	339,025
due after four through five years	594,388	621,754	485,554	490,978
due after five through ten years	1,391,469	1,470,306	1,294,842	1,323,459
due after ten years	222,798	219,464	246,730	244,384
Total	3,030,529	3,150,406	2,701,831	2,742,271
Available for sale				
due in one year ²	4,507,513	4,560,098	3,890,651	3,926,328
due after one through two years	2,226,630	2,266,370	1,686,180	1,725,646
due after two through three years	2,325,503	2,399,160	1,656,235	1,698,765
due after three through four years	2,189,024	2,268,230	1,718,907	1,782,188
due after four through five years	1,519,963	1,574,238	1,875,448	1,907,847
due after five through ten years	2,761,659	2,884,322	3,151,562	3,196,970
due after ten years	1,630,375	1,708,901	1,383,350	1,377,191
Total	17,160,667	17,661,319	15,362,333	15,614,935
Financial assets at fair value through profit or loss				
due in one year	59,484	59,484	22,145	22,145
due after one through two years	33,598	33,598	70,245	70,245
due after two through three years	59,497	59,497	18,358	18,358
due after three through four years	12,862	12,862	39,155	39,155
due after four through five years	1,642	1,642	4,541	4,541
due after five through ten years	1,624	1,624	11,239	11,239
due after ten years	58,564	58,564	69,466	69,466
Total	227,271	227,271	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	30.6.2010				
	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	327,188	17,894	621	6,508	350,969
US treasury notes	411,769	53,154	–	3,240	468,163
Other foreign government debt securities	15,369	882	–	28	16,279
Debt securities issued by semi-governmental entities	742,023	46,199	3,124	10,409	795,507
Corporate securities	566,073	35,862	861	15,055	616,129
Covered bonds/asset-backed securities	988,037	64,478	330	16,934	1,069,119
Total	3,050,459	218,469	4,936	52,174	3,316,166

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	30.6.2010				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	79,542	4,060	–	1,175	84,777
Debt securities issued by semi-governmental entities	1,289,529	52,985	53	19,191	1,361,652
Corporate securities	480,190	25,940	409	9,908	515,629
Covered bonds/asset-backed securities	868,767	40,871	3,517	16,283	922,404
Other	199,889	–	–	66,055	265,944
Total	2,917,917	123,856	3,979	112,612	3,150,406

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	30. 6. 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	2,139,898	57,443	13,076	31,511	2,215,776
US treasury notes	2,262,664	103,444	–	16,131	2,382,239
Other foreign government debt securities	654,668	10,852	797	3,405	668,128
Debt securities issued by semi-governmental entities	4,238,455	145,054	4,134	55,167	4,434,542
Corporate securities	3,285,959	147,030	14,487	49,486	3,467,988
Covered bonds/asset-backed securities	1,971,855	98,292	38,644	23,803	2,055,306
Investment funds	82,634	9,454	1,019	20	91,089
	14,636,133	571,569	72,157	179,523	15,315,068
Equity securities					
Shares	13,613	2,368	1	–	15,980
Investment funds	2,117	769	60	–	2,826
	15,730	3,137	61	–	18,806
Short-term investments	1,818,043	1,514	274	629	1,819,912
Total	16,469,906	576,220	72,492	180,152	17,153,786

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 before and after accrued interest as well as accrued interest on such financial assets						
Figures in EUR thousand	30. 6. 2010	31.12. 2009	30. 6. 2010	31.12. 2009	30. 6. 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						
Debt securities of semi-governmental entities	6,695	7,066	32	162	6,727	7,228
Corporate securities	106,375	121,589	6,197	5,208	112,572	126,797
Covered bonds/asset-backed securities	107,568	100,775	404	349	107,972	101,124
	220,638	229,430	6,633	5,719	227,271	235,149
Other financial assets						
Derivatives	30,891	58,273	–	–	30,891	58,273
	30,891	58,273	–	–	30,891	58,273
Total	251,529	287,703	6,633	5,719	258,162	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 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.

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

In addition, conditional capital of up to EUR 60,299 thousand is available. It can be used to grant shares to holders of convertible bonds and bonds with warrants as well as to holders of participating bonds with conversion rights and warrants and has a time limit of 11 May 2011.

IAS 1 requires separate disclosure of treasury shares in shareholders' equity. As part of this year's employee share purchase scheme Hannover Re acquired altogether 23,163 treasury shares during the second quarter of 2010 and delivered them to eligible employees at preferential conditions. These shares are blocked until 31 May 2014. This transaction reduced retained earnings by an amount of EUR 0.3 million. The company was no longer in possession of treasury shares as at the balance sheet date.

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

5.1 Gross written premium

Gross written premium in EUR thousand	1. 1.–30. 6. 2010	1. 1.–30. 6. 2009
Regional origin		
Germany	697,337	742,646
United Kingdom	1,132,213	907,373
France	264,977	252,031
Other	719,168	674,077
Europe	2,813,695	2,576,127
USA	1,477,696	1,457,074
Other	193,094	197,953
North America	1,670,790	1,655,027
Asia	457,042	409,574
Australia	229,270	166,362
Australasia	686,312	575,936
Africa	197,042	156,093
Other	314,487	287,346
Total	5,682,326	5,250,529

5.2 Investment income

Investment income in EUR thousand	30.6.2010	30.6.2009
Income from real estate	13,919	745
Dividends	1,691	2,156
Interest income	409,790	393,594
Other income	15,801	2,327
Ordinary investment income	441,201	398,822
Profit or loss on shares in associated companies	2,370	(1,535)
Appreciation	11,835	–
Realised gains on investments	118,962	81,086
Realised losses on investments	41,643	25,624
Unrealised gains and losses on investments	(86,185)	87,238
Impairments/depreciation on real estate	3,752	487
Impairments on equity securities	556	2,615
Impairments on fixed-income securities	7,067	26,171
Impairments on participating interests and other financial assets	5,333	64,111
Other investment expenses	29,665	22,359
Net income from assets under own management	400,167	424,244
Interest income on funds withheld and contract deposits	219,209	212,542
Interest expense on funds withheld and contract deposits	67,998	67,611
Total investment income	551,378	569,175

Of the impairments totalling EUR 13.4 million, an amount of EUR 5.3 million was attributable to alternative investments. The impairments on fixed-income securities of EUR 7.1 million were taken predominantly on structured assets. An impairment loss of EUR 0.6 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	30.6.2010	30.6.2009
Fixed-income securities – held to maturity	64,057	67,501
Fixed-income securities – loans and receivables	43,501	31,517
Fixed-income securities – available for sale	280,322	268,148
Financial assets – at fair value through profit or loss	5,844	7,429
Other	16,066	18,999
Total	409,790	393,594

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 reinsurance contracts. These transactions gave rise to recognition of other financial assets at fair value through profit or loss in an amount of EUR 0.2 million (31 December 2009: EUR 0.3 million) and other liabilities in an amount of EUR 28.0 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 10.2 million in the period under review (30 June 2009: EUR 15.0 million).

In the second quarter of 2010 Hannover Re acquired derivative financial instruments to hedge inflation risks within the loss reserves. These transactions gave rise to recognition of other liabilities in an amount of EUR 53.2 million (31 December 2009: –). The changes in the fair values of these instruments produced a charge to investment income of EUR 53.2 million in the period under review (30 June 2009: –).

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 30.7 million as at 30 June 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 8.2 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 20.9 million (31 December 2009: EUR 31.9 million) and of the derivatives carried on the liabilities side fair values of –EUR 0.5 million (31 December 2009: –) were attributable as at the balance sheet date to derivatives embedded in modified coinsurance and coinsurance funds withheld (ModCo) reinsurance treaties.

Hannover Re has refined the calculation logic for derivatives resulting from ModCo contracts. The risks from the aforementioned contracts are thereby established on a more market-oriented basis.

Retention of the parameters used until the first quarter of 2010 to calculate the derivative would have produced a value of EUR 0.0 million. The effect of this refinement of the calculation logic on the value of the derivative in future reporting periods could only have been determined with a disproportionately high effort.

Principally due to a widening of credit spreads in the securities portfolios, investment income from the ModCo derivatives took a charge of EUR 15.4 million before taxes as at 30 June 2010 (30 June 2009: improvement of EUR 122.4 million in investment income).

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	30. 6. 2010		30. 6. 2009	
	Premium	Underwriting result	Premium	Underwriting result
Business assumed				
Non-life reinsurance	201,954	56,087	151,240	3,342
Life and health reinsurance	140,813	6,098	169,034	52,508
	342,767	62,185	320,274	55,850
Business ceded				
Non-life reinsurance	(1,634)	(678)	(227)	(79)
Life and health reinsurance	(4,911)	(2,369)	–	–
	(6,545)	(3,047)	(227)	(79)
Total	336,222	59,138	320,047	55,771

6.3 Staff

The average number of staff employed at the companies included in the consolidated financial statement of the Hannover Re Group was 2,100 during the reporting period (2009 financial year: 1,984).

As at the balance sheet date altogether 2,133 (2,069) staff were employed by the Hannover Re Group, with 1,064 (1,032) employed in Germany and 1,069 (1,037) working for the consolidated Group companies abroad.

6.4 Earnings per share

Calculation of the earnings per share	1. 1.–30. 6. 2010	1. 1.–30. 6. 2009
Group net income in EUR thousand	310,633	433,504
Weighted average of issued shares	120,596,619	120,597,134
Earnings per share in EUR	2.58	3.59

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

On the basis of this year's employee share purchase scheme Hannover Re acquired treasury shares in the course of the second quarter of 2010 and sold them to the eligible employees. The weighted average number of shares does not include 23,163 treasury shares pro rata temporis for the period from 7 to 10 May 2010. For further details please see our comments in Section 4.2 "Shareholders' equity, minority interests and treasury shares".

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

The earnings per share could potentially be diluted in future through the issue of shares or subscription rights from the 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 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. As at the balance sheet date they amounted to EUR 2,801.0 million (31 December 2009: EUR 2,341.3 million) and EUR 8.7 million (31 December 2009: –) respectively. In addition, we extended further collateral to our cedants in an amount of EUR 383.2 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 1,878.7 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 2,900.5 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 289.7 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 292.9 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

Key exchange rates	Mean rate of exchange on the balance sheet date		Average rate of exchange	
	30. 6. 2010	31. 12. 2009	1. 1.–30. 6. 2010	1. 1.–30. 6. 2009
1 EUR corresponds to:				
AUD	1.4407	1.6048	1.4988	1.8921
BHD	0.4631	0.5404	0.5023	0.5080
CAD	1.2889	1.5048	1.3880	1.6182
CNY	8.3309	9.7847	9.0881	9.2039
GBP	0.8180	0.9042	0.8695	0.8996
HKD	9.5648	11.1172	10.3530	10.4401
KRW	1,501.8909	1,669.5842	1,550.0537	1,801.8571
MYR	3.9774	4.9113	4.4182	4.8046
SEK	9.5265	10.2986	9.8208	10.8817
USD	1.2284	1.4336	1.3325	1.3468
ZAR	9.3588	10.6121	10.0175	12.1207

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.

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Hannover, 4 August 2010

Executive Board



Wallin



Arrago



Dr. Becke



Gräber



Dr. Pickel



Vogel

Review report by the independent auditors

To Hannover Rückversicherung AG, Hannover

We have reviewed the condensed consolidated interim financial statements – comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity 2010, consolidated cash flow statement, segmental report and selected explanatory notes – together with the interim Group management report of Hannover Rückversicherung AG, Hannover, for the period from 1 January to 30 June 2010, which are components of the half-yearly financial report pursuant to § 37w of the German Securities Trading Act (WpHG). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim management report for the Group in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent company's Board of Management. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim management report for the Group based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim management report for the Group in accordance with German generally accepted standards for the review of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim management report for the Group has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and thus provides less assurance than an audit. Since, in accordance with our mandate, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU or that the interim management report for the Group has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Hannover, 4 August 2010

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Wirtschaftsprüfungsgesellschaft

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