

Interim Report 3/2012

Key figures

Figures in EUR million	2012					2011 ¹		
	1.1.– 30.6.	1.7.– 30.9.	+/- previous year	1.1.– 30.9.	+/- previous year	1.7.– 30.9.	1.1.– 30.9.	31.12.
Results								
Gross written premium	6,888.4	3,407.5	+12.8%	10,296.0	+13.6%	3,019.9	9,064.7	
Net premium earned	5,824.8	3,134.2	+14.7%	8,959.0	+13.7%	2,732.0	7,879.9	
Net underwriting result	(13.2)	(39.7)	-220.3%	(52.9)		33.0	(413.3)	
Net investment income	709.5	499.3	+79.6%	1,208.8	+27.1%	278.0	950.8	
Operating profit (EBIT)	597.2	419.6	+73.4%	1,016.8	+107.2%	241.9	490.8	
Group net income (loss)	405.3	265.5	+62.7%	670.8	+75.7%	163.2	381.7	
Balance sheet (as at the end of the period)								
Policyholders' surplus	7,832.6			8,307.5	+13.2%			7,338.2
Equity attributable to shareholders of Hannover Re	5,471.7			5,923.4	+19.2%			4,970.6
Non-controlling interests	626.9			649.0	+2.0%			636.0
Hybrid capital	1,734.0			1,735.2	+0.2%			1,731.6
Investments (excl. funds withheld by ceding companies)	30,281.9			31,188.0	+10.0%			28,341.2
Total assets	53,412.0			54,559.1	+9.4%			49,867.0
Share								
Earnings per share (basic and diluted) in EUR	3.36	2.20	+62.7%	5.56	+75.7%	1.35	3.16	
Book value per share in EUR	45.37			49.12	+19.2%		38.96	41.22
Share price at the end of the period in EUR	46.89			49.725	+29.7%		34.04	38.325
Market capitalisation at the end of the period	5,654.8			5,996.7	+29.7%		4,105.1	4,621.9
Ratios								
Combined ratio (non-life reinsurance) ²	96.8%	95.8%		96.5%		95.2%	105.0%	
Major losses as percentage of net premium earned (non-life reinsurance) ³	4.0%	3.5%		3.8%		7.6%	16.9%	
Retention	89.8%	89.4%		89.7%		90.3%	90.7%	
Return on investment (excl. funds withheld by ceding companies)	3.8%	5.3%		4.3%		2.9%	3.6%	
EBIT margin ⁴	10.3%	13.4%		11.3%		8.9%	6.2%	
Return on equity	15.5%	18.6%		16.4%		14.5%	11.1%	

1 Adjusted on the basis of IAS 8

2 Incl. funds withheld

3 Hannover Re Group's net share for natural catastrophes and other major losses in excess of EUR 10 million gross as a percentage of net premium earned (until 31 December 2011: in excess of EUR 5 million gross)

4 Operating result (EBIT)/net premium earned



Ulrich Wallin
Chairman of the Executive Board

Dear shareholders, ladies and gentlemen,

Following on from a pleasing overall development in the first half of the year, our business again fared very well in the third quarter. The operating profit (EBIT) doubled to one billion euro and Group net income soared 76 percent to EUR 671 million. Crucial factors in this positive development were, above all, very healthy investment income and a sharply improved underwriting result in non-life reinsurance on the back of lower major losses. Yet in life and health reinsurance, too, we generated a substantially better result than in the comparable period. With the Group net income posted as at 30 September 2012 we have built a good platform to achieve a gratifying result for the full financial year. At this point in time it is our expectation that Group net income in excess of EUR 800 million is realistic. This guidance assumes that the burden of major claims for the full year does not exceed the loss expectancy and that investment income is not impacted by any special adverse effects.

As can also be seen from the current premium growth, demand for reinsurance protection remains strong. Adjusted for exchange rate effects, gross premium grew by 9 percent; both non-life and life/health reinsurance played a part here. In the medium term, too, we expect demand for reinsurance covers to remain stable or increase.

In September we were very pleased to learn that the rating agency A.M. Best had upgraded our already very good rating of “A” (Excellent) to “A+” (Superior). A.M. Best has thereby recognised your company’s outstanding capitalisation, successful business model, excellent risk management and, not least, its consistently good results in a challenging environment. Our business model received further recognition from the highly respected UK trade newspaper “Insurance Day”, which crowned us “Reinsurance Company of the Year” in September. In its citation the jury highlighted the fact that in the difficult and very costly 2011 financial year Hannover Re achieved the lowest ratio of catastrophe losses to net premium – at 14 percent – among all professional reinsurers.

I would like to describe below in greater detail the development of our two business groups as well as our investment portfolio:

We are thoroughly satisfied with the situation in our largest business group, non-life reinsurance. In the 1 July treaty renewals in North America as well as Australia and New Zealand we achieved a pleasing outcome. Along with the favourable trend in global property (catastrophe) lines, we are now seeing in the United States the first positive signs of an improved climate overall in some casualty lines, including for example workers’ compensation business and some segments of professional indemnity. Rate increases have been triggered, in particular, by lower investment income and in some cases negative run-off results from prior years. All in all, it may be stated that the factors which have already driven recent rounds of treaty renewals – such as model adjustments for natural catastrophes and the low level of interest rates – should also favourably influence treaty pricing as at 1 January 2013 and prevent market softening.

In addition to using traditional retrocession markets, we continue to transfer insurance risks to the capital market in order to protect our own account against natural catastrophe risks. In the third quarter we therefore renewed our Eurus transaction with a volume of EUR 100 million. Eurus III covers severe windstorm events for the four coming windstorm periods in eleven European countries and thus strengthens our risk management.

As previously mentioned, the development of our non-life reinsurance business as at 30 September 2012 was exceptionally pleasing. Adjusted for exchange rate effects, gross premium income grew by 9 percent, hence beating our target of 5 to 7 percent. Not only that, the operating profit (EBIT) was more than doubled to EUR 766 million. Particularly crucial here was the moderate major loss experience – which was again sustained in the third quarter. What is more, the inflation swaps that we took out to hedge our technical reserves favourably affected the result to the tune of some EUR 11 million. Group net income in non-life reinsurance came in at EUR 525 million, an increase of 78 percent compared to the corresponding period of the previous year.

Similarly, the life and health reinsurance business group also fared well. Attractive business opportunities continue to open up to us in both mature insurance markets, such as the United States, Germany and United Kingdom, and emerging markets. Particularly in Asia and Latin America, we expect rising prosperity to bring stronger demand for life insurance and retirement provision products.

Adjusted for exchange rate effects, the gross premium volume in life and health reinsurance grew by 9 percent to EUR 4.4 billion. The profit trend was also satisfactory. The operating profit (EBIT) climbed to EUR 233 million, while Group net income came in at a gratifying EUR 188 million. In contrast to the second quarter, the so-called ModCo derivatives delivered a positive result of some EUR 46 million as at 30 September 2012. It should, however, be emphasised that this item reflects changes in fair values that reveal nothing about the actual business experience since a neutral outcome is anticipated here after maturity of the underlying investments. IFRS accounting requires us to establish ModCo derivatives in relation to the credit risk associated with some securities deposits held for our account by US life insurance clients.

Despite the difficult situation on international markets, we are very satisfied with the development of our investments. As you are aware, we strive towards broad diversification of our portfolio of fixed-income securities, a strategy to which we remain firmly committed. In the third quarter the geographical spread of our government bonds was again largely preserved intact. We further reduced our already very low exposure to countries with higher risk premiums. As before, our portfolio does not contain any bonds of Greek issuers.

Reflecting the enlarged asset volume, our ordinary investment income came in higher than in the corresponding period of the previous year despite the protracted low interest rate level. The fair values of our assets recognised at fair value through profit or loss also developed favourably as at 30 September 2012. What is more, our real estate portfolio in the United States recorded significant gains in value, some of which we realised. Investment income was positively affected by the performance of the aforementioned inflation swaps and ModCo derivatives. In economic terms we assume a neutral development for these two items over time, and hence the volatility that can occur in specific quarters has no bearing on the actual business performance.

Even though the capital market environment remained challenging, we were thus able to generate excellent net investment income of EUR 1.2 billion. Our portfolio of investments under own management delivered an average return of 4.3 percent.

Our shareholders' equity continued to develop favourably, rising in the third quarter to more than EUR 5.9 billion. This is equivalent to an increase of 19 percent since the beginning of the year, producing a book value per share of EUR 49.12.

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

Yours sincerely,



Ulrich Wallin

Chairman of the Executive Board

Business development

Against a backdrop of broadly favourable conditions on worldwide reinsurance markets, we were able to generate thoroughly pleasing Group net income as at 30 September 2012. Business in non-life reinsurance improved appreciably on the comparable period in the third quarter. In part due to a moderate hurricane season, expenditure on major losses again remained significantly below our anticipated level. Similarly, we are largely satisfied with the development of business in life and health reinsurance as at 30 September 2012. The pivotal growth drivers for our portfolio were Asian and Latin American markets as well as Australian direct and group life business.

Gross written premium in total business increased by 13.6% as at 30 September 2012 to reach EUR 10.3 billion (EUR 9.1 billion). At constant exchange rates growth would have amounted to 8.6%. The level of retained premium retreated slightly to 89.7% (90.7%). Net premium climbed 13.7% to EUR 9.0 billion (EUR 7.9 billion). Growth of 8.7% would have been recorded at constant exchange rates.

The development of our investments was also highly satisfactory. The portfolio of assets under own management grew to EUR 31.2 billion (31 December 2011: EUR 28.3 billion). Despite the persistently low interest rate level, ordinary investment income excluding interest on deposits was comfortably higher than in the comparable period at EUR 822.0 million (EUR 712.0 million); the resulting annualised return stood at 3.7% (3.6%). Our ordinary income thus already surpassed the targeted return of 3.5% for income from assets under own management. Interest on deposits was stable at EUR 247.6 million (EUR 247.2 million).

We succeeded in substantially boosting our investment income relative to the corresponding period of the previous year: it amounted to EUR 1,208.8 million (EUR 950.8 million) as at 30 September 2012. The high unrealised gains on our asset holdings recognised at fair value through profit or loss also played a part in this development. The very good investment performance was assisted by realised gains of EUR 150.5 million (EUR 113.4 million). In the third quarter these stemmed for the most part from our real estate portfolio; we realised considerable gains in value here in some cases. The write-downs taken in the period under review were again only very slight in volume.

Based on the pleasing development in non-life and life/health reinsurance as well as in our investment portfolio, the operating profit (EBIT) was doubled to EUR 1,016.8 million as at 30 September 2012, contrasting with just EUR 490.8 million in the comparable period owing to the heavy major loss expenditure. Group net income improved significantly to EUR 670.8 million (EUR 381.7 million). Earnings per share came in at EUR 5.56 (EUR 3.16).

Hannover Re's equity base was further strengthened to EUR 5.9 billion (31 December 2011: EUR 5.0 billion). The book value per share showed a correspondingly pleasing increase to reach EUR 49.12 (31 December 2011: EUR 41.22). The annualised return on equity stood at 16.4% (11.1%). The total policyholders' surplus, comprised of shareholders' equity, non-controlling interests and hybrid capital, amounted to EUR 8.3 billion (31 December 2011: EUR 7.3 billion).

Non-life reinsurance

The development of our non-life reinsurance business group was highly satisfactory for the first nine months. This was attributable chiefly to the moderate major loss experience overall as well as the predominantly favourable situation on international reinsurance markets. Thus, in the renewals as at 1 July 2012 – when the focus is on North America and Australia/New Zealand – we were for the most part able to push through rate increases.

Although consistent market hardening in North America cannot be observed as yet, we are broadly satisfied with price movements. In property catastrophe reinsurance the trend towards further rate increases was sustained. This was driven both by the adjustments made to natural catastrophe models and by the tornado events of the previous year. A tendency towards recovery could be discerned in casualty business on the primary side. Although it has not to date been possible to push through improvements in prices and conditions across the board on the reinsurance side in North America, they were at least stable. We were highly satisfied with the renewal of our Canadian portfolio.

In Australia and New Zealand the bulk of the business traditionally comes up for renewal on 1 July 2012. Significant rate increases were obtained in these regions on the back of the costly natural disasters incurred in the previous year. Under loss-impacted programmes, for example, the price rises ran into double-digit percentages. Rate increases were also booked in the casualty lines. The price increases were driven not only by the natural disasters of 2011. The more exacting requirements of regulators with respect to improved capital management also had positive implications, since they prompted greater purchasing of reinsurance coverage. Similarly, the reduced investment income resulting from a sharp decrease in the interest rate curve is prompting greater discipline among market players when it comes to negotiating better insurance and reinsurance conditions.

The gross premium for our non-life reinsurance business group increased by 13.0% relative to the corresponding period of the previous year to reach EUR 5.9 billion (EUR 5.2 billion) as at 30 September 2012. At constant exchange rates, especially against the US dollar, growth would have been 8.6%. The level of retained premium remained virtually unchanged at 89.9% (90.3%). Net premium earned climbed 14.3% to EUR 5.0 billion (EUR 4.4 billion), or 10.1% adjusted for exchange rate effects.

In the third quarter, too, we incurred a relatively small number of major losses. At EUR 60.6 million, the net burden was well below the expected level of EUR 178 million. The largest single loss event for our company in the third quarter was the disastrous drought in the United States, which caused enormous agricultural damage. Given that in this region we have concentrated principally on non-proportional reinsurance treaties, which have an upper limit, our loss based on the information available to date is rather moderate at EUR 49.2 million. As was already the case in recent years, the loss potential for reinsurers from hurricanes again remained relatively slight in 2012. Hurricane "Isaac" resulted in net loss expenditure of EUR 11.4 million for our account. The total net burden of major claims and catastrophe losses for the first nine months amounted to EUR 193.0 million, as against EUR 743.2 million in the comparable period.

The combined ratio as at 30 September 2012 stood at 96.5% (105.0%), a reflection of our prudent reserving policy. The underwriting result closed in positive territory at EUR 169.7 million (-EUR 229.2 million).

The operating profit (EBIT) in non-life reinsurance soared to EUR 766.4 million (EUR 332.9 million) as at 30 September 2012. Group net income rose to EUR 525.0 million (EUR 295.0 million), an exceptionally good level. Earnings per share came in at EUR 4.35 (EUR 2.45).

Key figures for non-life reinsurance						in EUR million	
	2012					2011	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	4,079.7	1,817.3	+8.4%	5,897.0	+13.0%	1,676.0	5,220.5
Net premium earned	3,303.4	1,714.1	+11.1%	5,017.5	+14.3%	1,542.6	4,391.2
Underwriting result	99.2	70.5	+0.3%	169.7		70.3	(229.2)
Net investment income	410.2	292.0	+63.5%	702.1	+20.8%	178.6	581.1
Operating profit/loss (EBIT)	430.6	335.8	+84.8%	766.4	+130.2%	181.8	332.9
Group net income (loss)	305.6	219.4	+67.6%	525.0	+78.0%	130.9	295.0
Earnings per share in EUR	2.53	1.82	+67.6%	4.35	+78.0%	1.09	2.45
Combined ratio ¹	+96.8%	95.8%		96.5%		95.2%	105.0%
Retention	+90.2%	89.4%		89.9%		91.1%	90.3%

¹ Including expenses on funds withheld and contract deposits

Life and health reinsurance

The favourable development of the first half-year on the international life and health reinsurance market has been sustained. In mature insurance markets such as the United States, Germany, the United Kingdom, France and Scandinavia we assist primary insurers with their liquidity and capital management as well as in the area of risk management. Along with key emerging markets in Asia, parts of Latin America are also playing an increasingly prominent role. Especially in these countries, rising prosperity among the population is reflected in correspondingly strong demand for life insurance and retirement provision. We support our business partners there with the conceptual design and implementation of innovative new insurance products that meet the needs and personal circumstances of policyholders.

The life and health reinsurance business group continued to develop within the bounds of our positive expectations in the third quarter of 2012. Gross written premium in life and health reinsurance totalled EUR 4.4 billion (EUR 3.8 billion) as at 30 September 2012, corresponding to an increase of 14.5%. At constant exchange rates growth would have come in at 8.6%. Net premium earned climbed 13.0% in the period under review to EUR 3.9 billion (EUR 3.5 billion). Adjusted for exchange rate effects, net premium would have grown by 7.0%.

Major growth drivers of our business continue to be Asian and Latin American markets, posting growth rates of around 28.3% and 29.4% respectively compared to the corresponding period of the previous year. In addition, significant premium increases were again recorded in the US, Australian and French markets.

The operating profit (EBIT) fared well in the period under review, rising by 68.0% from EUR 138.6 million in the comparable period of the previous year to EUR 232.9 million. The EBIT margin stood at 5.9% (4.0%). The derivative that we recognise for the default risk associated with securities held for our account by US clients (under so-called ModCo treaties) developed favourably in the third quarter. This has caused the result to increase by EUR 45.8 million since the turn of the year. The risk experience of part of our US mortality portfolio was, however, poorer.

The life and health reinsurance business group contributed EUR 188.3 million (EUR 113.1 million) to Group net income, an increase of 66.5% relative to the corresponding period of the previous year. Earnings per share amounted to EUR 1.56 (EUR 0.94).

Key figures for life and health reinsurance						in EUR million	
	2012					2011	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	2,808.8	1,590.5	+18.4%	4,399.3	+14.5%	1,343.8	3,843.6
Net premium earned	2,521.4	1,420.1	+19.4%	3,941.5	+13.0%	1,189.2	3,486.9
Net investment income	286.4	200.8	+102.1%	487.2	+39.2%	99.3	350.1
Operating profit/loss (EBIT)	155.2	77.7	+29.0%	232.9	+68.0%	60.2	138.6
Group net income (loss)	127.9	60.4	+53.9%	188.3	+66.5%	39.2	113.1
Earnings per share in EUR	1.06	0.50	+53.9%	1.56	+66.5%	0.33	0.94
Retention	89.2%	89.4%		89.3%		89.4%	91.1%
EBIT margin ¹	6.2%	5.5%		5.9%		5.1%	4.0%

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

Investments

Both US treasury securities and German, French and UK government bonds recorded yield declines in medium and long durations in the first three quarters of the year. The picture as regards countries with higher risk premiums – presently the focus of so much attention – was a mixed one: while Italian, Irish and Portuguese bonds recovered – sometimes markedly so – across all durations, yields on Spanish government bonds increased across all durations. Credit spreads in the area of European and US corporate bonds, on the other hand, retreated – in some cases appreciably – across all rating classes. In total, the unrealised gains on our fixed-income securities rose to EUR 1,685.3 million (EUR 784.3 million). Our portfolio of assets under own management continued to grow to EUR 31.2 billion (EUR 28.3 billion) thanks to the pleasing inflow of cash from the technical account and from investing activities.

Despite the sustained low level of interest rates, ordinary investment income excluding interest on deposits was significantly higher than in the corresponding period of the previous year at EUR 822.0 million (EUR 712.0 million); this can be attributed principally to the enlarged investment portfolio, although the appreciable expansion of the corporate bonds asset class over the past two years was also a factor here. Interest on deposits remained stable relative to the corresponding period of the previous year, standing at EUR 247.6 million (EUR 247.2 million).

Impairments of altogether just EUR 16.3 million (EUR 20.9 million) were taken. This includes impairments of EUR 5.3 million on alternative investments and EUR 2.2 million on equities. Scheduled depreciation on directly held real estate climbed to EUR 7.9 million (EUR 6.5 million), a reflection of our greater involvement in this area. The write-downs contrasted with write-ups of EUR 0.9 million (EUR 16.9 million).

Net investment income							in EUR million	
	2012					2011		
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.	
Ordinary investment income ¹	532.0	290.0	+9.8%	822.0	+15.4%	264.1	712.0	
Results from participation in associated companies	3.4	1.9	+9.1%	5.3	+4.1%	1.7	5.1	
Realised gains/losses	68.0	82.6	+18.9%	150.5	+32.8%	69.4	113.4	
Appreciation	0.5	0.3	-82.4%	0.9	-94.7%	1.9	16.9	
Impairments ²	12.5	3.8	-12.7%	16.3	-21.9%	4.4	20.9	
Unrealised gains/losses ³	2.9	58.1		61.0		(123.7)	(70.0)	
Investment expenses	41.2	21.1	+23.6%	62.2	+17.5%	17.0	53.0	
Net investment income from assets under own management	553.2	408.0	+112.4%	961.2	+36.6%	192.1	703.6	
Net investment income from funds withheld	156.3	91.3	+6.3%	247.6	+0.2%	85.9	247.2	
Net investment income	709.5	499.3	+79.6%	1,208.8	+27.1%	278.0	950.8	

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

We recognise a derivative for the credit risk associated with special life reinsurance treaties (ModCo) under which securities deposits are held by cedants for our account; the performance of this derivative in the period under review gave rise to unrealised gains of EUR 45.8 million recognised in investment income. The unrealised gains contrasted with unrealised losses of EUR 69.9 million in the previous year. The inflation swaps taken out in 2010 to hedge part of the inflation risks associated with the loss reserves in our technical account have produced unrealised gains in the year to date of EUR 11.4 million recognised in investment income, as against unrealised losses of EUR 11.3 million in the previous year. The changes in the fair values of the inflation swaps are recognised in income as a derivative pursuant to IAS 39. Altogether, the unrealised gains on our assets recognised at fair value through profit or loss amounted to EUR 61.0 million, contrasting with unrealised losses of EUR 70.0 million in the previous year.

The net balance of gains realised from the sale of securities stood at EUR 150.5 million (EUR 113.4 million); it can be attributed primarily to portfolio regrouping in the area of government and corporate bonds as well as disposals from our US real estate portfolio.

Thanks above all to the further increase in ordinary income but also to the exceptionally high unrealised gains recognised in investment income, our net investment income improved appreciably on the level of the comparable period. It amounted to EUR 1,208.8 million (EUR 950.8 million) in the period under review, equivalent to an annualised average return (including effects from derivatives) of 4.3% for our portfolio of assets under own management.

With a view to accomplishing our business objectives we enter into a broad variety of risks which, on the one hand, open up opportunities for profit but, on the other hand, can also have adverse implications for our company. Our goal is to make optimal use of opportunities while at the same time adequately controlling and managing the risks associated with our commercial activities. Crucial importance therefore attaches to the qualitative and quantitative elements of our risk management. The parameters and decisions of the Executive Board with respect to the risk appetite of Hannover Re are fundamental to the acceptance of risks. The risk strategy derived from the corporate strategy constitutes the basis for our handling of opportunities and risks. We act on opportunities only by weighing up the associated risks. The risk strategy and the guidelines derived from it, such as the framework guideline on risk management and the central system of limits and thresholds, are subject to regular review. In this way, we ensure that our assumptions and hence also our risk management system are kept up-to-date. Operationalisation of our corporate strategy takes place on multiple levels and ultimately leads into local guidelines, including for example the local underwriting guidelines used by our treaty departments. The necessary equity resources are determined according to the requirements of our economic capital model, solvency regulations, the expectations of rating agencies with respect to our target rating and the expectations of our clients and shareholders. Above and beyond that, we maintain an equity buffer in order to be able to act on business opportunities at any time. In order to optimise our cost of capital we use equity substitutes such as hybrid capital and the transfer of risk to capital and retrocession markets. Through the risk-appropriate allocation of the cost of capital to individual business areas we strive to maximise the risk-adjusted profit.

Opportunities for the Hannover Re Group are to be anticipated inter alia as a consequence of the impending adoption of risk-based solvency systems, such as Solvency II in Europe. We have long practised a risk-based and value-based management approach of the type which regulators will then require and we began to make our preparations for the requirements of Solvency II at an early stage. We see Solvency II as an opportunity for the convergence of international regulatory and internal corporate approaches and, all in all, we believe that we are well-equipped to provide the markets with tailored products.

Another key element of the overall system is the Internal Control System (ICS). The ICS consists of systematically structured organisational and technical measures and controls within the enterprise. It serves inter alia to ensure compliance with guidelines and reduce risks so as to safeguard secure execution of corporate strategy. We always organise our business activities in such a way that they are in conformity with all legal requirements. In the area of accounting, processes with integrated controls ensure the completeness and accuracy of the consolidated financial statements. These processes for the organisation and implementation of consolidation tasks and for the preparation of the consolidated financial statements as well as the accompanying controls are documented and subject to regular review. All internal Group accounting principles are collated in an Accounting Manual that is available in IT-supported form to all relevant organisational units and all staff of the Hannover Re Group.

Material risks

Technical risks in non-life reinsurance

A significant technical risk is the reserving risk, i.e. the risk of under-reserving losses and the associated strain on the underwriting result. In order to counter this risk we calculate our loss reserves based on our own actuarial loss estimations; where necessary we also establish additional reserves supplementary to those posted by our cedants as well as an IBNR (incurred but not reported) reserve for losses that have already occurred but have not yet been reported to us. Liability claims have a major influence on the IBNR reserve. The IBNR reserve is calculated on a differentiated basis according to risk categories and regions. The statistical run-off triangles used by our company are another monitoring tool. They show the changes in the reserve over time as a consequence of paid claims and in the recalculation of the reserves to be established as at each balance sheet date. Their adequacy is monitored using actuarial methods. Our own actuarial calculations regarding the adequacy of the reserves are also subject to annual quality assurance reviews conducted by external actuaries and auditors. An inflation risk exists particularly inasmuch as the liabilities (e.g. loss reserves) could develop differently than assumed at the time when the reserve was constituted. Hannover Re has taken out inflation swaps (USD and EUR zero coupon swaps) to partially hedge inflation risks. Portions of the loss reserves are hedged against inflation risks by means of these derivative financial instruments.

Licensed scientific simulation models, supplemented by the expertise of our own specialist departments, are used to assess our material catastrophe risks from natural hazards (especially earthquake, windstorm and flood). Furthermore, we establish the risk to our portfolio from various scenarios in the form of probability distributions. The monitoring of the natural hazards exposure of the Hannover Re portfolio (accumulation control) is rounded out by realistic extreme loss scenarios. Within the scope of accumulation controlling, the Executive Board defines the risk appetite for natural perils once a year on the basis of the risk strategy by specifying the portion of the economic capital that is available to cover risks from natural perils. This is a key basis for our underwriting approach in this segment. For the purposes of risk limitation, maximum underwriting limits (capacities) are stipulated for various extreme loss scenarios and return periods in light of profitability criteria. Adherence to these limits is continuously verified by the Risk Management function. The Risk Committee, Executive Board and Non-Life Executive Committee are kept regularly updated on the degree of capacity utilisation. As part of our holistic approach to risk

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

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

Development of combined and catastrophe ratio											in %
	Q1-3 2012	2011	2010	2009	2008	2007	2006	2005 ¹	2004 ¹	2003 ^{1,2}	2002 ^{1,2}
Combined ratio (non-life reinsurance)	96.5	104.3	98.2	96.6	95.4	99.7	100.8	112.8	97.2	96.0	96.3
thereof major losses ³	3.8	16.5	12.3	4.6	10.7	6.3	2.3	26.3	8.3	1.5	5.2

1 Including financial reinsurance and specialty insurance

2 Based on figures reported in accordance with US GAAP

3 Hannover Re Group's net share for natural catastrophes and other major losses in excess of EUR 10 million gross as a percentage of net premium earned (until 31 December 2011: in excess of EUR 5 million gross)

Technical risks in life and health reinsurance

All risks directly connected with the life of an insured person are referred to as biometric risks (especially the miscalculation of mortality, life expectancy, morbidity and occupational disability); they constitute material risks for our company in the area of life and health reinsurance. Counterparty, lapse and catastrophe risks are also material since we additionally prefinance our cedants' new business acquisition costs. As in non-life reinsurance, the reserves are essentially calculated according to information provided by our clients and are also determined on the basis of secure biometric actuarial bases. Through our quality assurance measures we ensure that the reserves established by ceding companies in accordance with local accounting principles satisfy all requirements with respect to the calculation methods used and assumptions made (e.g.

use of mortality and morbidity tables, assumptions regarding the lapse rate). New business is written in all regions in compliance with underwriting guidelines applicable worldwide, which set out detailed rules governing the type, quality, level and origin of risks. These global guidelines are revised annually and approved by the Executive Board. Special underwriting guidelines give due consideration to the particular features of individual markets. By monitoring compliance with these underwriting guidelines we minimise the risk of an inability to pay or deterioration in the financial status of cedants. Regular reviews and holistic analyses (e.g. with an eye to lapse risks) are carried out with respect to new business activities and the assumption of international portfolios. The interest rate risk, which in the primary sector is important in life business owing to the guarantees that are given, is of only minimal relevance to our company thanks to the structure of

our contracts. The actuarial reports and documentation required by local regulators ensure that regular scrutiny also takes place on the level of the subsidiaries. The Market Consistent Embedded Value (MCEV) is a ratio used for the valuation of life insurance and reinsurance business; it is calculated as the present value of the future shareholders' earnings from the worldwide life and health reinsurance portfolio plus the allocated capital. The calculation makes allowance as far as possible for all risks included in this business. For further explanation please see the MCEV for the 2011 financial year, which is published on our Internet website at the same time as the report on the first quarter of 2012.

Market risks

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

With a view to preserving the value of our assets under own management, we constantly monitor adherence to a trigger mechanism based on a clearly defined traffic light system that is applied across all portfolios. This system puts the accumu-

lated fluctuations in fair value and realised gains/losses on investments since the beginning of the year in relation to a maximum loss amount, with an eye to clearly graduated trigger values. These are unambiguously defined in conformity with our risk appetite and trigger specified actions if a corresponding fair value development is overstepped. The short-term "Value at Risk" (VaR) is another vital tool used for monitoring and managing market price risks. The VaR is determined on the basis of historical data, e. g. the volatility of the securities positions under own management and the correlation between these risks. As part of these calculations the decline in the fair value of our portfolio is simulated with a certain probability and within a certain period. The VaR of the Hannover Re Group determined in accordance with these principles specifies the decrease in the fair value of our securities portfolio under own management that with a probability of 95% will not be exceeded within ten trading days. Stress tests are conducted in order to be able to map extreme scenarios as well as normal market scenarios for the purpose of calculating the Value at Risk. In this context, the loss potentials for fair values and shareholders' equity (before tax) are simulated on the basis of already occurred or notional extreme events. Further significant risk management tools – along with various stress tests used to estimate the loss potential under extreme market conditions – include sensitivity and duration analyses and our asset/liability management (ALM).

Scenarios for changes in the fair value of material investment positions			in EUR million	
	Scenario	Portfolio change on a fair value basis	Change in equity before tax	
Equity securities	Share prices -10%	-4.7	-4.7	
	Share prices -20%	-9.4	-9.4	
	Share prices +10%	+4.7	+4.7	
	Share prices +20%	+9.4	+9.4	
Fixed-income securities	Yield increase +50 basis points	-635.7	-479.3	
	Yield increase +100 basis points	-1,241.9	-935.5	
	Yield decrease -50 basis points	+659.0	+496.9	
	Yield decrease -100 basis points	+1,346.8	+1,016.1	

The internal capital model provides us with quantitative support for the investment strategy as well as a broad diversity of VaR calculations. In addition, tightly defined tactical duration ranges are in place, within which the portfolio can be positioned

opportunistically according to market expectations. The parameters for these ranges are directly linked to our calculated risk-bearing capacity.

Share price risks derive from the possibility of unfavourable changes in the value of equities, equity derivatives or equity index derivatives held in the portfolio. The scenarios for changes in equity prices consequently have only extremely slight implications for our portfolio. We spread the risks through systematic diversification.

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

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

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

Credit risks from investments may arise out of the risk of a failure to pay (interest and/or capital repayment) or a change in the credit status (rating downgrade) of issuers of securities. We attach equally vital importance to exceptionally broad diversification as we do to credit assessment conducted on the basis of the quality criteria set out in the investment guidelines. In order to limit the risk of counterparty default we define various limits on the issuer and issue level as well as in the form of dedicated rating quotas. A comprehensive system of risk reporting ensures timely reporting to the functions entrusted with risk management. The measurement and monitoring mechanisms that have been put in place safeguard a prudent, broadly diversified investment strategy. This is reflected inter alia in the fact that within our portfolio of assets under own management the exposures to government bonds or instruments backed by sovereign guarantees issued by the so-called GIIPS states (Greece, Ireland, Italy, Portugal, Spain) amount to altogether just EUR 98.0 million on a fair value basis. This corresponds to a proportion of 0.3%. No impairments had to be taken on these holdings. Our portfolio does not contain any bonds of Greek issuers. The breakdown into individual countries and specific exposures is shown in the following table.

Fair values						in EUR million
	Government bonds	Securities issued by semi-governmental entities	Corporate bonds		Covered bonds/asset-backed securities	Total
			Financial bonds	Industrial bonds		
Greece	–	–	–	–	–	–
Ireland	24.5	–	5.0	24.9	95.7	150.2
Italy	18.5	–	81.6	82.4	197.8	380.3
Portugal	19.6	–	–	2.2	7.7	29.4
Spain	31.3	4.2	59.2	107.6	222.5	424.8
Total	93.8	4.2	145.9	217.1	523.7	984.7

On a fair value basis EUR 3,495.1 million of the corporate bonds held by our company were issued by entities in the financial sector. Of this amount, EUR 2,859.7 million was attributable to banks. The vast majority of these bank bonds (68.5%) are rated “A” or better. Our investment portfolio under own management does not contain any directly written credit derivatives. We use derivative financial instruments only

to a very limited extent. The primary purpose of such financial instruments is to hedge against potentially adverse situations on capital markets. The contracts are concluded solely with first-class counterparties and exposures are controlled in accordance with the restrictive parameters set out in the investment guidelines so as to avoid credit risks associated with the use of such transactions.

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	26.5	1,622.7	61.2	4,320.8	1.5	146.8	61.1	3,023.6
AA	59.4	3,631.1	35.6	2,518.8	14.8	1,486.2	18.4	913.4
A	6.5	397.5	2.5	179.1	48.6	4,871.9	11.4	567.3
BBB	5.8	357.7	0.6	39.3	29.4	2,946.2	4.9	245.1
< BBB	1.8	109.4	0.1	8.5	5.7	572.8	4.2	210.5
Total	100.0	6,118.4	100.0	7,066.5	100.0	10,023.8	100.0	4,960.0

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

Credit risks

The credit risk consists primarily of the risk of 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 in reinsurance transactions. Our retrocession partners are carefully selected and monitored in light of credit considerations in order to keep the risk as small as possible. This is also true of our broker relationships, which entail a risk inter alia through the potential loss of the premium paid by the cedant to the broker or through possible double payments of claims. We minimise these risks, inter alia, by reviewing all broker relationships with an eye to criteria such as the existence of professional indemnity insurance, payment performance and proper contract implementation. The credit status of retrocessionaires is continuously monitored. On the basis of this ongoing monitoring a Security Committee decides on measures where necessary to secure receivables that appear to be at risk of default. Overall, retrocessions conserve our capital, stabilise

and optimise our results and enable us to act on opportunities across a broader front, e.g. following a catastrophe loss event. Regular visits to our retrocessionaires give us a reliable overview of the market and put us in a position to respond quickly to capacity changes. Through these close contacts with our retrocessionaires we are able to provide a stable renewals forecast. Alongside traditional retrocessions in non-life reinsurance we also transfer risks to the capital market. Yet credit risks are relevant to our investments and in life and health reinsurance, too, because we prefinance acquisition costs for our ceding companies. Our clients, retrocessionaires and broker relationships as well as our investments are therefore carefully evaluated and limited in light of credit considerations and are constantly monitored and controlled within the scope of our system of limits and thresholds. In terms of the Hannover Re Group’s major companies, EUR 279.6 million (7.9%) of our accounts receivable from reinsurance business totalling EUR 3,522.5 million were older than 90 days as at 30 September 2012. The average default rate over the past three years was 0.1%.

Operational risks

Operational risks refer to 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. Operational risks are monitored primarily by way of appropriate process management. These risk potentials are evaluated on the basis of expert assessments, the plausibility of which is verified by central risk management. These assessments enable us to prioritise operational risks. When it comes to the monitoring of such risks, we attach special emphasis to the following individual risks. Business process risks are associated with the risk of inadequate or deficient internal processes, e.g. as a consequence of poor data quality. Data quality is a critical success factor, especially in risk management, because all enterprise processes are based on the information made available. The overriding goal of our data quality management is to bring about sustainable improvement and to safeguard data quality within the Hannover Re Group, for example by way of regular data quality checks. In addition, as part of our process management, overarching and company-wide processes are continuously optimised and standardised. Compliance risks are associated with the risk of breaches of standards and requirements, non-compliance with which may entail lawsuits or official proceedings with not inconsiderable detrimental implications for the business activities of the Hannover Re Group (e.g. tax, anti-trust, embargo or regulatory law). Upon suspicion of breaches of the law pertaining to Hannover Re, our employees and business partners are able to report such suspicions anonymously using our electronic whistleblower system. These tips are brought to the attention of Hannover Re's Compliance Office, which is thus able to investigate the grounds for suspicion. As a reinsurance specialist, we transact primary insurance business that complements our reinsurance activities in selected market niches. In so doing, just as on the reinsurance side, we always work together with partners from the primary sector – such as insurance brokers and underwriting agencies. This gives rise to risks associated with such sales channels, although these are minimised through the careful selection of agencies, mandatory underwriting guidelines and regular checks. Fraud risks refer to the risk of intentional violations of laws or regulations by members of staff (internal fraud) and/or by externals (external fraud). This risk is reduced by the process-integrated internal control system as well as by the audits conducted by

Internal Auditing on a Group-wide and line-independent basis. The proper functioning and competitiveness of the Hannover Re Group can be attributed in large measure to the expertise and dedication of our staff. In order to minimise personnel risks, we pay special attention to the skills, experience and motivation of our employees and foster these qualities through outstanding personnel development and leadership activities. Regular employee surveys, the monitoring of turnover rates and the holding of exit interviews ensure that such risks are identified at an early stage and scope to take the necessary actions is created. Information technology risks and information security risks arise, inter alia, out of the risk of the inadequate integrity, confidentiality or availability of systems and information. Losses and damage caused by unauthorised access to IT systems or by computer viruses, for example, pose a serious threat to the Hannover Re Group. Given the broad spectrum of such risks, a diverse range of steering and monitoring measures and organisational standards have been put in place. When it comes to reducing business interruption risks, the paramount objective is the quickest possible return to normal operations after a crisis, for example through implementation of existing contingency plans. Guided by internationally accepted standards, we have defined the basic framework conditions for the Hannover Re Group. The system is complemented by regular exercises and tests. The partial or complete outsourcing of functions and/or services may give rise to associated risks. Regulatory and binding internal rules serve to minimise such risks. All risks associated with any instance of outsourcing must be identified, evaluated (e.g. by way of a performance assessment) and appropriately steered and controlled.

Other risks

Of material importance to our company in the category of other risks are primarily emerging risks, strategic risks, reputational risks and liquidity risks. The hallmark of emerging risks (such as climate change or nanotechnology) is that the content of such risks cannot as yet be reliably assessed – especially with respect to our treaty portfolio. Such risks evolve gradually from weak signals to unmistakable tendencies. It is therefore vital to detect these risks at an early stage and then determine their relevance. For the purpose of early detection we have developed an efficient process that spans divisions and lines of business and we have ensured its linkage

to risk management. Emerging risks may also have implications for our treaty portfolio – in the form not only of risks but also opportunities, e. g. through increased demand for reinsurance products. Strategic risks derive from a possible imbalance between the corporate strategy of the Hannover Re Group and the constantly changing general business environment. Such an imbalance might be caused, for example, by incorrect strategic policy decisions, a failure to consistently implement the defined strategies and business plans or an incorrect allocation of resources. We therefore regularly review our corporate strategy in a multi-step procedure and adjust our processes and the resulting guidelines as and when required. We have defined performance criteria and indicators for the operational implementation of the strategic guidelines; these are authoritative when it comes to determining fulfilment of the various targets. Reputational risks refer to the risk of a loss of trust in our company among clients, shareholders, employees or the public at large. This risk has the potential to jeopardise the business foundation of the Hannover Re Group. A good corporate reputation is therefore an indispensable prerequisite for our core business as a reinsurer. Loss of reputation may occur, for example, if a data mishap becomes public knowledge or as a consequence of fraud. We use a number of different practices to minimise this risk, including for example our set communication channels, a professional approach to corporate communications, tried and tested processes for defined crisis scenarios as well as our established Code of Conduct. The liquidity risk refers to the risk of being unable to meet our financial obligations when they become due. The liquidity risk consists of the refinancing risk, i.e. the necessary cash cannot be obtained or can only be raised at increased costs, and the market liquidity risk, meaning that financial market transactions can only be completed at a poorer price than expected due to a lack of market liquidity. Core elements of the liquidity management of our investments are, in the first place, management of the maturity structure of our investments on the basis of the planned payment profiles arising out of our technical liabilities and, secondly, regular liquidity planning as well as the asset structure of the investments. Above and beyond the foreseeable payments, unexpected and exceptionally large payments may pose a threat to liquidity. Yet in reinsurance business significant events (major losses) are normally paid out after a lead time that can be reliably planned. As part of our liquidity management we have nevertheless defined asset holdings that have proven to be highly liquid even in times of financial stress. In addition, we manage the liquidity of the portfolio through ongoing monitoring of the liquidity of the instruments contained therein; liquidity is verified on a monthly and ad hoc basis. These measures serve to effectively reduce the liquidity risk.

Assessment of the risk situation

The above remarks describe the diverse spectrum of risks to which Hannover Re, as an internationally operating reinsurance company, is exposed as well as the steps taken to manage and monitor them. These 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 conception of risk, since it is always the case that Hannover Re only enters into those risks that go hand-in-hand with opportunities. Our management and monitoring tools as well as our organisational and operational structures ensure that we are able to identify our risks in a timely manner and maximise our opportunities. The pivotal element in this regard is our effective and closely interlinked system of qualitative and quantitative risk management. We are of the opinion that our risk management system affords us a transparent overview of the current risk situation at all times and that our overall risk profile is appropriate. Based on our currently available insights arrived at from a holistic analysis of the risk situation, the Executive Board of Hannover Re cannot 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. For additional information on the opportunities and risks associated with our business please see the Group Annual Report 2011.

Outlook

In light of the available market opportunities in our two business groups of non-life and life/health reinsurance and our very good positioning, we should be able to achieve a very good result for the full 2012 financial year. We now anticipate stronger growth in premium income. Our expectation is that the total gross premium volume will grow by 8% to 9% at constant exchange rates; growth had previously been forecast in the range of 5% to 7%.

Market conditions in non-life reinsurance remain favourable. The risk adequacy of rates was broadly maintained throughout all the renewal rounds within the year. We anticipate sustained brisk demand for reinsurance protection driven by a growing concentration of values in urban conurbations as well as by the implementation of risk-based solvency systems. The positive factors that have already shaped previous treaty renewals, including the adjustments made to natural catastrophe models and the low interest rate level, will likely again have a favourable effect on treaty pricing as at 1 January 2013 and will prevent market softening. This tendency was apparent not only from discussions at the industry gatherings held in September in Monte Carlo and in October in Baden-Baden and the US, but also from the latest round of renewals in North America in October. Over the medium term, too, it is our expectation that prices in non-life reinsurance will remain stable or trend higher.

For total non-life reinsurance we are raising our growth forecast for gross premium in 2012 – after adjustment for exchange rate effects – from 5% to 7% to 8% to 9%.

In the current climate we expect the dynamic growth of global markets in life and health reinsurance to be sustained. We are therefore looking at organic growth in gross premium of between 8% and 9% – at constant exchange rates – in 2012, as against the previously anticipated rate of increase in the range of 5% to 7%. With the launch of two new business centers for “Longevity” and “Asia” our goal is to continue to optimally leverage the growth potential of these two areas. These moves are intended, firstly, to enable us to deploy our exceptional expertise in the longevity sector not only within but also beyond the United Kingdom, and, secondly, to better respond to the increased importance and continued strong new business potential of the Asian markets.

The expected positive cash flow that we generate from the technical account and the 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 in excess of 3.5% for 2012.

In view of the business results achieved to date, the advantageous situation on reinsurance markets and our very good positioning, it is our expectation as things currently stand that we can generate Group net income in excess of EUR 800 million for the full 2012 financial year. This is subject to the premise that major losses do not significantly exceed the expected level of EUR 560 million and also assumes that there are no drastic downturns on capital markets.

Consolidated balance sheet

Assets in EUR thousand	30.9.2012	31.12.2011
Fixed-income securities – held to maturity	3,790,421	4,156,089
Fixed-income securities – loans and receivables	3,410,303	3,524,735
Fixed-income securities – available for sale	20,806,605	17,328,911
Fixed-income securities – at fair value through profit or loss	161,411	161,130
Equity securities – available for sale	46,840	40,387
Other financial assets – at fair value through profit or loss	51,325	21,026
Real estate and real estate funds	583,368	525,097
Investments in associated companies	127,920	127,554
Other invested assets	945,396	931,421
Short-term investments	677,094	1,017,886
Cash	587,296	506,963
Total investments and cash under own management	31,187,979	28,341,199
Funds withheld	14,299,927	13,232,054
Contract deposits	133,317	109,719
Total investments	45,621,223	41,682,972
Reinsurance recoverables on unpaid claims	1,562,930	1,550,587
Reinsurance recoverables on benefit reserve	481,479	380,714
Prepaid reinsurance premium	194,547	91,823
Reinsurance recoverables on other technical reserves	238	7,810
Deferred acquisition costs	1,926,512	1,926,570
Accounts receivable	3,545,826	3,139,327
Goodwill	59,863	59,289
Deferred tax assets	647,777	682,888
Other assets	512,424	336,650
Accrued interest and rent	3,910	5,931
Assets held for sale	2,391	2,391
Total assets	54,559,120	49,866,952

Liabilities in EUR thousand	30.9.2012	31.12.2011
Loss and loss adjustment expense reserve	22,205,797	20,767,317
Benefit reserves	10,863,993	10,309,066
Unearned premium reserve	2,625,368	2,215,864
Other technical provisions	215,666	207,262
Funds withheld	763,205	644,587
Contract deposits	5,687,248	5,008,193
Reinsurance payable	977,462	733,348
Provisions for pensions	89,715	88,299
Taxes	213,864	185,015
Provision for deferred taxes	1,962,387	1,723,265
Other liabilities	504,353	443,671
Long-term debt and subordinated capital	1,877,716	1,934,410
Total liabilities	47,986,774	44,260,297
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	985,252	453,115
Cumulative foreign currency translation adjustment	51,547	11,559
Changes from hedging instruments	(9,455)	–
Other changes in cumulative other comprehensive income	(32,637)	(18,553)
Total other comprehensive income	994,707	446,121
Retained earnings	4,083,517	3,679,351
Equity attributable to shareholders of Hannover Re	5,923,383	4,970,631
Non-controlling interests	648,963	636,024
Total shareholders' equity	6,572,346	5,606,655
Total liabilities	54,559,120	49,866,952

Figures in EUR thousand	1.7.–30.9.2012	1.1.–30.9.2012	1.7.–30.9.2011 ¹	1.1.–30.9.2011 ¹
Gross written premium	3,407,522	10,295,966	3,019,883	9,064,711
Ceded written premium	360,552	1,064,313	292,308	846,328
Change in gross unearned premium	68,069	(385,037)	(10,079)	(397,315)
Change in ceded unearned premium	19,144	112,353	14,516	58,864
Net premium earned	3,134,183	8,958,969	2,732,012	7,879,932
Ordinary investment income	290,026	821,984	264,101	712,017
Profit/loss from investments in associated companies	1,866	5,315	1,711	5,106
Realised gains and losses on investments	82,552	150,546	69,409	113,359
Unrealised gains and losses on investments	58,085	61,030	(123,684)	(70,003)
Total depreciation, impairments and appreciation of investments	3,449	15,469	2,411	3,920
Other investment expenses	21,050	62,208	17,035	52,950
Net income from investments under own management	408,030	961,198	192,091	703,609
Income/expense on funds withheld and contract deposits	91,281	247,564	85,905	247,173
Net investment income	499,311	1,208,762	277,996	950,782
Other technical income	134	951	1,202	6,440
Total revenues	3,633,628	10,168,682	3,011,210	8,837,154
Claims and claims expenses	2,289,276	6,558,039	1,890,208	5,941,024
Change in benefit reserves	135,059	273,291	148,051	441,064
Commission and brokerage, change in deferred acquisition costs	676,189	1,942,220	594,967	1,686,394
Other acquisition costs	2,050	9,541	2,196	8,137
Other technical expenses	852	2,825	2,302	6,154
Administrative expenses	70,592	226,948	62,476	216,934
Total technical expenses	3,174,018	9,012,864	2,700,200	8,299,707
Other income and expenses	(40,037)	(139,065)	(69,071)	(46,634)
Operating profit/loss (EBIT)	419,573	1,016,753	241,939	490,813
Interest on hybrid capital	25,556	76,159	25,324	77,185
Net income before taxes	394,017	940,594	216,615	413,628
Taxes	90,174	215,097	41,971	(12,260)
Net income	303,843	725,497	174,644	425,888
thereof				
Non-controlling interest in profit and loss	38,355	54,735	11,434	44,220
Group net income	265,488	670,762	163,210	381,668
Earnings per share in EUR	2.20	5.56	1.35	3.16

¹ Adjusted on the basis of IAS 8

Consolidated statement of comprehensive income

as at 30 September 2012

Figures in EUR thousand	1.7.–30.9.2012	1.1.–30.9.2012	1.7.–30.9.2011	1.1.–30.9.2011
Net income	303,843	725,497	174,644	425,888
Unrealised gains and losses on investments				
Gains (losses) recognised directly in equity	415,223	859,923	206,228	274,967
Transferred to the consolidated statement of income	(68,990)	(87,973)	(59,591)	(92,193)
Tax income (expense)	(94,186)	(208,614)	(32,633)	(50,732)
	252,047	563,336	114,004	132,042
Currency translation				
Gains (losses) recognised directly in equity	(48,474)	44,978	104,642	(54,703)
Transferred to the consolidated statement of income	–	–	23,098	23,098
Tax income (expense)	4,760	(5,503)	(13,464)	733
	(43,714)	39,475	114,276	(30,872)
Changes from hedging instruments				
Gains (losses) recognised directly in equity	(12,656)	(13,890)	–	–
Tax income (expense)	4,041	4,435	–	–
	(8,615)	(9,455)	–	–
Other changes				
Gains (losses) recognised directly in equity	(4,305)	(20,173)	(20,190)	(24,648)
Tax income (expense)	1,293	6,089	6,094	7,311
	(3,012)	(14,084)	(14,096)	(17,337)
Total income and expense recognised directly in equity				
Gains (losses) recognised directly in equity	349,788	870,838	290,680	195,616
Transferred to the consolidated statement of income	(68,990)	(87,973)	(36,493)	(69,095)
Tax income (expense)	(84,092)	(203,593)	(40,003)	(42,688)
	196,706	579,272	214,184	83,833
Total recognised income and expense	500,549	1,304,769	388,828	509,721
thereof:				
Attributable to non-controlling interests	48,625	85,272	14,699	42,299
Attributable to shareholders of Hannover Re	451,924	1,219,497	374,129	467,422

Consolidated statement of changes in shareholders' equity

Figures in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)				Retained earnings	Non-con- trolling interests	Share- holders' equity
			Unre- alised gains/ losses	Currency trans- lation	Hedging instru- ments	Other			
Balance as at 1.1.2011	120,597	724,562	372,094	(52,954)	-	(6,450)	3,351,116	608,903	5,117,868
Changes in owner- ship interest with no change of control status	-	-	-	-	-	-	128	183	311
Changes in the consolidated Group	-	-	-	-	-	-	-	14	14
Capital increases/ additions	-	-	-	-	-	-	-	29	29
Capital repayments	-	-	-	-	-	-	-	(8)	(8)
Acquisition/disposal of treasury shares	-	-	-	-	-	-	(380)	-	(380)
Total income and expense recognised directly in equity	-	-	131,746	(28,655)	-	(17,337)	-	(1,921)	83,833
Net income	-	-	-	-	-	-	381,668	44,220	425,888
Dividends paid	-	-	-	-	-	-	(277,373)	(37,697)	(315,070)
Balance as at 30.9.2011	120,597	724,562	503,840	(81,609)	-	(23,787)	3,455,159	613,723	5,312,485
Balance as at 1.1.2012	120,597	724,562	453,115	11,559	-	(18,553)	3,679,351	636,024	5,606,655
Changes in owner- ship interest with no change of control status	-	-	(10)	(139)	-	-	(263)	431	19
Changes in the consolidated Group	-	-	-	-	-	-	(12,716)	1,026	(11,690)
Capital increases/ additions	-	-	-	-	-	-	-	1,210	1,210
Capital repayments	-	-	-	-	-	-	-	(6,373)	(6,373)
Acquisition/disposal of treasury shares	-	-	-	-	-	-	(363)	-	(363)
Total income and expense recognised directly in equity	-	-	532,147	40,127	(9,455)	(14,084)	-	30,537	579,272
Net income	-	-	-	-	-	-	670,762	54,735	725,497
Dividends paid	-	-	-	-	-	-	(253,254)	(68,627)	(321,881)
Balance as at 30.9.2012	120,597	724,562	985,252	51,547	(9,455)	(32,637)	4,083,517	648,963	6,572,346

Figures in EUR thousand	1.1.–30.9.2012	1.1.–30.9.2011
I. Cash flow from operating activities		
Net income	725,497	425,888
Appreciation/depreciation	42,654	14,042
Net realised gains and losses on investments	(150,546)	(113,359)
Amortisation of investments	58,091	39,412
Changes in funds withheld	(666,533)	(1,554,656)
Net changes in contract deposits	585,313	645,922
Changes in prepaid reinsurance premium (net)	272,869	338,533
Changes in tax assets/provisions for taxes	44,716	(137,340)
Changes in benefit reserve (net)	208,950	944,892
Changes in claims reserves (net)	1,190,300	1,456,189
Changes in deferred acquisition costs	27,391	(105,550)
Changes in other technical provisions	15,322	17,828
Changes in clearing balances	(139,931)	(77,619)
Changes in other assets and liabilities (net)	(70,119)	106,091
Cash flow from operating activities	2,143,974	2,000,273

Figures in EUR thousand	1.1.–30.9.2012	1.1.–30.9.2011
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	366,096	265,628
Fixed-income securities – loans and receivables		
Maturities, sales	275,276	478,863
Purchases	(151,309)	(1,639,580)
Fixed-income securities – available for sale		
Maturities, sales	6,490,177	6,234,632
Purchases	(8,998,113)	(7,788,083)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	39,985	41,533
Purchases	(29,604)	(300)
Equity securities – available for sale		
Sales	1,889	727,100
Purchases	(3,935)	(280,383)
Other financial assets – at fair value through profit or loss		
Sales	492	281
Purchases	–	(51)
Other invested assets		
Sales	143,923	43,223
Purchases	(124,059)	(93,589)
Affiliated companies and participating interests		
Sales	23	140,370
Purchases	(3,996)	(18,164)
Real estate and real estate funds		
Sales	217,424	6,063
Purchases	(220,904)	(109,501)
Short-term investments		
Changes	345,191	505,150
Other changes (net)	(32,439)	(9,251)
Cash flow from investing activities	(1,683,883)	(1,496,059)

Figures in EUR thousand	1.1.–30.9.2012	1.1.–30.9.2011
III. Cash flow from financing activities		
Contribution from capital measures	6,324	–
Payment on capital measures	(6,932)	(3,336)
Structural change without loss of control	19	312
Dividends paid	(321,881)	(315,070)
Proceeds from long-term debts	51,202	30,711
Repayment of long-term debts	(113,728)	(148,076)
Acquisition/disposal of treasury shares	(363)	(381)
Cash flow from financing activities	(385,359)	(435,840)
IV. Exchange rate differences on cash	5,601	(8,264)
Cash and cash equivalents at the beginning of the period	506,963	475,227¹
Change in cash and cash equivalents (I.+II.+III.+IV.)	80,333	60,110
Cash and cash equivalents at the end of the period	587,296	535,337
Income taxes	(122,793)	(107,144)
Interest paid	(130,611)	(125,393)

¹ Thereof cash and cash equivalents of EUR 27,474 thousand of Clarendon Insurance Group, Inc., Wilmington, which is presented as a disposal group

Consolidated segmental report

Segmentation of assets in EUR thousand	Non-life reinsurance	
	30.9.2012	31.12.2011
Assets		
Held to maturity	3,397,809	3,704,836
Loans and receivables	3,308,841	3,486,857
Available for sale	14,431,737	11,707,340
At fair value through profit or loss	121,471	118,327
Other invested assets	1,605,595	1,554,528
Short-term investments	474,430	638,128
Cash	427,532	385,531
Total investments and cash under own management	23,767,415	21,595,547
Funds withheld	900,325	836,170
Contract deposits	794	-
Total investments	24,668,534	22,431,717
Reinsurance recoverables on unpaid claims	1,317,146	1,352,406
Reinsurance recoverables on benefit reserve	-	-
Prepaid reinsurance premium	190,309	89,109
Reinsurance recoverables on other reserves	160	4,239
Deferred acquisition costs	504,657	458,651
Accounts receivable	2,167,049	1,977,106
Other assets in the segment	1,488,908	1,469,312
Assets held for sale	2,391	2,391
Total assets	30,339,154	27,784,931
Segmentation of technical and other liabilities in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	19,045,821	18,030,010
Benefit reserve	-	-
Unearned premium reserve	2,532,262	2,110,289
Provisions for contingent commissions	132,876	145,915
Funds withheld	384,611	313,851
Contract deposits	89,480	96,611
Reinsurance payable	659,411	446,301
Long-term liabilities	142,539	202,823
Other liabilities in the segment	1,789,631	1,544,215
Total	24,776,631	22,890,015

Life/health reinsurance		Consolidation		Total	
30.9.2012	31.12.2011	30.9.2012	31.12.2011	30.9.2012	31.12.2011
200,090	199,846	192,522	251,407	3,790,421	4,156,089
75,443	27,560	26,019	10,318	3,410,303	3,524,735
6,016,018	5,355,477	405,690	306,481	20,853,445	17,369,298
75,013	40,346	16,252	23,483	212,736	182,156
48,880	27,041	2,209	2,503	1,656,684	1,584,072
198,664	339,662	4,000	40,096	677,094	1,017,886
157,819	118,835	1,945	2,597	587,296	506,963
6,771,927	6,108,767	648,637	636,885	31,187,979	28,341,199
13,399,602	12,395,934	–	(50)	14,299,927	13,232,054
132,523	109,719	–	–	133,317	109,719
20,304,052	18,614,420	648,637	636,835	45,621,223	41,682,972
246,125	199,332	(341)	(1,151)	1,562,930	1,550,587
481,479	380,714	–	–	481,479	380,714
4,382	2,802	(144)	(88)	194,547	91,823
78	3,571	–	–	238	7,810
1,421,851	1,467,915	4	4	1,926,512	1,926,570
1,379,293	1,162,401	(516)	(180)	3,545,826	3,139,327
579,491	467,140	(844,425)	(851,694)	1,223,974	1,084,758
–	–	–	–	2,391	2,391
24,416,751	22,298,295	(196,785)	(216,274)	54,559,120	49,866,952
3,160,318	2,738,458	(342)	(1,151)	22,205,797	20,767,317
10,864,079	10,309,149	(86)	(83)	10,863,993	10,309,066
93,149	105,575	(43)	–	2,625,368	2,215,864
82,790	61,347	–	–	215,666	207,262
378,594	330,736	–	–	763,205	644,587
5,597,768	4,911,582	–	–	5,687,248	5,008,193
318,874	287,692	(823)	(645)	977,462	733,348
–	–	1,735,177	1,731,587	1,877,716	1,934,410
1,820,595	1,730,456	(839,907)	(834,421)	2,770,319	2,440,250
22,316,167	20,474,995	893,976	895,287	47,986,774	44,260,297

Consolidated segmental report

Segmental statement of income in EUR thousand	Non-life reinsurance	
	1.1.–30.9.2012	1.1.–30.9.2011
Gross written premium	5,897,028	5,220,497
thereof		
From insurance business with other segments	212	–
From insurance business with external third parties	5,896,816	5,220,497
Net premium earned	5,017,501	4,391,186
Net investment income	702,128	581,061
thereof		
Deposit interest and expenses	8,305	10,289
Claims and claims expenses	3,580,989	3,505,014
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	1,143,813	993,506
Administrative expenses	122,958	121,834
Other income and expenses	(105,452)	(18,949)
Operating profit/loss (EBIT)	766,417	332,944
Interest on hybrid capital	–	–
Net income before taxes	766,417	332,944
Taxes	189,795	(1,851)
Net income	576,622	334,795
thereof		
Non-controlling interest in profit or loss	51,622	39,792
Group net income	525,000	295,003

¹ Adjusted on the basis of IAS 8

Life/health reinsurance		Consolidation		Total	
1.1.–30.9.2012	1.1.–30.9.2011	1.1.–30.9.2012	1.1.–30.9.2011 ¹	1.1.–30.9.2012	1.1.–30.9.2011 ¹
4,399,287	3,843,631	(349)	583	10,295,966	9,064,711
137	(583)	(349)	583	–	–
4,399,150	3,844,214	–	–	10,295,966	9,064,711
3,941,470	3,486,922	(2)	1,824	8,958,969	7,879,932
487,159	350,076	19,475	19,645	1,208,762	950,782
239,259	236,884	–	–	247,564	247,173
2,977,576	2,436,676	(526)	(666)	6,558,039	5,941,024
273,294	439,314	(3)	1,750	273,291	441,064
817,910	705,127	(8,088)	(4,388)	1,953,635	1,694,245
105,965	96,294	(1,975)	(1,194)	226,948	216,934
(20,989)	(20,941)	(12,624)	(6,744)	(139,065)	(46,634)
232,895	138,646	17,441	19,223	1,016,753	490,813
–	–	76,159	77,185	76,159	77,185
232,895	138,646	(58,718)	(57,962)	940,594	413,628
41,500	21,106	(16,198)	(31,515)	215,097	(12,260)
191,395	117,540	(42,520)	(26,447)	725,497	425,888
3,113	4,428	–	–	54,735	44,220
188,282	113,112	(42,520)	(26,447)	670,762	381,668

1. General reporting principles

The parent company Hannover Rückversicherung AG (“Hannover Re”) and its subsidiaries (collectively referred to as the “Hannover Re Group”) are 50.22% owned by Talanx AG and included in its consolidated financial statement. Talanx AG is majority-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.

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

The present consolidated quarterly financial statement was prepared by the Executive Board on 1 November 2012 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 September 2012.

The consolidated quarterly financial report was compiled in accordance with IAS 34 “Interim Financial Reporting”. Consequently, the accounting policies adopted in the period under review were the same as those applied in the preceding consolidated annual financial statement; changes made in specific justified cases pursuant to IAS 8 are reported separately in the

section entitled “Changes in accounting policies”. For more details of the accounting policies please see the Group annual financial report for the previous year.

All standards adopted by the IASB as at 30 September 2012 with binding effect for the period under review have been observed in the consolidated financial statement.

New accounting standards or accounting standards applied for the first time

In October 2010 the IASB published “Disclosures – Transfers of Financial Assets (Amendments to IFRS 7)” to enhance the disclosures for transactions involving transfers of financial assets. The amendments increase the disclosure requirements in order to understand the relationship between transferred financial assets that are not derecognised or not derecognised in their entirety and the associated liabilities, such as the nature of the remaining risks and rewards of ownership.

In addition, for transfers of financial assets that result in full derecognition but where the entity has continuing involvement in the assets, information is to be disclosed that allows users to evaluate the nature of and risks associated with the entity’s continuing involvement in derecognised financial assets. This includes, inter alia, the maximum exposure to loss from continuing involvement as well as a maturity analysis of future cash flows. The amendments, which are applicable for the first time in the 2012 financial year, had no implications for Hannover Re in the period under review.

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

The amendments published in December 2010 “Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)” introduce a rebuttable presumption that the carrying amount of investment property will be recovered entirely through sale. This is intended to simplify the distinction as to whether the carrying amount of an asset is recovered through use or sale. Under the transitional provisions of the standard, the effective date of the amendments of IAS 12 is for annual periods beginning on or after 1 January 2012, although they have still to be endorsed by the EU. Consequently, Hannover Re is not yet applying the amendments. The new requirements are not expected to have any significant implications for the assets, financial position or net income of the Group.

In May 2011 the IASB published five new or revised standards governing consolidation, the accounting of investments in associated companies and joint ventures and the related disclosures in the notes.

In this connection IFRS 10 “Consolidated Financial Statements” and IFRS 11 “Joint Arrangements” replaced the previous standards governing consolidated financial statements and special purpose entities (IAS 27 “Consolidated and Separate Financial Statements” and SIC-12 “Consolidation – Special Purpose Entities”) as well as the standards governing the accounting of interests in joint ventures (IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities – Non-Monetary Contributions by Venturers”).

The major new feature of IFRS 10 is that it identifies control as the single basis for verifying the consolidation requirement, irrespective of whether control is substantiated in company law, contractually or economically.

In accordance with IFRS 11 a proportionate inclusion of interests in joint ventures will no longer be permissible in future. Rather, interests in joint ventures must be accounted for using the equity method.

In addition, the disclosure requirements previously contained in IAS 27 and IAS 31 have been combined and restructured in IFRS 12 “Disclosure of Interests in Other Entities”. With the aim of clarifying for the users of financial statements the nature of an entity’s interest in other entities as well as the effects of those interests on its financial position, financial performance and cash flows, significantly expanded disclosures of information are required in comparison with the previous requirements.

The revised version of IAS 27 will in future consist solely of requirements for the accounting of investments in subsidiaries, jointly controlled entities and associates in separate (non-consolidated) financial statements of the parent company. In this context, only minimal changes were made relative to the previous wording of the standard.

The revised version of IAS 28 “Investments in Associates and Joint Ventures” extends the content of standards governing the accounting of investments in associated companies to include rules governing the accounting of investments in joint ventures. In both instances application of the equity method is required.

In June 2012 the IASB issued “Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12”. These amendments clarify that the effective date of IFRS 10 is 1 January 2013, if the financial year coincides with the calendar year. The requirement to provide adjusted comparative information is limited upon initial application to only the immediately preceding period; retrospective adjustments for subsidiaries sold in the comparative period are not required. Furthermore, it is not necessary to provide comparative information on unconsolidated structured entities upon initial application of IFRS 12.

The requirements of IFRS 10, 11 and 12 as well as the revised IAS 27 and 28 are to be applied to financial years beginning on or after 1 January 2013. The Accounting Regulatory Committee (ARC) decided in June 2012 that application of the aforementioned standards within the EU shall not be mandatory until one year later, with an effective date of 1 January 2014. Neither the new IFRS 10, 11, 12 including the amendments of June 2012 nor the revised IAS 27 and 28 have been ratified as yet by the EU.

IFRS 13 “Fair Value Measurement”, a new standard also published in May 2011, is intended to establish uniform and consistent requirements for the measurement of fair value, which had hitherto been contained in various standards. In this context, the fair value is defined as the exit price, the calculation of which shall be based as far as possible on relevant observable inputs. In addition, extensive explanatory and qualitative disclosures are required; these are intended, in particular, to describe the quality of the calculation of fair value. IFRS 13 must be applied to financial years beginning on or after 1 January 2013 and has still to be ratified by the EU.

In June 2011 the IASB published amendments to IAS 1 “Presentation of Financial Statements” and IAS 19 “Employee Benefits”. IAS 1 requires entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently, i.e. those that might be reclassified and those that will not be reclassified. Subtotals are to be shown accordingly for the two groups. Tax associated with items presented before tax is to be shown separately for each of the groups of OCI items. In future the revised IAS 19 eliminates the use of the so-called “corridor approach” to defer remeasurement impacts in connection with defined benefit obligations. Actuarial gains and losses (“remeasurements”) therefore have to be recognised entirely in OCI and cannot be recycled through profit or loss in subsequent periods. In addition to extended disclosure requirements, the treatment of termination benefits is changed.

The amendments to IAS 1 are to be applied to financial years beginning on or after 1 July 2012. It is envisaged that the amended IAS 19 will be applicable for the first time to financial years beginning on or after 1 January 2013. The amendments to IAS 1 and IAS 19 were ratified by the EU during the period under review.

In November 2009 the IASB issued IFRS 9 “Financial Instruments” on the classification and measurement of financial instruments. IFRS 9 is the first step in a three-phase project intended to replace IAS 39 “Financial Instruments: Recognition and Measurement” with a new standard. IFRS 9 introduces new requirements for classifying and measuring financial assets.

The provisions of IFRS 9 were expanded in October 2010 with an eye to financial liabilities for which the fair value option is chosen. In November 2011 the IASB decided to make further limited modifications to IFRS 9 that are expected to be published at year-end 2012. The standard has not yet been ratified by the EU.

The following table provides an overview of all other standards and interpretations that have not yet entered into force or are not yet applicable. With respect to all the specified standards Hannover Re is currently reviewing the potential implications of their application in future reporting periods.

Standard/Interpretation	Applicable to financial years beginning on or after	Adoption by European Commission
Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013	Pending
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	1 January 2014	Pending
Annual Improvements to IFRSs – 2009-2011 Cycle	1 January 2013	Pending

Key exchange rates

The individual companies' statements of income prepared in the national currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statement. The conversion of foreign currency items in the

balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange on the balance sheet date.

Key exchange rates				1 EUR corresponds to:	
	30.9.2012	31.12.2011	1.1.–30.9.2012	1.1.–30.9.2011	
	Mean rate of exchange on the balance sheet date		Average rate of exchange		
AUD	1.2392	1.2723	1.2435	1.3525	
BHD	0.4872	0.4881	0.4860	0.5312	
CAD	1.2677	1.3198	1.2897	1.3813	
CNY	8.1214	8.1489	8.1496	9.1514	
GBP	0.7979	0.8362	0.8142	0.8752	
HKD	10.0201	10.0565	10.0024	10.9713	
KRW	1,439.1588	1,500.6009	1,464.1497	1,547.4153	
MYR	3.9499	4.1038	3.9874	4.2747	
SEK	8.4449	8.9063	8.7250	9.0061	
USD	1.2923	1.2946	1.2892	1.4091	
ZAR	10.6783	10.4800	10.3437	9.8247	

Changes in accounting policies

The hybrid capital shown under debt and subordinated capital is recognised according to the effective interest rate method at amortised cost. Components of income arising out of the amortisation of transaction costs and premiums/discounts occurring in the context of issuance were previously recognised in other income and expenses, while the nominal interest was recognised as interest on hybrid capital. In order

to better reflect the character of the effective interest rate method we recognise all expenses consistently as interest on hybrid capital. The amended recognition of the previous period pursuant to IAS 8 thus improved the other income and expenses by an amount of EUR 3.0 million to the detriment of the interest on hybrid capital.

Segmentation

Hannover Re's segmental report is based on IFRS 8 "Operating Segments" and on the principles set out in German Accounting Standard No. 3 "Segment Reporting" (DRS 3) of the German Accounting Standards Board as well as the requirements of DRS 3-20 "Segment Reporting of Insurance Enterprises".

We would also refer to the relevant information in the consolidated financial statement as at 31 December 2011.

3. Consolidated companies and consolidation principles

Acquisitions and new formations

Leine Investment General Partner S.à.r.l. and Leine Investment SICAV-SIF, both based in Luxembourg, were established in September 2012. The companies, all shares of which are held by Hannover Re companies, were consolidated for the first time with effect from the third quarter of 2012. Leine Investment General Partner S.à.r.l. is the managing partner of the asset management company Leine Investment SICAV-SIF, the business object of which is to build, hold and manage a portfolio of insurance-linked securities (catastrophe bonds) – including for third-party investors outside the Group. The company had not yet made any investment transactions as at the balance sheet date.

HR GLL Central Europe GmbH & Co. KG, which is based in Munich, was established in July 2012. The business object of the company is to purchase, manage, lease and sell commercial real estate or equivalent rights in Europe with a focus on Central European member states of the European Union. The company was included in the consolidated financial statement for the first time with effect from the third quarter of 2012. At the time of initial consolidation and as at the balance sheet

date Hannover Re held 90.9% of the shares in the company through its subsidiary Hannover Re Euro RE Holdings GmbH, Hannover.

With effect from the second quarter of 2012 Svedea AB, Stockholm, was consolidated for the first time. In March 2010 Funis GmbH & Co. KG, which is wholly owned by Hannover Re, participated with a capital contribution of 75.2% of the shares, corresponding to EUR 8.0 thousand, in Svedea AB. The company's business object consists principally of writing liability insurance for motor vehicles and yachts. For reasons of materiality Svedea was carried as a participating interest until the first quarter of 2012. In view of the expansion of the business volume, the company was consolidated for the first time with effect from 30 June 2012. At the time of initial consolidation Funis held a stake of 69.2%; the participation remained unchanged as at the balance sheet date. The asset-side difference arising out of initial consolidation in an amount of EUR 12.7 million was netted with the cumulative retained earnings outside income, as a result of which goodwill was not recognised.

Capital consolidation

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

The capital consolidation is based on the acquisition method. In the context of the acquisition method the acquisition costs of the parent company are netted with the proportionate shareholders' equity of the subsidiary at the time when it is first included in the consolidated financial statement after the revaluation of all assets and liabilities. After recognition of all acquired intangible assets that in accordance with IFRS 3 "Business Combinations" are to be accounted for separately from goodwill, the difference between the revalued shareholders' equity of the subsidiary and the purchase price is recognised as goodwill. Under IFRS 3 scheduled amortisation is

not taken on goodwill. Instead, impairment is taken where necessary on the basis of annual impairment tests. Immaterial and negative goodwill are recognised in the statement of income in the year of their occurrence. Costs associated with acquisition are expensed.

Companies over which Hannover Re is able to exercise a significant influence are normally consolidated "at equity" as associated companies with the proportion of the shareholders' equity attributable to the Group. A significant influence is presumed to exist if a company belonging to the Hannover Re Group directly or indirectly holds at least 20% – but no more than 50% – of the voting rights. Income from investments in associated companies is recognised separately in the consolidated statement of income.

Non-controlling interests in shareholders' equity are reported separately within Group shareholders' equity in accordance

with IAS 1 “Presentation of Financial Statements”. The non-controlling interest in profit or loss, which forms part of net income and is shown separately after net income as a “thereof” note, amounted to EUR 54.7 million (EUR 44.2 million) as at 30 September 2012.

For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2011.

Consolidation of business transactions within the Group

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

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

Consolidation of special purpose entities

Business relations with special purpose entities are to be examined in accordance with SIC-12 “Consolidation – Special Purpose Entities” with an eye to their implications for consolidation. In cases where IFRS do not currently contain any

specific standards, Hannover Re’s analysis – in application of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” – also falls back on the relevant standards of US GAAP.

Retrocessions and Insurance-Linked Securities (ILS)

As part of its extended Insurance-Linked Securities (ILS) activities, Hannover Re writes so-called collateralised fronting arrangements under which risks assumed from ceding companies are passed on to institutional investors outside the Group using special purpose entities. The purpose of such transactions is to directly transfer clients’ business. Due to the lack of a controlling influence over the special purpose entities involved, there is no consolidation requirement for Hannover Re with respect to these structures.

In the context of the sale of the operational companies of the subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton/Bermuda, a partial portfolio of CIGI was retroceded to a special purpose entity. The term of the retrocession arrangement runs until the underlying obligations have been finally settled. Since Hannover Re is not the major beneficiary of the special purpose entity and does not exercise either indirect or direct control over it, there is no requirement to consolidate this special purpose entity.

Securitisation of reinsurance risks

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

In September 2012 Hannover Re issued another catastrophe (“CAT”) bond for the purpose of transferring to the capital market peak natural catastrophe exposures deriving from European windstorm events. The term of the CAT bond, which has a volume of nominally EUR 100.0 million, runs until 31 March 2016; it was placed with institutional investors from Europe, North America and Asia by Eurus III Ltd. Eurus III Ltd. is a special purpose entity domiciled in Hamilton/Bermuda that was registered in August 2012 as a “special purpose insurer” under the Bermuda Insurance Act 1978. The retrocessions concluded

with the special purpose entity under the transaction afford Hannover Re, E+S Rück and Hannover Re (Bermuda) Ltd. protection against the aforementioned catastrophe risks. Since Hannover Re does not exercise a controlling influence over Eurus III Ltd., there is no consolidation requirement for the special purpose entity.

Effective 30 March 2011 a structured transaction was entered into in order to finance the statutory reserves (so-called Triple-X reserves) of a US cedant. The structure necessitated the involvement of a special purpose entity, namely the Delaware-based Maricopa LLC. The special purpose entity carries extreme mortality risks securitised by the cedant above

a contractually defined retention and transfers these risks by way of a fixed/floating swap with a ten-year term to a Group company of the Hannover Re Group. The maximum capacity of the transaction is equivalent to EUR 386.9 million; the volume taken up was unchanged as at the balance sheet date, albeit in an amount equivalent to EUR 193.5 million. The variable payments to the special purpose entity guaranteed by Hannover Re cover its payment obligations. By way of a compensation agreement Hannover Re is reimbursed by the cedant's parent company for all payments resulting from the swap in the event of a claim. Since Hannover Re does not bear the majority of the economic risks or benefits arising out of its business relations with the special purpose entity and does not exercise a controlling influence over it, there is no consolidation requirement for Hannover Re. Under IAS 39 this transaction is to be recognised at fair value as a financial guarantee. To this end Hannover Re uses the net method, according to which the present value of the agreed fixed swap premiums is netted with the present value of the guarantee commitment. The fair value on initial recognition therefore amounted to zero. The higher of the fair value and the amount carried as a provision on the liabilities side pursuant to IAS 37 is recognised at the point in time when utilisation is considered probable. This was not the case as at the balance sheet date. In this case the reimbursement claims from the compensation agreement are to be capitalised separately from and up to the amount of the provision.

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

By way of its "K" transactions Hannover Re has raised further underwriting capacity for catastrophe risks on the capital market. The "K Cession", which was placed with investors in North America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. The volume of this securitisation, which has been increased on multiple occasions, was equivalent to EUR 273.3 million (EUR 258.8 million) as at the balance sheet date. The transaction has an indefinite term and can be cancelled annually by the investors.

Hannover Re uses the Bermuda-based special purpose entity Kaith Re Ltd. for parts of the "K Cession" as well as 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.

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. and Hannover Insurance-Linked Securities GmbH & Co. KG – in a number of special purpose entities for the securitisation of catastrophe risks by investing in "disaster bonds" (or "CAT bonds"). Since Hannover Re does not exercise a controlling influence in any of these transactions either there is no requirement to consolidate the special purpose entities concerned. In this connection we would also refer to our remarks in this section on the companies Leine Investment General Partner S.à.r.l. and Leine Investment SICAV-SIF under "Acquisitions and new formations".

Further corporate changes

In the third quarter of 2012 Hannover Reinsurance (Ireland) Public Limited Company (formerly Hannover Reinsurance (Ireland) Limited, a wholly owned subsidiary of Hannover Rück Beteiligung Verwaltungs GmbH, HRBV), was merged into Hannover Life Reassurance (Ireland) Public Limited Company (formerly Hannover Life Reassurance (Ireland) Limited, a wholly owned subsidiary of Hannover Life Re AG). In order to implement the merger HRBV transferred Hannover Reinsurance (Ireland) to Hannover Life Reassurance (Ireland) via several intermediate steps by way of a capital increase against

contribution in kind. On 19 July 2012 the Commercial Division of the Irish High Court gave final approval to the merger of the companies. The measure was executed in law effective 3 September 2012. The new trading name of the absorbing entity is Hannover Re (Ireland) Plc. Since this internal restructuring within the Group involves a transaction between companies under common control, the transaction does not give rise to goodwill nor does it have any implications for Group net income.

4. Notes on the individual items of the balance sheet

4.1 Investments under own management

Investments are classified and measured in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”. Hannover Re classifies investments according to the following categories: held-to-maturity, loans and receivables, financial assets at fair value through profit or loss and available-for-sale. The allocation and measurement of investments are determined by the investment intent.

The investments under own management also encompass investments in associated companies, real estate and real estate funds (also includes: investment property), other invested assets, short-term investments and cash.

For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2011.

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

Investments¹ in EUR thousand	30.9.2012	31.12.2011
Regional origin		
Germany	6,316,052	6,144,974
United Kingdom	2,850,811	2,356,400
France	2,075,574	1,828,923
Other	5,894,537	5,486,964
Europe	17,136,974	15,817,261
USA	8,114,726	6,744,589
Other	1,177,813	1,472,776
North America	9,292,539	8,217,365
Asia	1,311,579	1,235,331
Australia	2,259,976	2,020,017
Australasia	3,571,555	3,255,348
Africa	430,555	413,093
Other	756,356	638,132
Total	31,187,979	28,341,199

1 After elimination of internal transactions within the Group across segments

Maturities of the fixed-income and variable-yield securities				in EUR thousand	
	30.9.2012		31.12.2011		
	Amortised cost ¹	Fair value	Amortised cost ¹	Fair value	
Held to maturity					
due in one year	904,352	915,921	486,965	491,332	
due after one through two years	598,409	615,074	926,846	942,245	
due after two through three years	1,023,643	1,098,243	613,913	643,263	
due after three through four years	730,622	792,388	1,097,347	1,161,746	
due after four through five years	192,608	206,729	562,175	597,596	
due after five through ten years	333,036	362,471	461,311	462,789	
due after ten years	7,751	8,586	7,532	8,091	
Total	3,790,421	3,999,412	4,156,089	4,307,062	
Loans and receivables					
due in one year	158,908	165,479	106,731	107,501	
due after one through two years	308,340	319,345	205,235	209,847	
due after two through three years	383,887	403,653	505,043	523,717	
due after three through four years	393,062	428,689	306,484	318,696	
due after four through five years	361,890	393,065	321,807	348,653	
due after five through ten years	950,234	1,053,359	1,174,558	1,250,207	
due after ten years	853,982	989,569	904,877	983,320	
Total	3,410,303	3,753,159	3,524,735	3,741,941	
Available for sale					
due in one year ²	2,703,853	2,718,491	3,063,034	3,070,822	
due after one through two years	2,541,698	2,577,868	1,781,899	1,802,286	
due after two through three years	2,532,276	2,622,263	2,197,915	2,228,729	
due after three through four years	2,110,773	2,209,570	2,308,598	2,331,561	
due after four through five years	2,462,446	2,563,852	1,807,404	1,844,680	
due after five through ten years	6,143,906	6,599,430	5,204,281	5,299,165	
due after ten years	2,442,563	2,779,521	2,074,463	2,276,517	
Total	20,937,515	22,070,995	18,437,594	18,853,760	
Financial assets at fair value through profit or loss					
due in one year	72,609	72,609	35,186	35,186	
due after one through two years	13,750	13,750	66,826	66,826	
due after two through three years	13,921	13,921	5,399	5,399	
due after three through four years	16,080	16,080	7,510	7,510	
due after four through five years	2,508	2,508	2,595	2,595	
due after five through ten years	7,423	7,423	5,625	5,625	
due after ten years	35,120	35,120	37,989	37,989	
Total	161,411	161,411	161,130	161,130	

1 Including accrued interest

2 Including short-term investments and cash

The stated maturities may in individual cases diverge from the contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

Variable-rate bonds (so-called “floaters”) are shown under the maturities due in one year and constitute our interest-related, within-the-year reinvestment risk.

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as held to maturity as well as its fair value						in EUR thousand
	30.9.2012					
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value	
Investments held to maturity						
Fixed-income securities						
Government debt securities of EU member states	397,012	29,559	–	7,163	433,734	
US treasury notes	915,213	32,526	–	9,848	957,587	
Other foreign government debt securities	58,279	798	32	667	59,712	
Debt securities issued by semi-governmental entities	661,883	43,930	–	8,811	714,624	
Corporate securities	449,772	20,553	1,264	7,448	476,509	
Covered bonds/asset-backed securities	1,249,361	85,418	2,497	24,964	1,357,246	
Total	3,731,520	212,784	3,793	58,901	3,999,412	

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as held to maturity as well as its fair value						in EUR thousand
	31.12.2011					
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value	
Investments held to maturity						
Fixed-income securities						
Government debt securities of EU member states	356,246	24,036	370	7,509	387,421	
US treasury notes	920,424	43,554	–	6,769	970,747	
Other foreign government debt securities	56,748	924	–	158	57,830	
Debt securities issued by semi-governmental entities	820,844	38,595	3,201	13,996	870,234	
Corporate securities	545,719	15,265	3,890	11,469	568,563	
Covered bonds/asset-backed securities	1,388,592	45,401	9,341	27,615	1,452,267	
Total	4,088,573	167,775	16,802	67,516	4,307,062	

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value					
in EUR thousand					
	30.9.2012				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	10,297	604	–	104	11,005
Debt securities issued by semi-governmental entities	1,977,602	223,215	86	29,906	2,230,637
Corporate securities	338,199	21,536	56	8,582	368,261
Covered bonds/asset-backed securities	1,028,620	97,643	–	16,993	1,143,256
Total	3,354,718	342,998	142	55,585	3,753,159

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value					
in EUR thousand					
	31.12.2011				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	10,375	424	–	203	11,002
Debt securities issued by semi-governmental entities	2,039,867	144,690	–	28,451	2,213,008
Corporate securities	275,329	14,545	500	4,161	293,535
Covered bonds/asset-backed securities	1,149,976	61,088	3,041	16,373	1,224,396
Total	3,475,547	220,747	3,541	49,188	3,741,941

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					
in EUR thousand					
	30.9.2012				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,624,768	78,191	5,150	17,527	1,715,336
US treasury notes	1,505,704	51,688	1,624	4,762	1,560,530
Other foreign government debt securities	1,272,429	32,553	549	21,476	1,325,909
Debt securities issued by semi-governmental entities	4,086,960	252,304	3,258	52,271	4,388,277
Corporate securities	8,381,485	560,356	18,587	129,020	9,052,274
Covered bonds/asset-backed securities	2,356,138	174,589	15,600	31,824	2,546,951
Investment funds	188,761	29,004	437	–	217,328
	19,416,245	1,178,685	45,205	256,880	20,806,605
Equity securities					
Shares	14,564	4,041	1	–	18,604
Investment funds	24,898	3,351	13	–	28,236
	39,462	7,392	14	–	46,840
Short-term investments	674,597	–	–	2,497	677,094
Total	20,130,304	1,186,077	45,219	259,377	21,530,539

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						in EUR thousand
	31.12.2011					
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value	
Available for sale						
Fixed-income securities						
Government debt securities of EU member states	1,514,373	67,635	12,909	19,062	1,588,161	
US treasury notes	1,181,810	54,293	159	6,457	1,242,401	
Other foreign government debt securities	1,206,891	31,295	900	9,519	1,246,805	
Debt securities issued by semi-governmental entities	3,302,451	161,466	10,992	46,694	3,499,619	
Corporate securities	7,402,064	234,916	149,209	124,754	7,612,525	
Covered bonds/asset-backed securities	1,921,998	71,997	46,179	32,294	1,980,110	
Investment funds	144,400	17,411	2,521	–	159,290	
	16,673,987	639,013	222,869	238,780	17,328,911	
Equity securities						
Shares	12,231	2,980	1	–	15,210	
Investment funds	26,688	798	2,309	–	25,177	
	38,919	3,778	2,310	–	40,387	
Short-term investments	1,009,578	25	3	8,286	1,017,886	
Total	17,722,484	642,816	225,182	247,066	18,387,184	

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							in EUR thousand
	30.9.2012	31.12.2011	30.9.2012	31.12.2011	30.9.2012	31.12.2011	
	Fair value before accrued interest		Accrued interest		Fair value		
Financial assets at fair value through profit or loss							
Fixed-income securities							
Debt securities of semi-governmental entities	–	9,998	–	115	–	10,113	
Corporate securities	60,303	81,974	13,042	1,194	73,345	83,168	
Covered bonds/asset-backed securities	88,066	67,849	–	–	88,066	67,849	
	148,369	159,821	13,042	1,309	161,411	161,130	
Other financial assets							
Derivatives	51,325	21,026	–	–	51,325	21,026	
	51,325	21,026	–	–	51,325	21,026	
Total	199,694	180,847	13,042	1,309	212,736	182,156	

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

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

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

Non-controlling interests in the shareholders' equity of the subsidiaries amounted to EUR 649.0 million (EUR 636.0 million) as at the balance sheet date. They were principally attributable to non-controlling interests in the shareholders' equity of E+S Rück in an amount of EUR 626.3 million (EUR 611.6 million).

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

In addition, conditional capital of up to EUR 60,299 thousand is available. It can be used to grant shares to holders of convertible bonds and bonds with warrants as well as to holders of participating bonds with conversion rights and warrants and has a time limit of 2 May 2016.

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

IAS 1 requires separate disclosure of treasury shares in shareholders' equity. As part of this year's employee share option plan Hannover Re acquired altogether 23,160 treasury shares during the second quarter of 2012 and delivered them to eligible employees at preferential conditions. These shares are blocked until 31 May 2016. This transaction reduced retained earnings by an amount of EUR 0.4 million. The company was not in possession of treasury shares at any time during the third quarter of 2012.

The change in the other reserves arising out of currency translation, which is recognised in equity, was attributable in an amount of EUR 12.9 million to the translation of long-term debt or loans with no maturity date extended to Group companies and branches abroad.

The Annual General Meeting of Hannover Re resolved on 3 May 2012 that a dividend of EUR 2.10 per share should be paid for the 2011 financial year. This corresponds to a total distribution of EUR 253.3 million (EUR 277.4 million).

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

5.1 Gross written premium

Gross written premium ¹ in EUR thousand	1.1.–30.9.2012	1.1.–30.9.2011
Regional origin		
Germany	920,023	951,101
United Kingdom	1,937,106	1,800,617
France	439,767	417,162
Other	1,424,967	1,229,433
Europe	4,721,863	4,398,313
USA	2,375,213	1,992,332
Other	487,866	326,561
North America	2,863,079	2,318,893
Asia	1,116,902	940,125
Australia	602,630	458,796
Australasia	1,719,532	1,398,921
Africa	387,554	352,888
Other	603,938	595,696
Total	10,295,966	9,064,711

1 After elimination of internal transactions within the Group across segments

5.2 Investment income

Investment income in EUR thousand	1.1.–30.9.2012	1.1.–30.9.2011
Income from real estate	35,549	27,406
Dividends	1,779	4,611
Interest income	775,718	671,744
Other investment income	8,938	8,256
Ordinary investment income	821,984	712,017
Profit or loss on shares in associated companies	5,315	5,106
Appreciation	858	16,945
Realised gains on investments	183,959	194,375
Realised losses on investments	33,413	81,016
Unrealised gains and losses on investments	61,030	(70,003)
Impairments on real estate	7,981	7,330
Impairments on equity securities	2,205	876
Impairments on fixed-income securities	338	4,656
Impairments on participating interests and other financial assets	5,803	8,003
Other investment expenses	62,208	52,950
Net income from assets under own management	961,198	703,609
Interest income on funds withheld and contract deposits	326,192	341,372
Interest expense on funds withheld and contract deposits	78,628	94,199
Total investment income	1,208,762	950,782

Of the impairments totalling EUR 8.5 million (EUR 14.4 million), an amount of EUR 5.4 million (EUR 8.0 million) was attributable to the area of alternative investments – specifically, exclusively to private equity. Impairments of EUR 2.2 million (EUR 0.9 million) were recognised on equities or equity funds 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. Other impairments of EUR 0.9 million (EUR 5.5 million) were recognised. These write-downs contrasted with write-ups of EUR 0.9 million (EUR 16.9 million) on investments written down in previous periods. 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	1.1.–30.9.2012	1.1.–30.9.2011
Fixed-income securities – held to maturity	110,320	86,490
Fixed-income securities – loans and receivables	90,779	70,590
Fixed-income securities – available for sale	548,134	487,103
Financial assets – at fair value through profit or loss	2,678	4,203
Other	23,807	23,358
Total	775,718	671,744

6. Other notes

6.1 Derivative financial instruments

The change in equity from hedging instruments that is not recognised in profit or loss pursuant to IAS 39 in an amount of -EUR 9.5 million derives solely from the forward exchange contracts held within the year in order to hedge currency risks associated with long-term investments in foreign operations. Ineffective components of the hedge were recognised in profit and loss under other expenses in an amount of EUR 6.1 million.

Hannover Re's portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange contracts predominantly taken out to hedge cash flows from reinsurance contracts. The resulting liabilities of EUR 19.7 million (31 December 2011: EUR 20.7 million) were recognised under other liabilities.

Hannover Re holds derivative financial instruments to hedge interest rate risks from loans connected with the financing of real estate; these gave rise to recognition of other liabilities in an amount of EUR 4.1 million (31 December 2011: EUR 3.2 million).

Hannover Re holds derivative financial instruments to hedge inflation risks associated with the loss reserves. These transactions resulted in the recognition of other financial assets at fair value through profit or loss in an amount of EUR 7.7 million (31 December 2011: EUR 12.2 million) as well as other liabilities in an amount of EUR 16.7 million (31 December 2011: EUR 32.5 million).

The net changes in the fair value of instruments not recognised as hedges resulted in an improvement of EUR 8.7 million in the result of the period under review (30 September 2011: improvement in the result of EUR 3.1 million).

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

On this basis Hannover Re reported as financial assets at fair value through profit or loss technical derivatives in an amount of EUR 43.6 million as at 30 September 2012 (31 December 2011: EUR 8.8 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 95.9 million (31 December 2011: EUR 13.0 million) were recognised under other liabilities as at the balance sheet date.

Of this amount, EUR 91.2 million is attributable to a number of transactions in the life and health reinsurance business group that are to be classified as derivative financial instruments. Under these transactions Hannover Re companies offer their contracting parties coverage for risks from possible future payment obligations arising out of hedging instruments. The payment obligations result from contractually defined events and relate to the development of an underlying group of primary insurance contracts with statutory reserving requirements. The contracts are to be classified and recognised as stand-alone credit derivatives pursuant to IAS 39. These derivative financial instruments were carried in equity on initial recognition because receivables were to be recognised in the same amount. The change in value in subsequent periods is dependent upon the risk experience.

Of the derivatives carried on the assets side, fair values of EUR 34.5 million (31 December 2011: none) were attributable as at the balance sheet date to derivatives embedded in "modified coinsurance" and "coinsurance funds withheld" (ModCo) reinsurance treaties; derivatives amounting to <EUR 0.1 million were carried on the liabilities side in this connection (31 December 2011: EUR 12.9 million).

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.

The ModCo derivatives gave rise to an improvement in investment income of EUR 45.8 million before tax as at 30 September 2012 (30 September 2011: charge to investment income of EUR 69.9 million).

6.2 Related party disclosures

IAS 24 “Related Party Disclosures” defines related parties as group entities of a common parent, associated entities, legal entities under the influence of key management personnel and the key management personnel of the entity itself. Transactions between Hannover Re and its subsidiaries, which are to be regarded as related parties, were eliminated through consolidation and are therefore not discussed in the notes to the consolidated financial statement. In the period under review the following significant business relations existed with related parties.

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 Talanx 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. Talanx 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. 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.

Talanx Reinsurance Brokers AG grants Hannover Re and E+S Rück a preferential position as reinsurers of cedants within the Talanx Group. In addition, Hannover Re and E+S Rück are able to participate in the protection covers on the retention of Group cedants and share in the protection afforded by them.

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

Business assumed and ceded in Germany and abroad					in EUR thousand
	30.9.2012		30.9.2011		
	Premium	Underwriting result	Premium	Underwriting result	
Business assumed					
Non-life reinsurance	332,398	24,124	307,600	49,379	
Life and health reinsurance	156,945	11,673	187,340	17,162	
	489,343	35,797	494,940	66,541	
Business ceded					
Non-life reinsurance	(14,687)	9,037	(11,336)	13,788	
Life and health reinsurance	(37,223)	(7,245)	(34,620)	(7,524)	
	(51,910)	1,792	(45,956)	6,264	
Total	437,433	37,589	448,984	72,805	

Under a contract dated 30 April 2012 Funis GmbH & Co. KG acquired 30% of the shares in Aspecta Assurance International Aktiengesellschaft, Vaduz/Liechtenstein, from Talanx

International AG, Hannover. As at the balance sheet date the transaction was still subject to the approval of financial regulators and is expected to close in the fourth quarter of 2012.

6.3 Staff

The average number of staff employed at the companies included in the consolidated financial statement of the Hannover Re Group was 2,251 during the period under review (2011 financial year: 2,210).

As at the balance sheet date altogether 2,293 (2,217) staff were employed by the Hannover Re Group, with 1,153 (1,110) employed in Germany and 1,140 (1,107) working for the consolidated Group companies abroad.

6.4 Earnings per share

Calculation of the earnings per share	1.1.–30.9.2012	1.1.–30.9.2011
Group net income in EUR thousand	670,762	381,668
Weighted average of issued shares	120,596,791	120,596,954
Basic earnings per share in EUR	5.56	3.16
Diluted earnings per share in EUR	5.56	3.16

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 option plan Hannover Re acquired treasury shares in the course of the second quarter of 2012 and sold them to eligible employees. The weighted average number of shares does not include 23,160 treasury shares pro rata temporis for the period from 4 to 8 May 2012. For further details please see our comments in Section 4.2 "Shareholders' equity, non-controlling interests and treasury shares".

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

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

6.5 Contingent liabilities and commitments

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

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

As security for technical liabilities to our US clients, we have established two trust accounts (master trust and supplemental trust) in the United States. They amounted to EUR 2,900.5 million (31 December 2011: EUR 2,756.1 million) and EUR 12.2 million (EUR 12.1 million) respectively as at the balance sheet date. In addition, we extended further collateral to our cedants in an amount of EUR 561.2 million (31 December 2011: EUR 367.4 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 2,258.8 million as at the balance sheet date (31 December 2011: EUR 2,017.4 million).

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 3,331.5 million (31 December 2011: EUR 3,097.8 million).

In addition, we keep own investments with a book value of EUR 68.4 million (31 December 2011: EUR 37.4 million) in blocked custody accounts as collateral provided under existing derivative transactions. We received collateral with a fair value of EUR 4.0 million (31 December 2011: EUR 5.2 million) for existing derivative transactions.

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 256.7 million as at the balance sheet date (31 December 2011: EUR 309.3 million).

Outstanding capital commitments with respect to alternative investments exist on the part of the Group in the amount of EUR 504.6 million (31 December 2011: EUR 451.9 million). These primarily involve as yet unfulfilled payment obligations from participations entered into in private equity funds and venture capital firms.

The application of fiscal regulations may not have been resolved at the time when tax items are brought to account. The calculation of tax refund claims and tax liabilities is based on what we consider to be the regulations most likely to be applied in each case. The fiscal authorities may, however, take a differing view, as a consequence of which additional tax liabilities could arise in the future.

Hannover Re enters into contingent liabilities as part of its normal business operations. A number of reinsurance treaties concluded by Group companies with outside third parties include letters of comfort, guarantees or novation agreements under which the parent company guarantees the liabilities of the subsidiary in question or enters into the rights and obligations of the subsidiary under the treaties if particular constellations materialise.

6.6 Events after the end of the quarter

Hannover Re anticipates an appreciable major loss as a consequence of Hurricane Sandy in October 2012.

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