

somewhat
different

Interim Report 2/2011

hannover **re**[®]

Key figures

Figures in EUR million	2011					2010		
	1.1.– 31.3.	1.4.– 30.6.	+/- previous year	1.1.– 30.6.	+/- previous year	1.4.– 30.6.	1.1.– 30.6.	31.12.
Results								
Gross written premium	3,143.1	2,901.7	+2.5%	6,044.8	+6.4%	2,832.2	5,682.3	
Net premium earned	2,490.7	2,657.2	+5.0%	5,147.9	+6.8%	2,530.1	4,819.7	
Net underwriting result	(382.7)	(63.7)	-10.3%	(446.3)		(71.0)	(120.1)	
Net investment income	392.0	280.8	+3.3%	672.8	+22.0%	271.9	551.4	
Operating profit (EBIT)	46.1	200.6	-20.3%	246.8	-49.7%	251.9	490.7	
Group net income (loss)	52.3	166.2	+4.1%	218.5	-29.7%	159.6	310.6	
Balance sheet (as at the end of the period)								
Policyholders' surplus	6,670.6			6,656.7	-4.7%			6,987.0
Equity attributable to shareholders of Hannover Re	4,348.0			4,324.6	-4.1%			4,509.0
Non-controlling interests	590.4			599.1	-1.6%			608.9
Hybrid capital	1,732.2			1,733.1	-7.3%			1,869.1
Investments (excl. funds withheld by ceding companies)	24,823.5			25,330.6	-0.3%			25,411.1
Total assets	46,221.8			46,958.3	+0.5%			46,725.3
Share								
Earnings per share (basic and diluted) in EUR	0.43	1.38	+4.1%	1.81	-29.7%	1.32	2.58	
Book value per share in EUR	36.05			35.86	-4.1%	35.15	37.39	
Share price at the end of the period in EUR	38.53			35.97	-10.4%	35.30	40.14	
Market capitalisation at the end of the period	4,646.0			4,337.9	-10.4%	4,257.1	4,840.8	
Ratios								
Combined ratio (non-life reinsurance) ¹	123.8%	97.7%		110.3%		99.5%	99.5%	
Major losses as percentage of net premium earned (non-life reinsurance) ²	41.6%	3.6%		21.9%		10.4%	15.4%	
Retention	89.3%	92.5%		90.8%		89.8%	90.3%	
Return on investment (excl. funds withheld by ceding companies)	5.0%	3.1%		4.0%		3.2%	3.3%	
EBIT margin ³	1.9%	7.6%		4.8%		10.0%	10.2%	
Return on equity	4.7%	15.3%		9.9%		15.3%	15.6%	

1 Incl. funds withheld

2 Natural catastrophes and other major losses in excess of EUR 5 million gross for the Hannover Re Group's share as a percentage of net premium earned

3 Operating result (EBIT)/net premium earned



Ulrich Wallin
Chairman of the Executive Board

Dear shareholders, ladies and gentlemen,

The result for the first half of the 2011 financial year continues to be overshadowed by the considerable catastrophe loss expenditure of the first quarter. Unlike in the first quarter, however, major claims in the second quarter remained below the corresponding loss expectancy. Despite some adverse technical effects associated with our life and health reinsurance business, we were therefore able to achieve a performance for the second quarter that was in line with our expectations. The resulting net income for the first half-year of EUR 218 million should – assuming the second half of the year passes off normally – enable us to rather comfortably attain our targeted Group net income for the full financial year of around EUR 500 million. With a view to further safeguarding our profit expectation we purchased additional retrocession cover of USD 100 million in the second quarter as the Atlantic hurricane season got underway; this is intended to protect our account against US catastrophe risks.

Gross premium growth – excluding currency effects – on the Group level continued to be in excess of 8 percent after the first six months of 2011, with non-life reinsurance a disproportionately significant factor here. Owing to movements in the relevant exchange rates, growth in euro – unlike after the first quarter – is now lagging behind growth exclusive of currency effects. In view of the development in the first half of the year, we can expect to achieve our growth target of an increase in premium income in the range of 7 to 8 percent on the Group level.

Permit me now, if I may, to turn to the development of our two business groups and our investment portfolio:

In non-life reinsurance the gradual hardening that we had already observed on the markets in connection with the renewals as at 1 April 2011 continued in the second quarter. Overall, this led to a pleasing outcome for the 1 June and 1 July treaty renewals. It is our assumption that this tendency will be sustained in the second half of 2011, and for 2012 too we are looking to further positive movement in reinsurance premiums. Particularly in those areas that have been spared losses – such as in the casualty lines –, the tendency towards market hardening has nevertheless been only patchy and rather moderate at best. This can be attributed to the considerable capacity still offered by reinsurers, which in some segments continues to significantly exceed demand.

Overall, we anticipate stable to rising demand for reinsurance protection – supported not least by the adoption of risk-based solvency systems, such as Solvency II in Europe.

In spite of the heavy major losses recorded in the first quarter, which quite substantially surpassed the level that we had expected, we succeeded in generating an operating profit (EBIT) of EUR 151 million and Group net income of as much as EUR 164 million in non-life reinsurance in the first half of 2011. Bearing in mind that the major loss burden after the first six months exceeds our expectations by EUR 390 million, this result is a thoroughly gratifying performance overall and a reflection of the favourable underlying development of our non-life portfolio. Positive non-recurring effects associated with tax refunds and the development of our inflation swaps were further factors here. The positive run-off of our loss reserves in the first quarter also helped to boost profitability.

With premium growth in the order of 10 percent at constant exchange rates, our non-life reinsurance business continues to develop favourably.

Group net income of EUR 74 million notwithstanding, results in life and health reinsurance did not entirely live up to our expectations in the first half-year. This was due in large measure to a technical experience that has hitherto failed to meet expectations. This can be attributed principally to the need to set aside additional reserves for our Australian disability business – a portfolio currently in run-off as we have not

written any new business in this area since 2009. In addition, the performance of our life and health reinsurance business was impacted – especially in the first quarter – by adverse movements in exchange rates.

Nevertheless, the negative influences described above were more than made up for in the first half-year by the good results in our other markets, most notably the United Kingdom, Germany, Scandinavia, France and Asian countries. As already announced in a press release, in April 2011 we reached agreement with Scottish Re on the acquisition of a term life reinsurance portfolio in the United States at attractive conditions. This transaction, along with a number of other attractive new business acquisitions, should also help to accelerate the growth of our life and health reinsurance portfolio in the second half-year.

Furthermore, we are very pleased to report that insurance regulators in the state of New York have allowed us to qualify as an “eligible reinsurer” for our life and health reinsurance business; with effect from the current financial year this means that we are required to post collateral for just 20 percent of our technical reserves for new business written with New York-based clients, instead of the previous 100 percent.

The performance of our investments in the first half of the year was satisfactory overall. Ordinary income, in particular, remains on a level that fully supports our target return on investment of at least 3.5 percent. Investment income was further boosted in the first six months by a positive balance of realised gains and losses as well as net unrealised gains. The latter derived in particular from the favourable fair value development of the inflation swaps that we had taken out last year for hedging purposes.

We received a special mark of distinction in April 2011. Readers of the highly regarded international trade journal “Reactions” crowned your company, Hannover Re, “Reinsurance Company of the Year” at the London Market Awards. This honour is undoubtedly a pleasing affirmation of the esteem in which Hannover Re is held on the international reinsurance markets.

As already mentioned, it remains our expectation that Group net income in the order of EUR 500 million is attainable for the 2011 financial year. This guidance factors in major loss expenditure of around EUR 295 million for the third and fourth quarters as well as investment income that is not impacted by any adverse special effects.

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

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Ulrich Wallin', is positioned below the closing of the letter.

Ulrich Wallin
Chairman of the Executive Board

Supervisory Board (Aufsichtsrat)

HERBERT K. HAAS^{1,2,3}

Burgwedel

Chairman

DR. KLAUS STURANY^{1,3}

Dortmund

Deputy Chairman

WOLF-DIETER BAUMGARTL^{1,2,3}

Berg

UWE KRAMP⁴

Hannover

KARL HEINZ MIDUNSKY³

(until 3 May 2011)

Gauting

ASS. JUR. OTTO MÜLLER⁴

Hannover

DR. ANDREA POLLAK

(from 3 May 2011)

Vienna, Austria

DR. IMMO QUERNER

Hannover

DR. ERHARD SCHIPPOREIT²

Hannover

GERT WÄCHTLER⁴

Burgwedel

Executive Board (Vorstand)

ULRICH WALLIN

Hannover

Chairman

ANDRÉ ARRAGO

Hannover

DR. WOLF BECKE

Hannover

JÜRGEN GRÄBER

Völksen

DR. KLAUS MILLER

Munich

DR. MICHAEL PICKEL

Isernhagen

ROLAND VOGEL

Wennigsen

1 Member of the Standing Committee

2 Member of the Finance and Audit Committee

3 Member of the Nomination Committee

4 Staff representative

Business development

The business development in non-life reinsurance was considerably more pleasing in the second quarter than in the first quarter, which was overshadowed by severe natural disasters in Japan, Australia and New Zealand. The major loss expenditure retreated sharply and came in slightly below the expected level for the second quarter. All in all, we are satisfied with the development of our non-life reinsurance business group.

Developments in life and health reinsurance were less favourable. Overall, the result fell short of expectations on account of certain negative special effects. It is, however, our assumption that the second half of the year will see a return to the normal earnings development, since our business model as a whole remains unaffected.

Gross written premium in total business increased by a sizeable 6.4% as at 30 June 2011 to reach EUR 6.0 billion (EUR 5.7 billion). At constant exchange rates growth would have come in at 7.9%. The level of retained premium nudged slightly higher to 90.8% (90.3%). Net premium climbed 6.8% to EUR 5.1 billion (EUR 4.8 billion).

The development of our investments in the first half-year was highly satisfactory. The portfolio of assets under own management was stable at EUR 25.3 billion (EUR 25.4 billion). Despite the persistently low interest rate level, ordinary investment income excluding interest on deposits was slightly higher than in the comparable period at EUR 447.9 million (EUR 441.2 million). Interest on deposits also climbed to EUR 161.3 million (EUR 151.2 million). The unrealised gains on our asset holdings recognised at fair value through profit or loss totalled EUR 53.7 million – as against losses of EUR 86.2 million in the same quarter of the previous year. Our net investment income consequently improved sharply on the corresponding period of the previous year, amounting to EUR 672.8 million (EUR 551.4 million) as at 30 June 2011.

The operating profit (EBIT) as at 30 June 2011 fell short of the result for the comparable period (EUR 490.7 million) at EUR 246.8 million owing to a similar profit decline in life and health reinsurance. Group net income as at 30 June 2011 totalled EUR 218.5 million (EUR 310.6 million). This result was positively influenced by refunds of taxes and interest as well as the capitalisation of tax and interest receivables to the amount of EUR 124.0 million. Earnings per share came in at EUR 1.81 (EUR 2.58) and the annualised return on equity stood at 9.9% (15.6%).

Non-life reinsurance

The situation on the international reinsurance markets is broadly favourable. Rates surged sharply as anticipated owing to the enormous natural catastrophe losses in the first quarter. We were therefore satisfied with the outcome of the treaty renewals as at 1 April 2011 for Japan, Australia and New Zealand as well as for marine and aviation business.

In Japan, where long-term business relationships traditionally play a central role, we attached the utmost importance to providing our clients with the necessary capacity and we thus slightly enlarged our premium volume here. As expected, it was possible to obtain price increases for non-proportional earthquake covers as well as improved conditions under proportional treaties. Prices also rose in personal accident reinsurance and for industrial fire programmes. We were similarly satisfied with the treaty renewals in other Asian markets, where we modestly expanded our premium volume.

The treaty negotiations for Australia and New Zealand as at 1 April and 1 July 2011 also passed off satisfactorily. Appreciable price increases were pushed through under both loss-impacted programmes and those that had remained unscathed; this was especially true of New Zealand, which suffered heavy damage from earthquakes not only in 2010 but also in 2011.

In the treaty renewals for marine and aviation business the positive trend was sustained. Indeed, in marine business it was even possible to secure double-digit price hikes for offshore energy exposures. Prices in worldwide aviation reinsurance remained broadly stable.

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

The gross premium for our non-life reinsurance business group increased by a substantial 8.3% as at 30 June 2011 relative to the corresponding period of the previous year to stand at EUR 3.5 billion (EUR 3.3 billion). At constant exchange rates, especially against the US dollar, growth would have come in at 10.3%. The level of retained premium remained virtually unchanged at 90.0% (90.1%). Net premium earned climbed 8.0% to EUR 2.8 billion (EUR 2.6 billion).

The major loss situation in the second quarter was more moderate. At around EUR 50 million the net strain was below expectations for the quarter. The largest single loss was the series of tornadoes in May at a cost of EUR 22.7 million. In view of the exceptionally heavy major loss incidence in the first quarter, however, the net burden of catastrophe losses and major claims as at 30 June 2011 totalled EUR 625.2 million – a figure well in excess of the corresponding period of the previous year (EUR 407.6 million). The combined ratio stood at 110.3% (99.5%), or 97.7% for the second quarter in isolation.

The net underwriting result came in at –EUR 299.4 million (EUR 7.2 million).

The operating profit (EBIT) in non-life reinsurance slipped back to EUR 151.2 million (EUR 333.8 million) as at 30 June 2011 on account of the heavy burden of major losses in the first quarter. Group net income stood at EUR 164.1 million (EUR 215.1 million), producing earnings per share of EUR 1.36 (EUR 1.78).

Key figures for non-life reinsurance						in EUR million	
	2011					2010	
	1. 1.–31. 3.	1. 4.–30. 6.	+/- previous Year	1. 1.–30. 6.	+/- previous Year	1. 4.–30. 6.	1. 1.–30. 6.
Gross written premium	1,924.3	1,620.2	+4.5%	3,544.5	+8.3%	1,549.8	3,271.7
Net premium earned	1,376.3	1,472.3	+6.7%	2,848.6	+8.0%	1,380.2	2,638.2
Underwriting result	(330.9)	31.4		(299.4)		1.7	7.2
Net investment income (loss)	250.3	152.2	+7.0%	402.5	+30.4%	142.3	308.7
Operating profit/loss (EBIT)	(24.5)	175.7	+4.5%	151.2	–54.7%	168.2	333.8
Group net income (loss)	17.3	146.8	+38.9%	164.1	–23.7%	105.7	215.1
Earnings per share in EUR	0.14	1.22	+38.9%	1.36	–23.7%	0.88	1.78
Combined ratio ¹	123.8%	97.7%		110.3%		99.5%	99.5%
Retention	87.8%	92.6%		90.0%		90.1%	90.1%

1 Including expenses on funds withheld and contract deposits

Life and health reinsurance

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

We offer our clients tailored reinsurance solutions that assist primary insurers with their management of capital, liquidity and risk. In April 2011 we reached an agreement on the acquisition of a reinsurance portfolio with a view to growing our position in traditional US life business. The acquired portfolio covers the mortality risk under term life and endowment policies reinsured in the underwriting years 2000 to 2003. The business was 100% assumed by Hannover Re with effect from 1 January 2011. Premiums of around USD 40 million were already booked in the first half-year.

We are thoroughly satisfied with the development of our business in the United Kingdom, specifically in the area of longevity risks. The reinsurance of enhanced annuities taken out with a single premium payment continues to account for a large share of the UK annuity market; this is a segment that we have been instrumental in shaping. In addition, we expanded our assumption of blocks of existing pension obligations from pension funds and also primary insurers.

The weakness of the US dollar curtailed the growth (measured in euro) of our life and health reinsurance portfolio. Gross written premium climbed 3.7% to EUR 2.5 billion (EUR 2.4 billion) as at 30 June 2011. At constant exchange rates growth would have come in at 4.5%. Net premium earned increased by 5.3% to EUR 2.3 billion (EUR 2.2 billion).

The fact that the result for the second quarter fell well short of our expectations can be attributed to both exchange rate movements and technical factors. In the first place, the weakness of the US dollar played a part here too. Secondly, the development of our Australian disability portfolio had a moderating impact on profitability. In light of the latest actuarial analyses, which indicated that the risk experience here is less favourable than anticipated, we have therefore set aside additional reserves. The Australian disability portfolio is, however, in run-off since we have not written any further new business since 2009. In addition, the further widening of credit spreads on bond markets led to a temporary strain on the performance of deposits held by US clients for Hannover Re's account.

The operating profit (EBIT) of EUR 78.4 million (EUR 145.5 million) generated despite the aforementioned negative effects is a testament to the good quality of our book of life and health reinsurance, since in most markets the business development for our company was – as anticipated – pleasing. The EBIT margin stood at 3.4% (6.7%). The Group net income of EUR 73.9 million fell well short of the result for the corresponding period of the previous year (EUR 113.8 million). Earnings per share amounted to EUR 0.61 (EUR 0.94).

Key figures for life and health reinsurance						in EUR million	
	2011					2010	
	1.1.–31.3.	1.4.–30.6.	+/- previous Year	1.1.–30.6.	+/- previous Year	1.4.–30.6.	1.1.–30.6.
Gross written premium	1,219.4	1,280.5	-0.2%	2,499.8	+3.7%	1,283.0	2,411.1
Net premium earned	1,114.5	1,183.3	+2.9%	2,297.7	+5.3%	1,149.9	2,181.5
Net investment income	127.8	122.9	-3.7%	250.7	+9.8%	127.6	228.4
Operating profit/loss (EBIT)	58.4	20.0	-75.9%	78.4	-46.1%	82.9	145.5
Group net income (loss)	41.5	32.4	-52.4%	73.9	-35.1%	68.0	113.8
Earnings per share in EUR	0.34	0.27	-52.4%	0.61	-35.1%	0.56	0.94
Retention	91.5%	92.6%		92.1%		89.5%	90.6%
EBIT margin ¹	5.2%	1.7%		3.4%		7.2%	6.7%

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

Investments

In the first half of the year increases in credit spreads were observed primarily in the area of European corporate bonds of mid- and lower-rated issuers. While US treasury securities saw yield declines across all duration ranges, European government bonds of short or medium duration recorded – in some cases marked – yield increases. In total, the unrealised gains on our fixed-income securities retreated to EUR 455.4 million (EUR 497.1 million). Our portfolio of assets under own management was stable at EUR 25.3 billion (EUR 25.4 billion).

Despite the sustained low level of interest rates, ordinary investment income excluding interest on deposits improved slightly on the corresponding period of the previous year to reach EUR 447.9 million (EUR 441.2 million). Interest on deposits also increased to EUR 161.3 million (EUR 151.2 million).

Impairments of altogether EUR 16.5 million (EUR 16.7 million) were taken. This includes impairments of EUR 7.2 million on alternative investments and EUR 4.7 million on fixed-income securities. Scheduled depreciation on directly held real estate climbed as anticipated to EUR 4.1 million (EUR 3.3 million), a reflection of the further stepping up of our involvement in this area. The total volume of write-downs contrasted with write-ups of EUR 15.0 million, which were attributable to fixed-income securities.

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 during the reporting period gave rise to unrealised losses of EUR 9.9 million (EUR 15.4 million) which were taken as a charge against investment income.

Altogether, the unrealised gains on our assets recognised at fair value through profit or loss amounted to EUR 53.7 million – as against unrealised losses of EUR 86.2 million in the corresponding quarter of the previous year. The primary factor here was the inflation swaps taken out in 2010 to hedge part of the inflation risks associated with the loss reserves in our technical account. Their hedging effect diminishes slightly over time owing to their fixed maturity. In the first quarter, therefore, we took out further inflation swaps to the extent necessary in order to restore the original protective effect. The changes in the fair values of the inflation swaps are recognised in income as a derivative pursuant to IAS 39. Since inflationary expectations rose in the period under review, the inflation swaps show a positive change in fair value with an effect of EUR 48.1 million recognised in income as at the end of the quarter.

Thanks to the stable ordinary investment income and the development of the unrealised gains on our assets recognised at fair value through profit or loss, our net investment income comfortably surpassed the previous year's level. It amounted to EUR 672.8 million (EUR 551.4 million) in the period under review.

Net investment income	2011						2010	
	1. 1.–31. 3.	1. 4.–30. 6.	+/- previous Year	1. 1.–30. 6.	+/- previous Year	1. 4.–30. 6.	1. 1.–30. 6.	
Ordinary investment income ¹	222.7	225.2	-0.8%	447.9	+1.5%	227.0	441.2	
Results from participation in associated companies	2.4	1.0	+51.0%	3.4	+43.2%	0.7	2.4	
Appreciation	14.1	0.9	-83.0%	15.0	+26.9%	5.3	11.8	
Realised gains/losses	39.2	4.8	-91.5%	43.9	-43.2%	56.0	77.3	
Impairments ²	13.7	2.8	-47.2%	16.5	-1.1%	5.3	16.7	
Unrealised gains/losses ³	69.0	(15.3)	-79.1%	53.7	-162.3%	(73.3)	(86.2)	
Investment expenses	17.6	18.3	+16.5%	35.9	+21.1%	15.7	29.7	
Net investment income from assets under own management	316.1	195.4	+0.4%	511.5	+27.8%	194.6	400.2	
Net investment income from funds withheld	75.9	85.4	+10.6%	161.3	+6.7%	77.3	151.2	
Net investment income	392.0	280.8	+3.3%	672.8	+22.0%	271.9	551.4	

- 1 Excluding expenses on funds withheld and contract deposits
- 2 Including depreciation/impairments on real estate
- 3 Portfolio at fair value through profit or loss

Risk report

The risk strategy derived from the corporate strategy constitutes the basis for our handling of risks and opportunities. It is an integral component of the guidelines for risk monitoring and risk steering and is reflected on the various levels of risk management and in the operational guidelines. The corporate strategy and risk strategy as well as the guidelines derived from them are subject to regular review. Through this scrutiny of our assumptions and any resulting adjustments, we ensure that our guidelines and hence the principles on which our actions are based are always kept up-to-date. The overriding goal of our risk management is to adhere to the strategically defined risk positions of the Hannover Re Group. In order to ensure that our shareholders' equity is protected, our individual risks are managed such that the total risk remains within the permissible defined tolerances. We attach central importance to the following aspects:

- Regular review of the efficiency of systems and, as appropriate, adjustment to the business environment and/or the changed risk situation
- Separation of functions between divisions that manage risks, on the one hand, and those that monitor risks, on the other
- Process-independent monitoring by Internal Auditing
- Systematic and comprehensive monitoring of all conceivable risks from the current perspective that could jeopardise the company's profitability or continued existence with the aid of efficient and practice-oriented management and control systems
- Reporting to the Risk Committee and the Executive Board that is counterparty-oriented and encompasses all the various types of risk
- Documentation of the material elements of the system in mandatory instructions
- Good financial strength and risk management ratings from the rating agencies of greatest relevance to our company

Hannover Re has developed an internal capital model for risk quantification as a central risk management tool. The purpose of risk quantification inter alia is to assess the capital resources of the Hannover Re Group and its individual companies. In addition, the model is used to establish the risk contribution made by individual business groups and business segments to the total company risk as well as the risk-appropriate allocation of the cost of capital. Our qualitative methods and practices, such as the Risk Management Framework Guideline, support our internal risk management and control system. The system is subject to a constant cycle of planning, action, control and improvement.

Another key element of the overall system is the Framework Guideline on the Internal Control System (ICS). The purpose of this set of rules is to ensure systematic execution of our corporate strategy. This includes, among other things:

- documentation of the controls within processes, especially in accounting,
- principle of dual control,
- separation of functions,
- technical plausibility checks and access privileges within the systems

In the area of Group accounting, processes with integrated controls ensure the completeness and accuracy of the consolidated financial statement. These processes for the organisation and implementation of consolidation tasks and for the preparation of the consolidated financial statement as well as the accompanying controls are documented and subject to regular review.

Material risks

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

A significant technical risk in the area of non-life reinsurance is the reserving risk, i.e. the risk of under-reserving losses and the associated strain on the underwriting result. In order to counter this risk we calculate our loss reserves based on our own actuarial loss estimations; where necessary we also establish additional reserves supplementary to those posted by our cedants as well as an IBNR (incurred but not reported) reserve for losses that have already occurred but have not yet been reported to us. Our own actuarial calculations regarding the adequacy of the reserves are also subject to annual quality assurance reviews conducted by external actuaries and auditors.

Scientific simulation models, supplemented by the expertise of our own specialist departments, are used to assess our material catastrophe risks from natural hazards (especially earthquake, windstorm and flood). Furthermore, we establish the risk to our portfolio from various scenarios in the form of probability distributions. The monitoring of the natural hazards exposure of the Hannover Re portfolio (accumulation control) is rounded out by the calculation of realistic extreme loss scenarios. For the purposes of risk limitation, maximum underwriting limits (capacities) are stipulated for various extreme loss scenarios and return periods in light of profitability

criteria. Adherence to these limits is continuously verified by Group Risk Management.

The price/premium risk lies primarily in the possibility of a random claims realisation that diverges from the claims expectancy on which the premium calculation was based. Regular and independent reviews of the models used for treaty quotation as well as central and local underwriting guidelines are vital management components. The combined ratio is an important indicator when considering the profitability of reinsurance business. The development of this ratio is shown in the table below.

In life and health reinsurance, risks directly connected with the life of an insured person are referred to as biometric risks (especially the miscalculation of mortality, life expectancy, morbidity and occupational disability); they constitute material risks for our company. Counterparty, lapse and catastrophe risks are also material since we additionally prefinance our cedants' new business acquisition costs. As in non-life reinsurance, the reserves are calculated according to information provided by our clients and are also determined on the basis of secure biometric actuarial bases. Through our quality assurance measures we ensure that the reserves established by ceding companies in accordance with local accounting principles satisfy all requirements with respect to the calculation methods used and assumptions made (e.g. use of mortality and morbidity tables, assumptions regarding the lapse rate). The interest rate risk, which in the primary sector is important in life business owing to the guarantees that are given, is of only minimal relevance to our company owing to the structure of the contracts. The Market Consistent Embedded Value (MCEV) is a key indicator for the valuation of life insurance and life reinsurance business. For further explanation please see the MCEV for the 2010 financial year, which was published on our Internet website at the same time as the report on the first quarter of 2011.

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

With a view to preserving the value of our assets under own management, we constantly monitor adherence to a trigger mechanism based on a clearly defined traffic light system that is applied across all portfolios. The short-term "Value at Risk" (VaR) is another vital tool used for monitoring and managing market price risks. Stress tests are conducted in order to be able to map extreme scenarios as well as normal market scenarios for the purpose of calculating the Value at Risk. In this context, the loss potentials for fair values and shareholders' equity (before tax) are simulated on the basis of already occurred or notional extreme events.

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

The credit risk consists primarily of the risk of complete or partial failure of the counterparty and the associated default on payment. Also significant here is the so-called migration risk, which results from a deterioration in the counterparty credit quality and is reflected in a change in fair value. Since the business that we accept is not always fully retained, but instead portions are retroceded as necessary, the credit risk is also material for our company in non-life reinsurance. In this regard a Security Committee continuously monitors the credit status of retrocessionaires and approves measures where necessary to secure receivables that appear to be at risk of default.

Development of combined and catastrophe ratio											in %
	1H 2011	2010	2009	2008	2007	2006	2005 ¹	2004 ^{1,2}	2003 ^{1,2}	2002 ^{1,2}	2001 ^{1,2}
Combined ratio (non-life reinsurance)	110.3	98.2	96.6	95.4	99.7	100.8	112.8	97.2	96.0	96.3	116.5
thereof major losses ³	21.9	12.3	4.6	10.7	6.3	2.3	26.3	8.3	1.5	5.2	23.0

1 Including financial reinsurance and specialty insurance

2 Based on figures reported in accordance with US GAAP

3 Natural catastrophes and other major losses in excess of EUR 5 million gross for the Hannover Re Group's share as a percentage of net premium earned

Scenarios for changes in the fair value of material investment positions		in EUR million	
	Scenario	Portfolio change on a fair value basis	Change in equity before tax
Equity securities	Share prices -10%	-3.4	-3.4
	Share prices -20%	-6.8	-6.8
	Share prices +10%	+3.4	+3.4
	Share prices +20%	+6.8	+6.8
Fixed-income securities	Yield increase +50 basis points	-454.8	-347.7
	Yield increase +100 basis points	-890.9	-680.3
	Yield decrease -50 basis points	+470.5	+360.0
	Yield decrease -100 basis points	+959.6	+734.8

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 231.0 million (7.3%) of our accounts receivable from reinsurance business totalling EUR 3,186.9 million were older than 90 days as at the balance sheet date, The average default rate over the past three years was 0.2%.

Credit risks from investments may arise out of the risk of a failure to pay (interest and/or capital repayment) or a change in the credit status (rating downgrade) of issuers of securities. We attach equally vital importance to exceptionally

broad diversification as we do to credit assessment conducted on the basis of the quality criteria set out in the investment guidelines. The measurement and monitoring mechanisms that have been put in place result in a prudent, broadly diversified investment strategy.

This is reflected inter alia in the fact that exposures to government bonds or instruments backed by government guarantees of EU countries that are currently under close scrutiny total just EUR 253.8 million on a fair value basis within our portfolio of assets under own management. This is equivalent to a share of 1.0%. The amounts attributable to individual countries are as follows: Spain EUR 166.2 million, Ireland EUR 30.7 million, Portugal EUR 30.4 million and Italy EUR 26.5 million. No impairments had to be taken on these holdings. Our assessment is based on the safeguards afforded on the European level (so-called European Stability Mechanism). Our portfolio no longer contains any bonds issued by Greece.

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	83.6	4,416.4	61.2	3,559.8	3.4	229.3	72.6	3,027.6
AA	5.1	271.7	35.1	2,045.4	16.4	1,116.2	16.6	695.0
A	5.8	308.8	3.0	177.3	54.8	3,729.3	1.0	42.4
BBB	5.1	268.3	0.6	34.4	22.1	1,502.7	2.6	106.4
< BBB	0.4	19.1	0.1	4.6	3.3	228.1	7.2	299.5
Total	100.0	5,284.3	100.0	5,821.5	100.0	6,805.6	100.0	4,170.9

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

In our understanding, operational risks encompass the risk of losses occurring because of the inadequacy or failure of internal processes or as a result of events triggered by employee-related, system-induced or external factors. The operational risk also extends to legal risks. Operational risks exist, inter alia, in relation to the risk of business interruptions or failures of technical systems or they may derive from unlawful or unauthorised acts.

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

Assessment of the risk situation

The above remarks describe the diverse spectrum of risks to which we, as an internationally operating reinsurance company, are exposed as well as the steps taken to manage and monitor them. The specified risks can potentially have a significant impact on our assets, financial position and net income. Yet consideration solely of the risk aspect does not fit our holistic conception of risk, since risks always go hand-in-hand with opportunities. Our effective management and monitoring tools as well as our organisational and operational structures ensure that we are able to identify our risks in a timely manner and maximise our opportunities. For additional information on the opportunities and risks associated with our business please see the Group Annual Report 2010.

Based on our currently available insights arrived at from a holistic analysis of the risk situation, the Executive Board of Hannover Re cannot at present discern any risks that could jeopardise the continued existence of our company in the short or medium term or have a material and lasting effect on our assets, financial position or net income.

Outlook

In light of the overall highly satisfactory conditions prevailing on international reinsurance markets and our good positioning, it is our expectation that we shall achieve our growth and profit targets for the full 2011 financial year. At constant exchange rates, our total net premium volume is expected to grow by 7% to 8%.

We were thoroughly satisfied with the treaty renewals as at 1 July 2011 for our business in Australia and New Zealand and – with minor qualifications – also for our target market of North America.

Rate increases averaging 5% to 15% were obtained in US property catastrophe business; price rises of 50% were recorded under international programmes, with even higher percentage increases observed for loss-impacted treaties. While these developments suggest clear tendencies towards a hardening market, it is still too soon to speak of a generally hard market environment. Casualty covers, for example, have still not seen any real upturn in prices. Rates in general liability for the most part remained on a stable level, despite ceding companies tending to run higher retentions; this was also true of workers' compensation business. While rates for workers' compensation showed a slight softening tendency under programmes for catastrophe covers, modest price increases were attainable under treaties with single-person exposures. Rates in the professional indemnity lines were broadly stable.

Looking ahead to the treaty renewals in North America in October and as at 1 January 2012, we are confident that – even given a moderate hurricane season – rates in property business will continue to harden. In addition to model adjustments made by RMS, the losses incurred by ceding companies as a consequence of recent tornadoes and flood events are also a factor here.

In Australia and New Zealand the bulk of treaties traditionally come up for renewal on 1 July. As expected, we were able to book appreciable rate increases and improved conditions in these regions in the aftermath of the damaging natural disasters. In the property lines price increases running well into double-digit percentages were obtained for both loss-impacted programmes and those that had escaped unscathed, while treaties covering exclusively New Zealand risks saw prices soar by well over 100%.

Prices in the casualty lines remained essentially stable, although increases were possible in some cases. Bearing in mind that reinsurers use casualty risks as a means of diversifying their portfolio, this situation is highly gratifying – since it demonstrates that market players are currently exercising considerable underwriting discipline.

All in all, we were able to boost the premium volume of our portfolio in Australia and New Zealand while at the same time reducing the exposure.

In total non-life reinsurance we anticipate net premium growth of 7% to 8% in the original currencies in the current financial year.

The prospects in international life and health reinsurance remain favourable. A particularly significant factor here is the demographic trend in established insurance markets such as the United States, Japan, the United Kingdom and Germany. The increasing ageing of the population is thus beneficial to providers of annuity and health insurance. Financially oriented reinsurance solutions, i.e. models designed to strengthen the equity base of primary insurers, are enjoying sustained

demand. Business involving longevity risks also continues to offer healthy growth opportunities, particularly in the United Kingdom; this applies both to enhanced annuities and the assumption of risks associated with existing pension funds. For the current financial year we are looking to grow net premium in life and health reinsurance by 7% to 10%. We anticipate a positive experience in the second half of 2011.

The expected positive cash flow that we generate from the technical account and our investments should – subject to stable exchange rates – lead to further growth in our asset portfolio. In the area of fixed-income securities we continue to stress the high quality and diversification of our portfolio. We are targeting a return on investment of 3.5% for 2011.

In view of the business opportunities that are opening up and the advantageous situation on reinsurance markets, we currently expect to generate Group net income in the order of around EUR 500 million. This is subject to the premise that further major losses do not significantly exceed a level of around EUR 295 million and also assumes that there are no drastic downturns on capital markets.

Half-yearly financial report of the Hannover Re Group

Consolidated balance sheet

Assets in EUR thousand	30.6.2011	31.12.2010
Fixed-income securities – held to maturity	2,782,561	3,028,018
Fixed-income securities – loans and receivables	2,739,757	2,314,429
Fixed-income securities – available for sale	16,388,533	15,877,634
Fixed-income securities – at fair value through profit or loss	171,434	217,597
Equity securities – available for sale	34,156	536,755
Other financial assets – at fair value through profit or loss	60,156	54,756
Real estate and real estate funds	444,825	394,087
Investments in associated companies	131,415	127,644
Other invested assets	877,049	841,896
Short-term investments	1,127,363	1,570,502
Cash	573,369	447,753
Total investments and cash under own management	25,330,618	25,411,071
Funds withheld	12,070,183	11,920,725
Contract deposits	116,667	715,353
Total investments	37,517,468	38,047,149
Reinsurance recoverables on unpaid claims	1,438,092	1,025,332
Reinsurance recoverables on benefit reserve	329,812	347,069
Prepaid reinsurance premium	120,848	83,224
Reinsurance recoverables on other technical reserves	7,493	1,831
Deferred acquisition costs	1,864,924	1,834,496
Accounts receivable	3,186,886	2,841,303
Goodwill	44,733	45,773
Deferred tax assets	665,686	622,136
Other assets	419,554	336,443
Accrued interest and rent	8,815	11,182
Assets held for sale	1,354,006	1,529,355
Total assets	46,958,317	46,725,293

Liabilities in EUR thousand	30.6.2011	31.12.2010
Loss and loss adjustment expense reserve	18,960,070	18,065,395
Benefit reserves	9,307,744	8,939,190
Unearned premium reserve	2,184,454	1,910,422
Other technical provisions	165,134	184,528
Funds withheld	583,861	1,187,723
Contract deposits	4,615,242	4,704,267
Reinsurance payable	776,504	733,473
Provisions for pensions	84,535	81,657
Taxes	130,169	286,394
Provision for deferred taxes	1,675,202	1,632,527
Other liabilities	428,056	443,932
Long-term debt and subordinated capital	1,905,348	2,056,797
Liabilities related to assets held for sale	1,218,358	1,381,120
Total liabilities	42,034,677	41,607,425
Shareholders' equity		
Common shares	120,597	120,597
Nominal value: 120,597		
Conditional capital: 60,299		
Additional paid-in capital	724,562	724,562
Common shares and additional paid-in capital	845,159	845,159
Cumulative other comprehensive income		
Unrealised gains and losses on investments	389,667	372,094
Cumulative foreign currency translation adjustment	(192,451)	(52,954)
Other changes in cumulative other comprehensive income	(9,691)	(6,450)
Total other comprehensive income	187,525	312,690
Retained earnings	3,291,874	3,351,116
Equity attributable to shareholders of Hannover Re	4,324,558	4,508,965
Non-controlling interests	599,082	608,903
Total shareholders' equity	4,923,640	5,117,868
Total liabilities	46,958,317	46,725,293

Consolidated statement of income

as at 30 June 2011

Figures in EUR thousand	1.4.–30.6.2011	1.1.–30.6.2011	1.4.–30.6.2010	1.1.–30.6.2010
Gross written premium	2,901,682	6,044,828	2,832,246	5,682,326
Ceded written premium	216,188	554,020	288,122	550,350
Change in gross unearned premium	(23,435)	(387,236)	(16,549)	(378,146)
Change in ceded unearned premium	(4,858)	44,348	2,503	65,839
Net premium earned	2,657,201	5,147,920	2,530,078	4,819,669
Ordinary investment income	225,172	447,916	227,033	441,201
Profit/loss from investments in associated companies	1,018	3,395	674	2,370
Realised gains and losses on investments	4,772	43,950	55,969	77,319
Unrealised gains and losses on investments	(15,336)	53,681	(73,298)	(86,185)
Total depreciation, impairments and appreciation of investments	1,922	1,509	5	4,873
Other investment expenses	18,327	35,915	15,734	29,665
Net income from investments under own management	195,377	511,518	194,639	400,167
Income/expense on funds withheld and contract deposits	85,408	161,268	77,254	151,211
Net investment income	280,785	672,786	271,893	551,378
Other technical income	2,195	5,238	2,549	7,976
Total revenues	2,940,181	5,825,944	2,804,520	5,379,023
Claims and claims expenses	1,902,254	4,050,816	1,774,864	3,447,876
Change in benefit reserves	178,601	293,013	186,615	287,074
Commission and brokerage, change in deferred acquisition costs	564,304	1,091,427	555,207	1,044,634
Other acquisition costs	4,027	5,941	2,531	6,702
Other technical expenses	699	3,852	10,562	22,105
Administrative expenses	73,197	154,458	73,818	139,339
Total technical expenses	2,723,082	5,599,507	2,603,597	4,947,730
Other income and expenses	(16,468)	20,337	50,933	59,368
Operating profit/loss (EBIT)	200,631	246,774	251,856	490,661
Interest on hybrid capital	24,147	49,761	19,137	38,064
Net income before taxes	176,484	197,013	232,719	452,497
Taxes	4,336	(54,231)	57,177	116,329
Net income	172,148	251,244	175,542	336,268
thereof				
Non-controlling interest in profit and loss	5,977	32,786	15,911	25,635
Group net income	166,171	218,458	159,631	310,633
Earnings per share				
Basic earnings per share in EUR	1.38	1.81	1.32	2.58
Diluted earnings per share in EUR	1.38	1.81	1.32	2.58

Consolidated statement of comprehensive income

as at 30 June 2011

Figures in EUR thousand	1.4.–30.6.2011	1.1.–30.6.2011	1.4.–30.6.2010	1.1.–30.6.2010
Net income	172,148	251,244	175,542	336,268
Unrealised gains and losses on investments				
Gains (losses) recognised directly in equity	145,892	68,739	205,014	380,884
Transferred to the consolidated statement of income	4,270	(32,602)	(54,648)	(72,367)
Tax income (expense)	(34,985)	(18,099)	(39,700)	(71,107)
	115,177	18,038	110,666	237,410
Currency translation				
Gains (losses) recognised directly in equity	(25,058)	(159,345)	162,874	274,636
Transferred to the consolidated statement of income	–	–	7,105	7,380
Tax income (expense)	2,143	14,197	(14,484)	(22,415)
	(22,915)	(145,148)	155,495	259,601
Changes from the measurement of associated companies				
Gains (losses) recognised directly in equity	–	–	–	–
	–	–	–	–
Other changes				
Gains (losses) recognised directly in equity	(617)	(4,458)	(15,963)	(18,488)
Tax income (expense)	189	1,217	6,796	6,756
	(428)	(3,241)	(9,167)	(11,732)
Total income and expense recognised directly in equity				
Gains (losses) recognised directly in equity	120,217	(95,064)	351,925	637,032
Transferred to the consolidated statement of income	4,270	(32,602)	(47,543)	(64,987)
Tax income (expense)	(32,653)	(2,685)	(47,388)	(86,766)
	91,834	(130,351)	256,994	485,279
Changes in consolidated group	(32)	–	–	–
Total recognised income and expense	263,950	120,893	432,536	821,547
thereof:				
Attributable to non-controlling interests	9,736	27,600	20,775	42,478
Attributable to shareholders of Hannover Re	254,214	93,293	411,761	779,069

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-controlling interests	Shareholders' equity
			Currency translation	Unrealised gains/ losses	Other			
Balance as at 1.1.2010	120,597	724,562	(224,084)	241,569	(4,728)	2,856,529	542,112	4,256,557
Changes in ownership interest with no change of control status	-	-	(2)	(236)	-	(378)	7,351	6,735
Capital increases/ additions	-	-	-	-	-	-	53	53
Capital repayments	-	-	-	-	-	-	(1,481)	(1,481)
Acquisition/disposal of treasury shares	-	-	-	-	-	(293)	-	(293)
Total income and expense recognised after tax	-	-	249,653	230,515	(11,732)	310,633	42,478	821,547
Dividends paid	-	-	-	-	-	(253,254)	(29,141)	(282,395)
Balance as at 30.6.2010	120,597	724,562	25,567	471,848	(16,460)	2,913,237	561,372	4,800,723
Balance as at 1.1.2011	120,597	724,562	(52,954)	372,094	(6,450)	3,351,116	608,903	5,117,868
Changes in ownership interest with no change of control status	-	-	-	-	-	53	42	95
Capital increases/ additions	-	-	-	-	-	-	29	29
Capital repayments	-	-	-	-	-	-	(8)	(8)
Acquisition/disposal of treasury shares	-	-	-	-	-	(380)	-	(380)
Total income and expense recognised after tax	-	-	(139,497)	17,573	(3,241)	218,458	27,600	120,893
Dividends paid	-	-	-	-	-	(277,373)	(37,484)	(314,857)
Balance as at 30.6.2011	120,597	724,562	(192,451)	389,667	(9,691)	3,291,874	599,082	4,923,640

Consolidated cash flow statement

as at 30 June 2011

Figures in EUR thousand	1.1.–30.6.2011	1.1.–30.6.2010 ¹
I. Cash flow from operating activities		
Net income	251,244	336,268
Appreciation/depreciation	10,872	(31,705)
Net realised gains and losses on investments	(43,950)	(77,319)
Amortisation of investments	27,051	(1,674)
Changes in funds withheld	(1,267,182)	(369,769)
Net changes in contract deposits	720,968	381,027
Changes in prepaid reinsurance premium (net)	342,874	311,003
Changes in tax assets/provisions for taxes	(233,757)	39,118
Changes in benefit reserve (net)	796,516	15,237
Changes in claims reserves (net)	1,232,763	647,012
Changes in deferred acquisition costs	(113,765)	21,219
Changes in other technical provisions	(14,742)	27,389
Changes in clearing balances	(433,431)	(449,270)
Changes in other assets and liabilities (net)	19,229	(62,712)
Cash flow from operating activities	1,294,690	785,824

1 Adjusted on the basis of IAS 8

Figures in EUR thousand	1.1.–30.6.2011	1.1.–30.6.2010 ¹
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	163,209	16,590
Fixed-income securities – loans and receivables		
Maturities, sales	283,557	298,330
Purchases	(765,486)	(498,240)
Fixed-income securities – available for sale		
Maturities, sales	3,744,314	4,120,108
Purchases	(4,939,503)	(4,069,712)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	39,012	39,591
Purchases	(301)	(5,781)
Equity securities – available for sale		
Sales	726,563	932
Purchases	(269,078)	(809)
Equity securities – at fair value through profit or loss		
Sales	181	1,573
Purchases	(76)	–
Other invested assets		
Sales	33,852	41,771
Purchases	(71,472)	(81,301)
Affiliated companies and participating interests		
Sales	–	21
Purchases	(8,862)	(4,254)
Real estate and real estate funds		
Sales	1,469	3,121
Purchases	(68,663)	(90,212)
Short-term investments		
Changes	445,300	(313,792)
Other changes (net)	(6,632)	(9,762)
Cash flow from investing activities	(692,616)	(551,826)

1 Adjusted on the basis of IAS 8

Figures in EUR thousand	1.1.–30.6.2011	1.1.–30.6.2010 ¹
III. Cash flow from financing activities		
Contribution from capital measures	(2,560)	(1,271)
Structural change without loss of control	95	7,018
Dividends paid	(314,857)	(282,395)
Proceeds from long-term debts	–	49,306
Repayment of long-term debts	(138,426)	(2,817)
Acquisition/disposal of treasury shares	(380)	(293)
Cash flow from financing activities	(456,128)	(230,452)
IV. Exchange rate differences on cash	(32,599)	65,381
Cash and cash equivalents at the beginning of the period	475,227	457,412
thereof cash and cash equivalents of disposal groups: 27,474		
Change in cash and cash equivalents (I.+II.+III.+IV.)	113,347	68,927
Cash and cash equivalents at the end of the period	588,574	526,339
thereof cash and cash equivalents of disposal groups	15,205	–
Cash and cash equivalents at the end of the period excluding disposal groups	573,369	–
Income taxes	(36,690)	(86,354)
Interest paid	(88,068)	(93,185)

1 Adjusted on the basis of IAS 8

Consolidated segmental report

Segmentation of assets in EUR thousand	Non-life reinsurance	
	30. 6. 2011	31. 12. 2010
Assets		
Held to maturity	2,493,398	2,724,546
Loans and receivables	2,702,455	2,259,375
Available for sale	11,542,744	11,725,861
At fair value through profit or loss	127,911	152,028
Other invested assets	1,400,911	1,330,693
Short-term investments	838,992	1,259,804
Cash	371,204	325,518
Total investments and cash under own management	19,477,615	19,777,825
Funds withheld	721,813	695,709
Contract deposits	-	-
Total investments	20,199,428	20,473,534
Reinsurance recoverables on unpaid claims	1,289,137	859,533
Reinsurance recoverables on benefit reserve	-	-
Prepaid reinsurance premium	118,175	81,256
Reinsurance recoverables on other reserves	5,499	422
Deferred acquisition costs	418,567	362,080
Accounts receivable	2,138,404	1,805,883
Other assets in the segment	1,549,483	1,262,674
Assets held for sale	1,354,006	1,529,355
Total assets	27,072,699	26,374,737
Segmentation of technical and other liabilities in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	16,452,715	15,634,491
Benefit reserve	-	-
Unearned premium reserve	2,090,710	1,812,861
Provisions for contingent commissions	110,905	130,726
Funds withheld	250,249	218,084
Contract deposits	83,704	102,109
Reinsurance payable	516,821	456,496
Long-term liabilities	172,291	187,690
Other liabilities in the segment	1,488,837	1,564,020
Liabilities related to assets held for sale	1,218,358	1,381,120
Total	22,384,590	21,487,597

Life/health reinsurance		Consolidation		Total	
30. 6. 2011	31. 12. 2010	30. 6. 2011	31. 12. 2010	30. 6. 2011	31. 12. 2010
3,259	3,528	285,904	299,944	2,782,561	3,028,018
27,234	44,735	10,068	10,319	2,739,757	2,314,429
4,716,014	4,409,009	163,931	279,519	16,422,689	16,414,389
74,502	91,888	29,177	28,437	231,590	272,353
50,109	32,813	2,269	121	1,453,289	1,363,627
246,890	273,051	41,481	37,647	1,127,363	1,570,502
195,282	120,176	6,883	2,059	573,369	447,753
5,313,290	4,975,200	539,713	658,046	25,330,618	25,411,071
11,348,414	11,225,065	(44)	(49)	12,070,183	11,920,725
116,667	715,353	-	-	116,667	715,353
16,778,371	16,915,618	539,669	657,997	37,517,468	38,047,149
149,896	165,938	(941)	(139)	1,438,092	1,025,332
329,812	347,069	-	-	329,812	347,069
2,910	3,755	(237)	(1,787)	120,848	83,224
1,994	1,409	-	-	7,493	1,831
1,446,345	1,472,416	12	-	1,864,924	1,834,496
1,049,317	1,035,542	(835)	(122)	3,186,886	2,841,303
518,324	507,199	(929,019)	(754,339)	1,138,788	1,015,534
-	-	-	-	1,354,006	1,529,355
20,276,969	20,448,946	(391,351)	(98,390)	46,958,317	46,725,293
2,508,295	2,431,045	(940)	(141)	18,960,070	18,065,395
9,307,969	8,941,021	(225)	(1,831)	9,307,744	8,939,190
93,744	97,561	-	-	2,184,454	1,910,422
54,229	53,802	-	-	165,134	184,528
333,612	969,639	-	-	583,861	1,187,723
4,531,538	4,602,158	-	-	4,615,242	4,704,267
261,163	277,817	(1,480)	(840)	776,504	733,473
-	-	1,733,057	1,869,107	1,905,348	2,056,797
1,727,386	1,579,525	(898,261)	(699,035)	2,317,962	2,444,510
-	-	-	-	1,218,358	1,381,120
18,817,936	18,952,568	832,151	1,167,260	42,034,677	41,607,425

Consolidated segmental report

Segmental statement of income in EUR thousand	Non-life reinsurance	
	1.1.–30.6.2011	1.1.–30.6.2010
Gross written premium	3,544,454	3,271,740
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	3,544,454	3,271,740
Net premium earned	2,848,593	2,638,216
Net investment income	402,507	308,689
thereof		
Deposit interest and expenses	6,168	7,336
Claims and claims expenses	2,432,627	1,958,893
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	627,960	590,631
Administrative expenses	87,450	81,522
Other income and expenses	48,107	17,972
Operating profit/loss (EBIT)	151,170	333,831
Interest on hybrid capital	–	–
Net income before taxes	151,170	333,831
Taxes	(43,890)	96,163
Net income	195,060	237,668
thereof		
Non-controlling interest in profit or loss	30,977	22,546
Group net income	164,083	215,122

Life/health reinsurance		Consolidation		Total	
1.1.–30.6.2011	1.1.–30.6.2010	1.1.–30.6.2011	1.1.–30.6.2010	1.1.–30.6.2011	1.1.–30.6.2010
2,499,832	2,411,103	542	(517)	6,044,828	5,682,326
(542)	517	542	(517)	–	–
2,500,374	2,410,586	–	–	6,044,828	5,682,326
2,297,733	2,181,457	1,594	(4)	5,147,920	4,819,669
250,744	228,367	19,535	14,322	672,786	551,378
155,100	143,875	–	–	161,268	151,211
1,618,194	1,489,324	(5)	(341)	4,050,816	3,447,876
291,408	287,079	1,605	(5)	293,013	287,074
468,966	477,783	(944)	(2,949)	1,095,982	1,065,465
70,042	59,233	(3,034)	(1,416)	154,458	139,339
(21,464)	49,051	(6,306)	(7,655)	20,337	59,368
78,403	145,456	17,201	11,374	246,774	490,661
–	–	49,761	38,064	49,761	38,064
78,403	145,456	(32,560)	(26,690)	197,013	452,597
2,733	28,589	(13,074)	(8,423)	(54,231)	116,329
75,670	116,867	(19,486)	(18,267)	251,244	336,268
1,809	3,089	–	–	32,786	25,635
73,861	113,778	(19,486)	(18,267)	218,458	310,633

1. General reporting principles

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

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

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

The present consolidated quarterly financial statement was prepared by the Executive Board on 19 July 2011 and released for publication.

2. Accounting principles including major accounting policies

The quarterly accounts of the consolidated companies included in the consolidated financial statement were drawn up as at 30 June 2011.

All standards adopted by the IASB as at 30 June 2011 with binding effect for the period under review have been observed in the consolidated financial statement.

New accounting standards or accounting standards applied for the first time

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

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

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.

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. All of these standards have still to be ratified by the EU.

IFRS 13 “Fair Value Measurement”, a new standard also published in May of this year, 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. 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 will therefore have to be recognised entirely in OCI. 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 have still to be ratified by the EU.

In November 2009 the IASB issued IFRS 9 “Financial Instruments” on the classification and measurement of financial instruments. IFRS 9 is the first step in a three-phase project intended to replace IAS 39 “Financial Instruments: Recognition and Measurement” with a new standard. IFRS 9 introduces new requirements for classifying and measuring financial assets. The provisions of IFRS 9 were expanded in October 2010 with an eye to financial liabilities for which the fair value option is chosen. The standard 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	1 July 2011	Pending
Deferred tax: Recovery of Underlying Assets (Amendments to IAS 12)	1 January 2012	Pending

Key exchange rates

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

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

Key exchange rates				1 EUR corresponds to:	
	30.6.2011	31.12.2010	1.1.–30.6.2011	1.1.–30.6.2010	
	Mean rate of exchange on the balance sheet date		Average rate of exchange		
AUD	1.3512	1.3068	1.3541	1.4988	
BHD	0.5458	0.4997	0.5317	0.5023	
CAD	1.3999	1.3259	1.3762	1.3880	
CNY	9.3573	8.7511	9.2164	9.0881	
GBP	0.9042	0.8585	0.8750	0.8695	
HKD	11.2666	10.3146	10.9758	10.3530	
KRW	1,545.5835	1,501.6346	1,548.4548	1,550.0537	
MYR	4.3712	4.0869	4.2719	4.4182	
SEK	9.1636	9.0119	8.9355	9.8208	
USD	1.4477	1.3254	1.4103	1.3325	
ZAR	9.8471	8.7907	9.6412	10.0175	

Changes in accounting policies

Hannover Re corrected the balance sheet recognition of certain life reinsurance contracts. In accordance with applicable US GAAP (FASB ASC 340-30), technical assets and liabilities relating to these contracts are to be offset in the balance sheet. These offsetting rules were not applied consistently within the Group in previous reporting periods.

In accordance with the requirements of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, we therefore adjusted the comparative figures in the present financial statement. The adjustments had no implications for Group net income or shareholders’ equity in any of the previous reporting periods. Relative to the figures originally shown, the balance sheet items “funds withheld” (assets side)

and “contract deposits” (liabilities side) are each reduced by EUR 1,486.3 million as at 30 June 2010. The decrease in these balance sheet items in the opening balance sheet as at 1 January 2010 amounted to EUR 1,429.2 million in each case.

In addition, pursuant to the requirements of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” it was necessary to correct the translation of intangible assets held in foreign currencies in the consolidated balance sheet as at 1 January 2010.

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

Adjustments pursuant to IAS 8 in EUR thousand	1.1.2010	30.6.2010
Funds withheld	(1,429,178)	(1,486,330)
Other assets	+2,527	
Total change in assets	(1,426,651)	(1,486,330)
Contract deposits	(1,429,178)	(1,486,330)
Retained earnings	+2,527	
Total change in liabilities	(1,426,651)	(1,486,330)

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

Retention of the parameters and methods used until 31 December 2010 would have reduced the impairments in the period under review by EUR 4.0 million and increased the write-ups by EUR 6.5 million. The amount recognised for the fair values of the specified instruments would have been EUR 1.0 million higher. The effect of this adjustment of the calculation logic in future reporting periods could only have been determined with a disproportionately high effort.

Segmentation

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

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

3. Consolidated companies and consolidation principles

Acquisitions and new formations

International Hannover Holding AG was established in the second quarter with its registered office in Hannover. The company, the share capital of which amounts to EUR 50,000, is a wholly owned subsidiary of International Insurance Company of Hannover Ltd., Bracknell, United Kingdom, which in turn is wholly owned by Hannover Re. The business object of the company is to hold, acquire and sell participating interests in other companies.

In the course of the second quarter Funis GmbH & Co. KG, a wholly owned subsidiary of Hannover Re, acquired a participating interest in Glencar Underwriting Managers, Inc., based in Chicago, United States, with a capital contribution of USD 98,000 (corresponding to 49% of the share capital). The business object of the company will primarily be to underwrite specialty lines as well as property and casualty program business. The purchase of preference shares in an amount of roughly USD 2.3 million is envisaged for the third quarter of 2011.

Major disposals

On 21 December 2010 Hannover Re reached agreement on the sale of its US subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton, Bermuda, a company specialising in the run-off of insurance business. Hannover Re holds all shares of CIGI indirectly through the intermediate holding company Hannover Finance, Inc. (HFI), Wilmington, which is also included in full in the consolidated financial statement. The buyer is to acquire all shares of CIGI at a purchase price of USD 219.1 million. The transaction received the customary regulatory approvals on 8 July 2011 and was closed on 12 July 2011, which means that the associated deconsolidation from Hannover Re will take place in the third quarter of 2011.

Pursuant to IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” CIGI constitutes a disposal group, which is to be measured at the lower of the carrying amount and fair value less costs to sell. The measurement of the disposal group gave rise to income of EUR 6.9 million in the current financial year, which reduced the provision established as at 31 December 2010 accordingly. The income was recognised in other income and expenses.

The cumulative other comprehensive income of –EUR 23.4 million (31 December 2010: –EUR 28.8 million) arising out of the currency translation of the assets and liabilities belonging to the disposal group will only be realised in the context of deconsolidation. Profits and losses from the measurement of available-for-sale financial assets in an amount of EUR 5.0 million (31 December 2010: EUR 2.5 million) as at the balance sheet date will also only be realised at the time of deconsolidation.

In compliance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” we recognise the assets and liabilities of the disposal group in corresponding balance sheet items that are distinct from continuing operations. Transactions between the disposal group and the Group’s continuing operations continue to be entirely eliminated in conformity with IAS 27 “Consolidated and Separate Financial Statements”.

The assets and liabilities of the disposal group are presented in the following table and broken down into their major components.

Assets and liabilities of the disposal group in EUR thousand	30.6.2011	31.12.2010
Assets		
Total investments	560,209	643,060
Cash	15,210	27,474
Reinsurance recoverables on unpaid claims	759,104	831,093
Accounts receivable	4,231	16,916
Other assets	15,252	10,812
Assets held for sale	1,354,006	1,529,355
Liabilities		
Technical provisions	1,169,574	1,309,860
Funds withheld	18,250	26,713
Reinsurance payable	9,890	17,612
Other liabilities	20,644	26,935
Liabilities related to assets held for sale	1,218,358	1,381,120

Capital consolidation

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

The capital consolidation is based on the acquisition method. In the context of the acquisition method the acquisition costs 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 32.8 million (EUR 25.6 million) as at 30 June 2011.

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

Consolidation of business transactions within the Group

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

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

Consolidation of special purpose entities

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

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

Insurance-Linked Securities (ILS)

In the course of 2010, as part of its extended Insurance-Linked Securities (ILS) activities, Hannover Re wrote a number of so-called collateralised fronting arrangements under which risks assumed from ceding companies were passed on to institutional investors outside the Group using special purpose entities. The purpose of such transactions is to directly transfer clients’ business. Due to the lack of a controlling influence over the special purpose entities involved, there is no consolidation requirement for Hannover Re with respect to these structures.

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

Securitisation of reinsurance risks

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

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

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

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

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

Effective 1 January 2009 Hannover Re raised further underwriting capacity for catastrophe risks on the capital market by way of the “K6” transaction. This securitisation, which was placed with institutional investors in North America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. The volume of “K6”, which was increased on multiple occasions, was equivalent to EUR 231.4 million (EUR 248.5 million) as at the balance sheet date. The planned term of the transaction runs until 31 December 2011 or in the case of the new shares placed in 2010/2011 until 31 December 2012/2013. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is being used for the securitisation.

Hannover Re also uses the special purpose entity Kaith Re Ltd. for various retrocessions of its traditional covers to institutional investors. In accordance with SIC-12 Kaith Re Ltd. is included in the consolidated financial statement.

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 consolidation requirement.

4. Notes on the individual items of the balance sheet

4.1 Investments under own management

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

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

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

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

Investments ¹ in EUR thousand	30. 6. 2011	31. 12. 2010
Regional origin		
Germany	5,856,337	6,402,667
United Kingdom	1,833,627	1,731,362
France	2,180,405	2,188,048
Other	4,897,086	4,856,718
Europe	14,767,455	15,178,795
USA	6,023,790	6,145,130
Other	1,227,551	1,057,850
North America	7,251,341	7,202,980
Asia	851,632	673,879
Australia	1,628,787	1,577,157
Australasia	2,480,419	2,251,036
Africa	411,523	409,767
Other	419,880	368,493
Total	25,330,618	25,411,071

1 After elimination of internal transactions within the Group across segments

Maturities of the fixed-income and variable-yield securities				in EUR thousand	
	30.6.2011		31.12.2010		
	Amortised cost ¹	Fair value	Amortised cost ¹	Fair value	
Held to maturity					
due in one year	397,220	401,755	293,247	296,019	
due after one through two years	493,120	510,391	481,951	497,863	
due after two through three years	492,015	516,576	530,917	556,296	
due after three through four years	494,132	528,527	402,290	435,132	
due after four through five years	683,159	720,431	842,291	896,024	
due after five through ten years	205,316	224,318	458,201	489,910	
due after ten years	17,599	18,265	19,121	18,143	
Total	2,782,561	2,920,263	3,028,018	3,189,387	
Loans and receivables					
due in one year	116,020	115,526	61,280	61,845	
due after one through two years	100,235	101,063	129,327	129,184	
due after two through three years	383,438	386,829	348,915	356,739	
due after three through four years	387,713	399,717	576,421	592,242	
due after four through five years	292,680	301,797	330,110	342,088	
due after five through ten years	911,387	937,655	806,953	840,900	
due after ten years	548,284	548,921	61,423	58,741	
Total	2,739,757	2,791,508	2,314,429	2,381,739	
Available for sale					
due in one year ²	3,588,809	3,600,228	4,127,663	4,146,256	
due after one through two years	2,058,167	2,092,457	1,856,401	1,892,437	
due after two through three years	1,939,361	1,980,087	1,841,265	1,892,893	
due after three through four years	1,733,870	1,763,185	2,184,191	2,238,279	
due after four through five years	2,200,059	2,220,655	2,277,464	2,294,991	
due after five through ten years	4,523,302	4,577,499	3,710,502	3,727,430	
due after ten years	1,779,764	1,855,154	1,629,312	1,703,603	
Total	17,823,332	18,089,265	17,626,798	17,895,889	
Financial assets at fair value through profit or loss					
due in one year	37,333	37,333	76,542	76,542	
due after one through two years	31,432	31,432	28,498	28,498	
due after two through three years	46,949	46,949	60,257	60,257	
due after three through four years	1,365	1,365	4,876	4,876	
due after four through five years	–	–	–	–	
due after five through ten years	5,939	5,939	–	–	
due after ten years	48,416	48,416	47,424	47,424	
Total	171,434	171,434	217,597	217,597	

1 Including accrued interest

2 Including short-term investments and cash

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

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

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as held to maturity as well as its fair value						Figures in EUR thousand
	30.6.2011					
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value	
Investments held to maturity						
Fixed-income securities						
Government debt securities of EU member states	321,910	9,767	1,002	6,450	337,125	
US treasury notes	351,640	38,670	–	2,750	393,060	
Other foreign government debt securities	10,745	581	–	25	11,351	
Debt securities issued by semi-governmental entities	559,161	32,163	146	7,746	598,924	
Corporate securities	520,955	20,036	951	14,449	554,489	
Covered bonds/asset-backed securities	970,128	41,487	2,903	16,602	1,025,314	
Total	2,734,539	142,704	5,002	48,022	2,920,263	

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as held to maturity as well as its fair value						Figures in EUR thousand
	31.12.2010					
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value	
Investments held to maturity						
Fixed-income securities						
Government debt securities of EU member states	324,564	13,960	1,252	6,884	344,156	
US treasury notes	382,844	44,791	–	3,038	430,673	
Other foreign government debt securities	11,618	743	–	28	12,389	
Debt securities issued by semi-governmental entities	709,181	35,252	978	13,305	756,760	
Corporate securities	563,779	26,219	1,132	12,453	601,319	
Covered bonds/asset-backed securities	979,452	48,562	4,796	20,872	1,044,090	
Total	2,971,438	169,527	8,158	56,580	3,189,387	

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value						Figures in EUR thousand
	30. 6. 2011					
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value	
Loans and receivables						
Government debt securities of EU member states	10,424	60	–	110	10,594	
Debt securities issued by semi-governmental entities	1,437,208	27,370	3,364	17,402	1,478,616	
Corporate securities	308,796	10,769	1,218	6,437	324,784	
Covered bonds/asset-backed securities	944,160	22,678	4,544	15,220	977,514	
Total	2,700,588	60,877	9,126	39,169	2,791,508	

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value						Figures in EUR thousand
	31.12.2010					
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value	
Loans and receivables						
Government debt securities of EU member states	–	–	–	305	305	
Debt securities issued by semi-governmental entities	996,339	29,986	88	14,622	1,040,859	
Corporate securities	467,355	15,317	829	6,335	488,178	
Covered bonds/asset-backed securities	818,053	27,541	4,617	11,420	852,397	
Total	2,281,747	72,844	5,534	32,682	2,381,739	

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

Figures in EUR thousand

	30.6.2011				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,750,729	20,789	24,465	24,207	1,771,260
US treasury notes	1,779,590	58,324	1,228	11,310	1,847,996
Other foreign government debt securities	920,028	12,960	698	5,282	937,572
Debt securities issued by semi-governmental entities	3,662,864	86,254	8,018	48,860	3,789,960
Corporate securities	5,632,966	103,723	60,918	94,269	5,770,040
Covered bonds/asset-backed securities	2,057,730	100,474	25,467	25,516	2,158,253
Investment funds	109,254	8,242	4,044	–	113,452
	15,913,161	390,766	124,838	209,444	16,388,533
Equity securities					
Shares	13,482	3,936	2	–	17,416
Investment funds	16,753	770	783	–	16,740
	30,235	4,706	785	–	34,156
Short-term investments	1,125,318	50	45	2,040	1,127,363
Total	17,068,714	395,522	125,668	211,484	17,550,052

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

Figures in EUR thousand

	31.12.2010				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	2,091,535	29,356	28,204	27,268	2,119,955
US treasury notes	2,011,438	68,669	3,530	13,532	2,090,109
Other foreign government debt securities	777,750	13,659	1,466	3,922	793,865
Debt securities issued by semi-governmental entities	3,453,861	90,835	10,100	50,883	3,585,479
Corporate securities	4,951,023	105,530	61,778	89,912	5,084,687
Covered bonds/asset-backed securities	2,015,755	100,579	42,381	31,513	2,105,466
Investment funds	90,815	8,773	1,515	–	98,073
	15,392,177	417,401	148,974	217,030	15,877,634
Equity securities					
Shares	374,338	29,020	5,038	–	398,320
Investment funds	128,132	10,373	70	–	138,435
	502,470	39,393	5,108	–	536,755
Short-term investments	1,568,528	939	275	1,310	1,570,502
Total	17,463,175	457,733	154,357	218,340	17,984,891

Fair value of financial assets at fair value through profit or loss before and after accrued interest as well as accrued interest on such financial assets							Figures in EUR thousand
	30.6.2011	31.12.2010	30.6.2011	31.12.2010	30.6.2011	31.12.2010	
	Fair value before accrued interest		Accrued interest		Fair value		
Financial assets at fair value through profit or loss							
Fixed-income securities							
Debt securities of semi-governmental entities	9,936	9,995	45	80	9,981	10,075	
Corporate securities	96,437	97,770	687	542	97,124	98,312	
Covered bonds/asset-backed securities	64,329	108,598	–	612	64,329	109,210	
	170,702	216,363	732	1,234	171,434	217,597	
Other financial assets							
Derivatives	60,156	54,756	–	–	60,156	54,756	
	60,156	54,756	–	–	60,156	54,756	
Total	230,858	271,119	732	1,234	231,590	272,353	

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

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

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

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

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

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

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

IAS 1 requires separate disclosure of treasury shares in shareholders' equity. As part of this year's employee share purchase scheme Hannover Re acquired altogether 24,305 treasury shares during the second quarter of 2011 and delivered them to eligible employees at preferential conditions. These shares are blocked until 31 May 2015. This transaction reduced retained earnings by an amount of EUR 0.4 million. The company was no longer in possession of treasury shares as at 30 June 2011.

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.–30.6.2011	1.1.–30.6.2010
Regional origin		
Germany	666,745	697,337
United Kingdom	1,184,610	1,132,213
France	283,884	264,977
Other	839,831	719,168
Europe	2,975,070	2,813,695
USA	1,339,384	1,477,696
Other	212,648	193,094
North America	1,552,032	1,670,790
Asia	588,234	457,042
Australia	295,342	229,270
Australasia	883,576	686,312
Africa	228,054	197,042
Other	406,096	314,487
Total	6,044,828	5,682,326

1 After elimination of internal transactions within the Group across segments

5.2 Investment income

Investment income in EUR thousand	1.1.–30.6.2011	1.1.–30.6.2010
Income from real estate	16,817	13,919
Dividends	4,448	1,691
Interest income	435,748	409,790
Other investment income	(9,097)	15,801
Ordinary investment income	447,916	441,201
Profit or loss on shares in associated companies	3,395	2,370
Appreciation	15,018	11,835
Realised gains on investments	107,678	118,962
Realised losses on investments	63,728	41,643
Unrealised gains and losses on investments	53,681	(86,185)
Impairments on real estate	4,657	3,752
Impairments on equity securities	–	556
Impairments on fixed-income securities	4,656	7,067
Impairments on participating interests and other financial assets	7,214	5,333
Other investment expenses	35,915	29,665
Net income from assets under own management	511,518	400,167
Interest income on funds withheld and contract deposits	236,574	219,209
Interest expense on funds withheld and contract deposits	75,306	67,998
Total investment income	672,786	551,378

Of the impairments totalling EUR 12.4 million, an amount of EUR 11.9 million was attributable to alternative investments. This includes impairments on private equity of EUR 7.2 million and impairments on structured fixed-income products of EUR 4.7 million. No impairments had to be recognised on other fixed-income securities. The write-downs contrasted with write-ups of EUR 15.0 million attributable exclusively to structured fixed-income securities. No impairments were

recognised on equities in the period under review because our portfolio did not contain any equities whose fair value had fallen significantly – i.e. by at least 20% – or for a prolonged period – i.e. for at least nine months – below acquisition cost.

The portfolio did not contain any overdue, unadjusted assets as at the balance sheet date since overdue securities are written down immediately.

Interest income on investments in EUR thousand	1.1.–30.6.2011	1.1.–30.6.2010
Fixed-income securities – held to maturity	58,548	64,057
Fixed-income securities – loans and receivables	41,769	43,501
Fixed-income securities – available for sale	311,193	280,322
Financial assets – at fair value through profit or loss	3,161	5,844
Other	21,077	16,066
Total	435,748	409,790

6. Other notes

6.1 Derivative financial instruments

Hannover Re's portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange contracts predominantly taken out to hedge cash flows from reinsurance contracts. The resulting liabilities of EUR 26.1 million (31 December 2010: EUR 34.9 million) were recognised under other liabilities.

Hannover Re holds derivative financial instruments to hedge interest rate risks from loans connected with the financing of real estate; these gave rise to recognition of other liabilities in an amount of EUR 2.6 million (31 December 2010: EUR 2.3 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 19.5 million (31 December 2010: EUR 0.2 million) as well as other liabilities amounting to EUR 0.1 million (31 December 2010: EUR 31.4 million).

The net changes in the fair value of these instruments improved the result of the period under review by EUR 56.4 million (30 June 2010: charge of EUR 63.4 million to the result of the period under review).

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

On this basis Hannover Re reported as financial assets at fair value through profit or loss technical derivatives in an amount of EUR 40.6 million as at 30 June 2011 (31 December 2010: EUR 54.5 million) that were separated from the underlying transaction and measured at fair value.

In addition, liabilities from derivatives in connection with the technical account totalling EUR 4.6 million (31 December 2010: EUR 8.5 million) were recognised under other liabilities as at the balance sheet date.

Of the derivatives carried on the assets side fair values of EUR 31.5 million (31 December 2010: EUR 45.2 million) were attributable as at the balance sheet date to derivatives embedded in "modified coinsurance" and "coinsurance funds withheld" (ModCo) reinsurance treaties.

Within the scope of the accounting of ModCo reinsurance treaties, under which securities deposits are held by the ceding companies and payments rendered on the basis of the income from certain securities of the ceding company, the interest-rate risk elements are clearly and closely related to the underlying reinsurance arrangements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio. Hannover Re calculates the fair value of the embedded derivatives in ModCo treaties using the market information available on the valuation date on the basis of

a “credit spread” method. Under this method the derivative is valued at zero on the date when the contract commences and its value then fluctuates over time according to changes in the credit spreads of the securities.

Owing to a slight widening of credit spreads in the course of the year, the ModCo derivatives gave rise to a charge against investment income of EUR 9.9 million before tax as at 30 June 2011 (30 June 2010: EUR 15.4 million).

6.2 Related party disclosures

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

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

Within the contractually agreed framework Talanx Asset Management GmbH (formerly AmpegaGerling Asset Management GmbH) performs investment and asset management services for Hannover Re and some of its subsidiaries. Assets in special funds are managed by AmpegaGerling Investment GmbH. Talanx Immobilien Management GmbH (formerly AmpegaGerling Immobilien Management GmbH) performs services for Hannover Re under a management contract.

Companies belonging to the Talanx Group granted the Hannover Re Group insurance protection inter alia in the areas of public liability, fire, group accident and business travel collision insurance. In addition, Talanx AG billed Hannover Re and E+S Rück pro rata for the directors’ and officers’ (D&O) insurance of the Talanx Group. Divisions of Talanx AG also performed services for us in the areas of taxes and general administration. All transactions were effected at usual market conditions.

HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI) holds an unchanged majority interest of 50.22% in Hannover Re through Talanx AG. The Hannover Re Group provides reinsurance protection for the HDI Group. To this extent, numerous underwriting business relations exist with related parties in Germany and abroad which are not included in Hannover Re’s consolidation. This includes business both assumed and ceded at usual market conditions. Protection Reinsurance Intermediaries AG grants Hannover Re and E+S Rück a preferential position as reinsurers of cedants within the Talanx Group. In addition, Hannover Re and E+S Rück are able to participate in the protection covers on the retention of Group cedants and share in the protection afforded by them.

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

Business assumed and ceded in Germany and abroad		Figures in EUR thousand	
	30.6.2011		
	Premium	Underwriting result	
Business assumed			
Non-life reinsurance	209,403	11,783	
Life and health reinsurance	113,978	10,591	
	323,381	22,374	
Business ceded			
Non-life reinsurance	(6,434)	1,464	
Life and health reinsurance	(5,042)	(3,116)	
	(11,476)	(1,652)	
Total	311,905	20,722	

6.3 Staff

The average number of staff employed at the companies included in the consolidated financial statement of the Hannover Re Group was 2,211 during the period under review (2010 financial year: 2,130).

As at the balance sheet date altogether 2,230 (2,192) staff were employed by the Hannover Re Group, with 1,101 (1,089) employed in Germany and 1,129 (1,103) working for the consolidated Group companies abroad.

6.4 Taxes on income

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

cancellation notices dated 8 February 2011 and 31 March 2011 respectively. Subsequent assessment notices regarding corporation tax were issued for Hannover Re and E+S Rück in the period under review. In total, the refund of taxes and interest as well as the capitalisation of tax and interest receivables for amounts still to be reimbursed resulted in an improvement of EUR 124.0 million in Group net income in the period under review.

6.5 Earnings per share

Calculation of the earnings per share	1.1.-30.6.2011	1.1.-30.6.2010
Group net income in EUR thousand	218,458	310,633
Weighted average of issued shares	120,596,864	120,596,619
Basic earnings per share in EUR	1.81	2.58
Diluted earnings per share in EUR	1.81	2.58

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

On the basis of this year's employee share purchase scheme Hannover Re acquired treasury shares in the course of the second quarter of 2011 and sold them to the eligible employees. The weighted average number of shares does not include 24,305 treasury shares pro rata temporis for the period from 4 to 6 May 2011. For further details please see our comments in Section 4.2 "Shareholders' equity, non-controlling interests and treasury shares".

6.6 Contingent liabilities and commitments

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

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

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

As security for technical liabilities to our US clients, we have established two trust accounts (master trust and supplemental trust) in the United States. They amounted to EUR 2,364.6 million (31 December 2010: EUR 2,576.3 million) and EUR 8.7 million (EUR 9.5 million) respectively as at the balance sheet date. In addition, we extended further collateral to our cedants in an amount of EUR 279.7 million (31 December 2010: EUR 298.6 million) through so-called "single trust funds".

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.

As part of our business activities we hold collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the Group's major companies was EUR 1,819.3 million (31 December 2010: EUR 1,851.4 million) as at the balance sheet date.

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

As security for our technical liabilities, various financial institutions have furnished guarantees for our company in the form of letters of credit. The total amount as at the balance sheet date was EUR 2,819.5 million (31 December 2010: EUR 2,766.6 million).

For liabilities in connection with participating interests in real estate companies and real estate transactions Hannover Re Real Estate Holdings has furnished the usual collateral under such transactions to various banks, the amount of which totalled EUR 268.6 million as at the balance sheet date (31 December 2010: EUR 257.5 million).

Outstanding capital commitments with respect to alternative investments exist on the part of the Group in the amount of EUR 345.9 million (31 December 2010: EUR 272.6 million). These primarily involve as yet unfulfilled payment obligations from participations entered into in private equity funds and venture capital firms.

6.7 Events after the end of the quarter

On 8 July 2011 we received the customary regulatory approvals for the sale of Clarendon Insurance Group, Inc. (CIGI), Wilmington, United States, to Enstar Group Ltd., Hamilton, Bermuda. The transaction closed on 12 July 2011, which means that the associated deconsolidation from Hannover Re

will take place in the third quarter of 2011. On the implications for the consolidated financial statement please see our comments in Section 3 “Consolidated companies and consolidation principles”.

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of

the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Hannover, 3 August 2011

Executive Board



Wallin



Arrago



Dr. Becke



Gräber



Dr. Miller



Dr. Pickel



Vogel

Review report by the independent auditors

To Hannover Rückversicherung AG, Hannover

We have reviewed the condensed consolidated interim financial statements – comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity, consolidated cash flow statement and selected explanatory notes – together with the interim Group management report of Hannover Rückversicherung AG, Hannover, for the period from 1 January to 30 June 2011, which are components of the half-yearly financial report pursuant to § 37w of the German Securities Trading Act (WpHG). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim management report for the Group in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent company's Board of Management. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim management report for the Group based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim management report for the Group in accordance with German generally accepted standards for the review of financial statements

Hannover, 3 August 2011

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Wirtschaftsprüfer	Wirtschaftsprüfer

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

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

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