somewhat different

Interim Report 1/2012

hannover re®

Key figures

Figures in EUR million	2012		2011	
	1.1.–31.3.	+/– previous year	1.1.–31.3.	31.12.
Results				
Gross written premium	3,510.6	+11.7%	3,143.1	
Net premium earned	2,816.2	+13.1%	2,490.7	
Net underwriting result	0.3		(382.7)	
Net investment income	440.6	+12.4%	392.0	
Operating profit (EBIT)	393.2		47.4	
Group net income (loss)	261.3		52.3	
Balance sheet (as at the end of the quarter)				
Policyholders' surplus	7,705.3	+5.0%		7,338.2
Equity attributable to shareholders of Hannover Re	5,360.4	+7.8%		4,970.6
Non-controlling interests	612.0	–3.8%		636.0
Hybrid capital	1,732.9	+0.1%		1,731.6
Investments (excl. funds withheld by ceding companies)	28,986.7	+2.3%		28,341.2
Total assets	51,120.9	+2.5%		49,867.0
Share				
Earnings per share (basic and diluted) in EUR	2.17		0.43	
Book value per share in EUR	44.45	+7.8%	36.05	41.22
Share price at the end of the period in EUR	44.54	+16.2%	38.525	38.325
Market capitalisation at the end of the period	5,371.4	+16.2%	4,646.0	4,621.9
Ratios				
Combined ratio (non-life reinsurance)[1]	96.8%		123.8%	
Major losses as percentage of net premium earned (non-life reinsurance)[2]	3.9%		41.6%	
Retention	91.0%		89.3%	
Return on investment (excl. funds withheld by ceding companies)	5.0%		5.0%	
EBIT margin[3]	14.0%		1.9%	
Return on equity	20.2%		4.7%	

1 Incl. funds withheld
2 Natural catastrophes and other major losses in excess of EUR 10 million gross for the Hannover Re Group's share as a percentage of net premium earned (until 31 December 2011: in excess of EUR 5 million gross)
3 Operating result (EBIT)/net premium earned

Ulrich Wallin
Chairman of the Executive Board

Dear shareholders, ladies and gentlemen,

With a profit of EUR 261 million we generated exceptionally good Group net income in the first quarter of the 2012 financial year. Key drivers here were a satisfactory underwriting result in non-life reinsurance, a very good underwriting result in life and health reinsurance and similarly very good investment income. It should, however, also be borne in mind that we profited from the reversal of impairments on the inflation swaps that we had taken out as well as on the so-called ModCo derivatives in life and health reinsurance. The balance of unrealised gains and losses within our investment income consequently reached a positive level in excess of EUR 80 million. This had a favourable effect of roughly EUR 70 million on post-tax Group net income. Even though such positive developments in the unrealised gains and losses will not occur every quarter and – as has been observed in the past – charges can also be incurred under this item, we can nevertheless assert that the performance of the first quarter has put in place a solid platform for a successful 2012 financial year. I would like to outline below the developments to date in non-life and life/health reinsurance as well as in our investment portfolio.

In non-life reinsurance, our largest business group, market conditions are for the most part favourable. We enjoyed a good round of treaty renewals on 1 January 2012 and made the most of opportunities to write profitable business. Our portfolio of non-life reinsurance up for renewal showed an increase of around 6 percent in premium volume, as against 2 percent in the previous year.

Reflecting the heavy burden of natural catastrophe losses in the previous year, rate increases – especially in property catastrophe business – were as expected appreciable. We were able to obtain double-digit price rises under loss-impacted programmes. The outcome of the renewals for business in our domestic market was also pleasing. Specialty lines, in which we include inter alia marine and aviation reinsurance as well as credit and surety business, also fared satisfactorily.

With growth of around 10 percent in total gross premium and Group net income of EUR 173 million, we achieved a very good performance in non-life reinsurance as at 31 March 2012. After deduction of our own reinsurance, growth in net premium was as high as 13 percent. In contrast to the corresponding period of the previous year, the major loss situation in the first quarter was thoroughly moderate and the losses incurred by your company consequently remained well below the expected level.

In the context of our risk management we attach particularly great importance to keeping our major loss exposure within our previously defined risk appetite; in this way, we are able to ensure that the repercussions of such major losses on Group net income remain within tolerable bounds. For this purpose, we hedge our peak exposures – especially to natural catastrophes – by purchasing our own reinsurance protection (retrocessions). Given the major loss expenditure of the previous year, these retrocessions provided considerable relief for Hannover Re thanks to the strains carried by our business partners who had accepted these retrocessions. The renewal of these retrocessions for 2012 was therefore particularly challenging. With this in mind, it is especially gratifying to note that for a reasonable additional premium we were again successful in placing a retrocession programme in 2012 that affords us a protective effect comparable to that of the previous year's programme.

We are thoroughly satisfied with the development of our second business group, namely life and health reinsurance; it improved appreciably on the comparable quarter of the previous year. Both established insurance markets, such as the United States, Germany and the United Kingdom, and emerging markets in Asia – most notably China and the retakaful sector – continue to offer good scope for profitable growth. We also stepped up our activities in the UK annuity market. At the beginning of the year we wrote a block assumption transaction for longevity risks in the United Kingdom, under which pension commitments of a UK industrial enterprise are reinsured. In the context of our risk management, too, we find the assumption of longevity risks an attractive proposition because they are negatively correlated with mortality risks and hence promote better diversification of the portfolio.

The development of our US risk-oriented life reinsurance portfolio is also especially gratifying. Building on the platform acquired with the ING transaction in 2009, we have been increasingly successful here in writing attractive new business that assures us a growing profit stream over many years.

Total life and health reinsurance delivered pleasing growth of 14 percent in gross premium volume as at 31 March 2012. Group net income improved clearly on the previous year to reach EUR 100 million. This was driven in particular by the very good biometric risk experience, especially in the United States and United Kingdom. As an additional factor, the narrowing of credit spreads on bond markets favourably affected the fair value development of the derivative that we recognise in connection with securities deposits held for our account by US clients. We generated income of some EUR 30 million after tax on this basis.

The performance of our investments in the first quarter of 2012 was once again thoroughly pleasing. Even though capital markets are somewhat calmer overall, conditions remain difficult in the face of the European sovereign debt crisis. Our policy on bonds continues to be geared towards a broadly diversified portfolio. We again retained the geographical spread of our government bonds essentially unchanged in the first quarter. Relative to our total asset portfolio, our exposure to countries where credit spreads are wider is still low. We substantially reduced our holding of Spanish government bonds in the first quarter; it remains the case that our portfolio does not contain any bonds of Greek issuers. Thanks to an enlarged asset volume, our ordinary income comfortably surpassed the level of the corresponding period of the previous year. The development of our assets measured at fair value through profit or loss was also very pleasing in the first quarter. All in all, bearing in mind that the capital market environment is still challenging, we are highly satisfied with our net investment income of EUR 357 million from assets under own management. Including the effects from derivatives, this produces a pleasing annualised average return of around 5 percent for our portfolio of assets under own management.

In view of the highly satisfactory market conditions in non-life and life/health reinsurance, we anticipate a good result for 2012. This is conditional upon the major loss expenditure not significantly exceeding the expected level of EUR 560 million and assumes that there are no unforeseen downturns on capital markets.

On 14 March 2012, the day when we held our press conference on the annual results, we also reported that the Supervisory Board of Hannover Re had approved a resolution of the Executive Board to transform your company into a European public limited company (Societas Europaea or SE). As valued shareholders of Hannover Rückversicherung AG, you will automatically become shareholders of Hannover Rück SE upon conversion; in other words, your rights remain unaffected. The transformation is subject to the Annual General Meeting of 3 May 2012 giving its approval to this proposed change of legal form. You are perhaps wondering why we have decided to take this step: by converting to an SE we are reflecting our international dimension and at the same time modernising the legal form of the company. Not only that, as a European public limited company we shall have greater flexibility to respond to future legal or regulatory requirements.

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

Yours sincerely,

Ulrich Wallin
Chairman of the Executive Board

Business development

We are exceptionally satisfied with the course of business in the first quarter of 2012. Both business groups, namely non-life and life/health reinsurance, developed as planned and delivered a very healthy profit contribution towards attainment of our goals for a successful financial year. The major loss expenditure – in contrast to the previous year – came in below our expectations.

Gross written premium in total business increased by a substantial 11.7% as at 31 March 2012 to reach EUR 3.5 billion (EUR 3.1 billion). At constant exchange rates growth would have come in at 9.5%. The level of retained premium moved slightly higher to 91.0% (89.3%). Net premium climbed 13.1% to EUR 2.8 billion (EUR 2.5 billion). Growth of 10.8% would have been recorded at constant exchange rates.

The development of our investments in the first quarter was also highly satisfactory. The portfolio of assets under own management grew to EUR 29.0 billion (31 December 2011: EUR 28.3 billion). Despite the persistently low interest rate level, ordinary investment income excluding interest on deposits was comfortably higher than in the comparable period at EUR 258.2 million (EUR 222.7 million); the resulting annualised return of 3.6% was on a par with the previous year. Interest on deposits climbed to EUR 83.7 million (EUR 75.9 million). The unrealised gains on our asset holdings recognised at fair value through profit or loss totalled EUR 84.6 million (EUR 69.0 million). This positive development was driven primarily by the pleasing movement in the fair values of our inflation swaps as well as of the derivatives recognised for securities deposits held for our account by US clients. Our investment income consequently improved sharply on the corresponding period of the previous year, amounting to EUR 440.6 million (EUR 392.0 million) as at 31 March 2012.

Reflecting a moderate major loss incidence and very healthy investment income, the operating profit (EBIT) climbed significantly to reach EUR 393.2 million as at 31 March 2012. The result for the comparable period (EUR 47.4 million) had been heavily impacted by natural catastrophe losses. Group net income showed very pleasing improvement to come in around five times higher at EUR 261.3 million (EUR 52.3 million). Earnings per share stood at EUR 2.17 (EUR 0.43).

Hannover Re's equity base was further strengthened to EUR 5.4 billion (31 December 2011: EUR 5.0 billion). The book value per share amounted to EUR 44.45 (31 December 2011: EUR 41.22). The annualised return on equity reached 20.2% (4.7%).

Non-life reinsurance

Non-life reinsurance, our largest business group, developed highly satisfactorily. The treaty renewals as at 1 January 2012 – when 63% of our treaties in traditional reinsurance were renegotiated – passed off favourably for our company. We boosted our premium volume from renewed business by some 6%, compared with an increase of 2% in the previous year. Overall, we secured better conditions and rates than in the prior year. As anticipated, price increases were especially marked in segments that had suffered losses in 2011. It is nevertheless still too soon to speak of a hard market taking hold throughout the entire non-life reinsurance sector.

The most appreciable rate rises were recorded in property catastrophe business: prices for reinsurance covers improved sharply on the back of the substantial losses incurred from natural catastrophes in 2011. The renewal round for business in our domestic market, where the situation in motor insurance improved, passed off better than expected. We are also broadly satisfied with the treaty renewals in North America. Rate increases were for the most part pushed through in US property business. The situation was especially gratifying in Canada, where we obtained substantial rate increases in most instances. We were also satisfied with developments in specialty lines: our premium volume in marine, aviation and credit/surety business continued to grow. The picture in global reinsurance was a mixed one: in developed markets we maintained our portfolio broadly unchanged, whereas in the markets of Asia and the Middle East we booked further strong growth.

The gross premium for our non-life reinsurance business group increased by a sizeable 10.0% relative to the corresponding period of the previous year to stand at EUR 2.1 billion (EUR 1.9 billion). At constant exchange rates, especially against the US dollar, growth would have been 8.1%. The level of retained premium increased to 91.2% (87.8%). Net premium earned climbed 13.0% to EUR 1.6 billion (EUR 1.4 billion), or 11.0% adjusted for exchange rate effects.

The major loss situation in the first quarter was very much on the moderate side. At EUR 60.6 million (EUR 572.1 million), the net burden of major losses came in well below our expectations. The largest single loss in the first quarter was the partial sinking of the Costa Concordia cruise ship. This gave rise to net loss expenditure of EUR 45.0 million. In view of the favourable major loss development, the underwriting result for the entire non-life reinsurance portfolio closed at a very pleasing EUR 46.8 million (–EUR 330.9 million) for the first quarter. The combined ratio improved markedly to 96.8% (123.8%).

The operating profit (EBIT) in non-life reinsurance climbed to a very good EUR 263.2 million (–EUR 24.5 million) as at 31 March 2012 thanks to the positive influencing factors. Group net income rose appreciably to EUR 173.2 million (EUR 17.3 million), producing earnings per share of EUR 1.44 (EUR 0.14).

Key figures for non-life reinsurance in EUR million	2012		2011
	1.1.–31.3.	**+/– previous year**	**1.1.–31.3.**
Gross written premium	2,116.6	+10.0%	1,924.3
Net premium earned	1,554.7	+13.0%	1,376.3
Underwriting result	46.8		(330.9)
Net investment income (loss)	254.5	+1.7%	250.3
Operating result (EBIT)	263.2		(24.5)
Group net income (loss)	173.2		17.3
Earnings per share in EUR	1.44		0.14
Combined ratio[1]	96.8%		123.8%
Retention	91.2%		87.8%

1 Including expenses on funds withheld and contract deposits

Life and health reinsurance

The environment in international life and health reinsurance continues to offer advantageous conditions. The importance to our life/health reinsurance portfolio of mature insurance markets such as the United States, Germany, the United Kingdom, France and Scandinavia remains undiminished. In the area of health, long-term care and annuity insurance demographic change is opening up particularly attractive opportunities. Business in emerging Asian markets, most strikingly in China, and so-called retakaful business – i.e. insurance transacted in accordance with Islamic law – are enjoying sustained growth, and we therefore see promising new business potential here. This is also true of the Australian market, where we put our primary insurance licence at the disposal of sales organizations and are achieving significant growth in certain product lines.

Through direct contact with our clients we are able to offer tailored reinsurance solutions designed to optimise the management of their capital, liquidity and risks: in the first quarter of 2012, for example, we closed a promising new business financing transaction in South Africa on this basis. We also wrote a number of new acceptances in other markets, most notably in France and Asia. Our business activities in the UK annuity market were further expanded.

Gross written premium in life and health reinsurance climbed 14.3% to EUR 1.4 billion (EUR 1.2 billion) as at 31 March 2012. At constant exchange rates growth would have come in at 11.6%. Net premium earned increased by 13.2% to EUR 1.3 billion (EUR 1.1 billion), corresponding to a retention of 90.8% (91.5%). Adjusted for exchange rate effects, growth would have amounted to 10.5%.

In the early months of the current financial year, unlike in 2011, credit spreads on securities had a favourable effect on the performance of life and health reinsurance: narrowing credit spreads resulted in a positive fair value development for the derivative that we recognise for the default risk associated with assets in the securities deposits held for our account by US clients. The resulting unrealised gains totalled EUR 36.8 million. The result in life and health reinsurance also profited from a favourable mortality experience in our US life reinsurance portfolio.

The operating profit (EBIT) for the life and health reinsurance business group surged strongly to EUR 122.2 million (EUR 58.4 million) as at 31 March 2012. The EBIT margin of 9.7% was well above our strategic target. Group net income for the first quarter of 2012 soared to EUR 100.1 million (EUR 41.5 million). Earnings per share amounted to EUR 0.83 (EUR 0.34).

As in previous years, we are also reporting on the Market Consistent Embedded Value (MCEV) in the context of our interim report on the first quarter. The MCEV consists of a valuation of our entire life and health reinsurance portfolio. In addition to the allocated capital it encompasses the discounted expected future profits. The MCEV thus provides a good basis for assessing long-term profitability. Further details are provided in the MCEV report published on our website.

The development of the MCEV was again very pleasing in 2011. As at 31 December 2011 it stood at EUR 3.1 billion (EUR 2.6 billion) excluding non-controlling interests. This corresponds to growth of 19.4%. Including non-controlling interests, the MCEV amounted to as much as EUR 3.2 billion (EUR 2.7 billion). The value of new business excluding non-controlling interests showed another sharp increase of 61.2% and totalled EUR 240.6 million (EUR 149.3 million).

Key figures for life and health reinsurance in EUR million	2012		2011
	1.1.–31.3.	+/– previous year	1.1.–31.3.
Gross written premium	1,394.0	+14.3%	1,219.4
Net premium earned	1,261.5	+13.2%	1,114.5
Net investment income	177.4	+38.8%	127.8
Operating result (EBIT)	122.2	+109.1%	58.4
Group net income (loss)	100.1	+141.2%	41.5
Earnings per share in EUR	0.83	+141.2%	0.34
Retention	90.8%		91.5%
EBIT margin[1]	9.7%		5.2%

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

Interim management report

Investments

Credit spreads in the area of European and US corporate bonds retreated across all rating classes. US treasury securities as well as German and UK government bonds, on the other hand, saw slight yield increases across all duration ranges. French government bonds recorded yield declines in medium and long durations. The picture as regards the countries on the Eurozone periphery – presently the focus of so much attention – was a mixed one: while Italian, Irish and Portuguese bonds recovered across all durations in the first quarter, yields on Spanish government bonds increased in medium and long durations. In total, the unrealised gains on our fixed-income securities rose to EUR 1,067.8 million (EUR 784.3 million). Our portfolio of assets under own management continued to grow to EUR 29.0 billion (EUR 28.3 billion).

Despite the sustained low level of interest rates, ordinary investment income excluding interest on deposits was 15.9% higher than in the corresponding period of the previous year at EUR 258.2 million (EUR 222.7 million). Interest on deposits also increased to EUR 83.7 million (EUR 75.9 million).

Impairments of altogether EUR 7.2 million (EUR 13.7 million) were taken. This includes impairments of EUR 3.3 million on alternative investments and EUR 1.4 million on equities. Scheduled depreciation on directly held real estate climbed slightly to EUR 2.6 million (EUR 2.2 million), a reflection of our greater involvement in this area. The total volume of write-downs contrasted with write-ups of EUR 0.2 million (EUR 14.1 million), which were attributable primarily 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 gains of EUR 36.8 million recognised in investment income.

Altogether, the unrealised gains on our assets recognised at fair value through profit or loss amounted to EUR 84.6 million (EUR 69.0 million). The inflation swaps taken out in 2010 to hedge part of the inflation risks associated with the loss reserves in our technical account gave rise to unrealised gains of EUR 42.6 million (EUR 60.2 million), which were recognised in income. The changes in the fair values of the inflation swaps are recognised in income as a derivative pursuant to IAS 39.

The net balance of realised gains stood at EUR 37.8 million (EUR 39.2 million).

Thanks to the increased ordinary investment income and unrealised gains on our assets recognised at fair value through profit or loss, our investment income clearly surpassed the level of the comparable quarter. It amounted to EUR 440.6 million (EUR 392.0 million) in the period under review. This produced an annualised average return (including effects from derivatives) of 5.0% for our portfolio of assets under own management.

Net investment income in EUR million	2012		2011
	1.1.–31.3.	**+/– previous year**	1.1.–31.3.
Ordinary investment income[1]	258.2	+15.9%	222.7
Results from participation in associated companies	1.8	–24.1%	2.4
Realised gains/losses	37.8	–3.5%	39.2
Appreciation	0.2	–98.8%	14.1
Impairments on investments[2]	7.2	–47.1%	13.7
Unrealised gains/losses[3]	84.6	+22.5%	69.0
Investment expenses	18.4	+4.6%	17.6
Net investment income from assets under own management	**356.9**	**+12.9%**	**316.1**
Net investment income from funds withheld	83.7	+10.4%	75.9
Total investment income	**440.6**	**+12.4%**	**392.0**

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

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

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

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

Material risks

Technical risks in non-life reinsurance

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

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

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

Technical risks in life and health reinsurance

All risks directly connected with the life of an insured person are referred to as biometric risks (especially the miscalculation of mortality, life expectancy, morbidity and occupational disability); they constitute material risks for our company in the area of life and health reinsurance. Counterparty, lapse and catastrophe risks are also material since we additionally prefinance our cedants' new business acquisition costs. As in non-life reinsurance, the reserves are essentially calculated according to information provided by our clients and are also determined on the basis of secure biometric actuarial bases. Through our quality assurance measures we ensure that the reserves established by ceding companies in accordance with local accounting principles satisfy all requirements with respect to the calculation methods used and assumptions made (e.g. use of mortality and morbidity tables, assumptions regarding the lapse rate). New business is written in all regions in compliance with underwriting guidelines applicable worldwide, which set out detailed rules governing the type, quality, level and origin of risks. These global guidelines are revised annually and approved by the Executive Board. Special underwriting guidelines give due consideration to the particular features of individual markets. By monitoring compliance with these underwriting guidelines we minimise the risk of an inability to pay or deterioration in the financial status of cedants. Regular reviews and holistic analyses (e.g. with an eye to lapse risks) are carried out with respect to new business activities and the assumption of international portfolios. The interest rate risk, which in the primary sector is important in life business owing to the guarantees that are given, is of only minimal relevance to our company thanks to the structure of our contracts. The actuarial reports and documentation required by local regulators ensure that regular scrutiny also takes place on the level of the subsidiaries.

Development of combined and catastrophe loss ratio — in %

	Q1 2012	2011	2010	2009	2008	2007	2006	2005[1]	2004[1]	2003[1,2]	2002[1,2]
Combined ratio (non-life reinsurance)	96.8	104.3	98.2	96.6	95.4	99.7	100.8	112.8	97.2	96.0	96.3
thereof catastrophe losses[3]	3.9	16.5	12.3	4.6	10.7	6.3	2.3	26.3	8.3	1.5	5.2

1 Including financial reinsurance and specialty insurance
2 Based on figures reported in accordance with US GAAP
3 Natural catastrophes and other major losses in excess of EUR 10 million gross for the Hannover Re Group's share as a percentage of net premium earned (until 31 December 2011: in excess of EUR 5 million gross)

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

Market risks

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

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

The internal capital model provides us with quantitative support for the investment strategy as well as a broad diversity of VaR calculations. In addition, tightly defined tactical duration ranges are in place, within which the portfolio can be positioned opportunistically according to market expectations. The parameters for these ranges are directly linked to our calculated risk-bearing capacity.

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

Scenarios for changes in the fair value of material investment positions — in EUR million

	Scenario	Portfolio change on a fair value basis	Change in equity before tax
Equity securities	Share prices –10%	–4.5	–4.5
	Share prices –20%	–9.0	–9.0
	Share prices +10%	+4.5	+4.5
	Share prices +20%	+9.0	+9.0
Fixed-income securities	Yield increase +50 basis points	–577.5	–413.0
	Yield increase +100 basis points	–1,129.0	–806.7
	Yield decrease –50 basis points	+599.0	+428.4
	Yield decrease –100 basis points	+1,223.5	+875.6

Interim management report

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

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

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

Credit risks from investments may arise out of the risk of a failure to pay (interest and/or capital repayment) or a change in the credit status (rating downgrade) of issuers of securities. We attach equally vital importance to exceptionally broad diversification as we do to credit assessment conducted on the basis of the quality criteria set out in the investment guidelines.

In order to limit the risk of counterparty default we define various limits on the issuer and issue level as well as in the form of dedicated rating quotas. A comprehensive system of risk reporting ensures timely reporting to the functions entrusted with risk management. The measurement and monitoring mechanisms that have been put in place safeguard a prudent, broadly diversified investment strategy. This is reflected inter alia in the fact that within our portfolio of assets under own management the exposures to government bonds or instruments backed by sovereign guarantees issued by the so-called GIIPS states (Greece, Ireland, Italy, Portugal, Spain) amount to altogether just EUR 211.4 million on a fair value basis. This corresponds to a proportion of 0.7%. The individual countries account for the following shares: Spain EUR 146.5 million, Ireland EUR 23.0 million, Italy EUR 22.0 million and Portugal EUR 20.0 million. No impairments had to be taken on these holdings. Our portfolio does not contain any bonds of Greek issuers.

On a fair value basis EUR 3,578.6 million of the corporate bonds held by our company were issued by entities in the financial sector. Of this amount, EUR 2,959.8 million was attributable to banks. The vast majority of these bank bonds (76.7%) are rated “A” or better. Our investment portfolio under own management does not contain any directly written credit derivatives.

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	27.8	1,462.8	58.6	3,645.5	2.6	248.2	62.0	3,000.0
AA	54.1	2,846.4	37.7	2,345.3	15.9	1,497.4	24.0	1,163.6
A	9.8	516.7	3.0	188.5	52.1	4,910.2	4.5	218.8
BBB	6.3	330.3	0.5	33.4	24.4	2,292.3	4.8	234.3
< BBB	2.0	106.1	0.2	13.4	5.0	471.8	4.7	226.0
Total	**100.0**	**5,262.2**	**100.0**	**6,226.1**	**100.0**	**9,419.9**	**100.0**	**4,842.7**

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

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

Credit risks

The credit risk consists primarily of the risk of complete or partial failure of the counterparty and the associated default on payment. Since the business that we accept is not always fully retained, but instead portions are retroceded as necessary, the credit risk is also material for our company in reinsurance transactions. Our retrocession partners are carefully selected and monitored in light of credit considerations in order to keep the risk as small as possible. This is also true of our broker relationships, which entail a risk inter alia through the potential loss of the premium paid by the cedant to the broker or through possible double payments of claims. We minimise these risks, inter alia, by reviewing all broker relationships with an eye to criteria such as the existence of professional indemnity insurance, payment performance and proper contract implementation. The credit status of retrocessionaires is continuously monitored. On the basis of this ongoing monitoring a Security Committee decides on measures where necessary to secure receivables that appear to be at risk of default. Overall, retrocessions conserve our capital, stabilise and optimise our results and enable us to act on opportunities across a broader front, e.g. following a catastrophe loss event. Regular visits to our retrocessionaires give us a reliable overview of the market and put us in a position to respond quickly to capacity changes. Through these close contacts with our retrocessionaires we are able to provide a stable renewals forecast. Alongside traditional retrocessions in non-life reinsurance we also transfer risks to the capital market. Yet credit risks are relevant to our investments and in life and health reinsurance, too, because we prefinance acquisition costs for our ceding companies. Our clients, retrocessionaires and broker relationships as well as our investments are therefore carefully evaluated and limited in light of credit considerations and are constantly monitored and controlled within the scope of our system of limits and thresholds.

In terms of the Hannover Re Group's major companies, EUR 231.6 million (6.4%) of our accounts receivable from reinsurance business totalling EUR 3,588.6 million were older than 90 days as at 31 March 2012. The average default rate over the past three years was 0.1%.

Operational risks

Operational risks refer to the risk of losses occurring because of the inadequacy or failure of internal processes or as a result of events triggered by employee-related, system-induced or external factors. Operational risks are monitored primarily by way of appropriate process management. These risk potentials are evaluated on the basis of expert assessments, the plausibility of which is verified by central risk management. These assessments enable us to prioritise operational risks. When it comes to the monitoring of such risks, we attach special emphasis to the following individual risks.

Business process risks are associated with the risk of inadequate or deficient internal processes, e.g. as a consequence of poor data quality. Data quality is a critical success factor, especially in risk management, because all enterprise processes are based on the information made available. The overriding goal of our data quality management is to bring about sustainable improvement and to safeguard data quality within the Hannover Re Group, for example by way of regular data quality checks. In addition, as part of our process management, overarching and company-wide processes are continuously optimised and standardised.

Compliance risks are associated with the risk of breaches of standards and requirements, non-compliance with which may entail lawsuits or official proceedings with not inconsiderable detrimental implications for the business activities of the Hannover Re Group (e.g. tax, anti-trust, embargo or regulatory law). Upon suspicion of breaches of the law pertaining to Hannover Re, our employees and business partners are able to report such suspicions anonymously using our electronic whistleblower system. These tips are brought to the attention of Hannover Re's Compliance Office, which is thus able to investigate the grounds for suspicion.

As a reinsurance specialist, we transact primary insurance business that complements our reinsurance activities in selected market niches. In so doing, just as on the reinsurance side, we always work together with partners from the primary sector – such as insurance brokers and underwriting agencies. This gives rise to risks associated with such sales channels, although these are minimised through the careful selection of agencies, mandatory underwriting guidelines and regular checks.

Fraud risks refer to the risk of intentional violations of laws or regulations by members of staff (internal fraud) and/or by externals (external fraud). This risk is reduced by the process-integrated internal control system as well as by the audits conducted by Internal Auditing on a Group-wide and line-independent basis.

The proper functioning and competitiveness of the Hannover Re Group can be attributed in large measure to the expertise and dedication of our staff. In order to minimise personnel risks, we pay special attention to the skills, experience and motivation of our employees and foster these qualities through outstanding personnel development and leadership activities. Regular employee surveys, the monitoring of turnover rates and the holding of exit interviews ensure that such risks are identified at an early stage and scope to take the necessary actions is created.

Information technology risks and information security risks arise, inter alia, out of the risk of the inadequate integrity, confidentiality or availability of systems and information. Losses and damage caused by unauthorised access to IT systems or by computer viruses, for example, pose a serious threat to the Hannover Re Group. Given the broad spectrum of such risks, a diverse range of steering and monitoring measures and organisational standards have been put in place.

When it comes to reducing business interruption risks, the paramount objective is the quickest possible return to normal operations after a crisis, for example through implementation of existing contingency plans. Guided by internationally accepted standards, we have defined the basic framework conditions for the Hannover Re Group. The system is complemented by regular exercises and tests.

The partial or complete outsourcing of functions and/or services may give rise to associated risks. Regulatory and binding internal rules serve to minimise such risks. All risks associated with any instance of outsourcing must be identified, evaluated (e.g. by way of a performance assessment) and appropriately steered and controlled.

Other risks

Of material importance to our company in the category of other risks are primarily emerging risks, strategic risks, reputational risks and liquidity risks.

The hallmark of emerging risks (such as climate change or nanotechnology) is that the content of such risks cannot as yet be reliably assessed – especially with respect to our treaty portfolio. Such risks evolve gradually from weak signals to unmistakable tendencies. It is therefore vital to detect these risks at an early stage and then determine their relevance. For the purpose of early detection we have developed an efficient process that spans divisions and lines of business and we have ensured its linkage to risk management. Emerging risks may also have implications for our treaty portfolio – in the form not only of risks but also opportunities, e.g. through increased demand for reinsurance products.

Strategic risks derive from a possible imbalance between the corporate strategy of the Hannover Re Group and the constantly changing general business environment. Such an imbalance might be caused, for example, by incorrect strategic policy decisions, a failure to consistently implement the defined strategies and business plans or an incorrect allocation of resources. We therefore regularly review our corporate strategy in a multi-step procedure and adjust our processes and the resulting guidelines as and when required. We have defined performance criteria and indicators for the operational implementation of the strategic guidelines; these are authoritative when it comes to determining fulfilment of the various targets.

Reputational risks refer to the risk of a loss of trust in our company among clients, shareholders, employees or the public at large. This risk has the potential to jeopardise the business foundation of the Hannover Re Group. A good corporate reputation is therefore an indispensable prerequisite for our core business as a reinsurer. Loss of reputation may occur, for example, if a data mishap becomes public knowledge or as a consequence of fraud. We use a number of different practices to minimise this risk, including for example our set communication channels, a professional approach to corporate communications, tried and tested processes for defined crisis scenarios as well as our established Code of Conduct.

The liquidity risk refers to the risk of being unable to meet our financial obligations when they become due. The liquidity risk consists of the refinancing risk, i.e. the necessary cash cannot be obtained or can only be raised at increased costs, and the market liquidity risk, meaning that financial market transactions can only be completed at a poorer price than expected due to a lack of market liquidity. Core elements of the liquidity management of our investments are, in the first place, management of the maturity structure of our investments on the basis of the planned payment profiles arising out of our technical liabilities and, secondly, regular liquidity planning as well as the asset structure of the investments.

Above and beyond the foreseeable payments, unexpected and exceptionally large payments may pose a threat to liquidity. Yet in reinsurance business significant events (major losses) are normally paid out after a lead time that can be reliably planned. As part of our liquidity management we have nevertheless defined asset holdings that have proven to be highly liquid even in times of financial stress. In addition, we manage the liquidity of the portfolio through ongoing monitoring of the liquidity of the instruments contained therein; liquidity is verified on a monthly and ad hoc basis. These measures serve to effectively reduce the liquidity risk.

Assessment of the risk situation

The above remarks describe the diverse spectrum of risks to which Hannover Re, as an internationally operating reinsurance company, is exposed as well as the steps taken to manage and monitor them. These risks can potentially have a significant impact on our assets, financial position and net income. Yet consideration solely of the risk aspect does not fit our conception of risk, since it is always the case that Hannover Re only enters into those risks that go hand-in-hand with opportunities. Our management and monitoring tools as well as our organisational and operational structures ensure that we are able to identify our risks in a timely manner and maximise our opportunities. The pivotal element in this regard is our effective and closely interlinked system of qualitative and quantitative risk management. We are of the opinion that our risk management system affords us a transparent overview of the current risk situation at all times and that our overall risk profile is appropriate. Based on our currently available insights arrived at from a holistic analysis of the risk situation, the Executive Board of Hannover Re cannot discern any risks that could jeopardise the continued existence of our company in the short or medium term or have a material and lasting effect on our assets, financial position or net income.

For additional information on the opportunities and risks associated with our business please see the Group Annual Report 2011.

Outlook

In light of the attractive market opportunities in non-life and life/health reinsurance and the pleasing result for the first quarter, we anticipate a good financial year in 2012. Our total gross premium volume is expected to grow by 5% to 7%.

Market conditions in non-life reinsurance give considerable grounds for satisfaction. The favourable outcome of the treaty renewals at the beginning of the year was reinforced by the renewal round on 1 April 2012 and even surpassed in some areas. Particularly with respect to Japan, the rate increases – following on from the rises in the previous year – were again appreciable. Rate hikes running into the mid-double digits were obtained for earthquake covers. Conditions for proportional property and casualty business also improved. Korea similarly saw substantial rate increases, which were especially marked for programmes containing foreign exposures or those that had been impacted by losses outside Korea, such as the earthquake in Japan or flooding in Thailand. In US catastrophe business, too, rates moved higher; substantial price increases were recorded particularly for programmes that had suffered losses from the series of tornadoes. It is our expectation that the other upcoming renewals within the year will also pass off favourably overall and that the price increases will hold firm over the medium term too. For the full 2012 financial year we anticipate growth of 5% to 7% in gross premium income from non-life reinsurance.

The prospects in life and health reinsurance remain attractive and we are thus looking forward to the 2012 financial year in upbeat mood. This is motivated, in the first place, by the demographic trend in industrialised nations such as the United States, Japan, United Kingdom, France and Germany. In a large section of these markets the demographic change is stimulating steadily increasing demand for retirement provision solutions and long-term care insurance products. Secondly, key emerging markets such as China, India and Russia have an expanding affluent middle class. Against this backdrop, financial protection in old age is taking on ever greater significance here too, as reflected in rising demand for corresponding life insurance products. What is more, tailored reinsurance solutions designed to optimise solvency and provide relief for the equity base of primary insurers are consistently growing in importance as a consequence of the impending implementation of Solvency II. For the current financial year we are therefore looking to generate organic growth of 5% to 7% in our gross premium.

The expected positive cash flow that we generate from the technical account and the investments should – subject to stable exchange rates – lead to further growth in our asset portfolio. In the area of fixed-income securities we continue to stress the high quality and diversification of our portfolio. We are targeting a return on investment of 3.5% for 2012.

In view of the good overall business conditions in non-life and life/health reinsurance and bearing in mind our strategic orientation, we are looking forward to a very good 2012 financial year. This is subject to the premise that the burden of major losses does not significantly exceed the expected level of EUR 560 million for the full year and also assumes that there are no drastic downturns on capital markets. In 2012, as in recent years, we are again aiming for a dividend payout in the range of 35% to 40% of Group net income.

Quarterly financial report of the Hannover Re Group

Consolidated balance sheet

Assets in EUR thousand	31.3.2012	31.12.2011
Fixed-income securities – held to maturity	3,953,266	4,156,089
Fixed-income securities – loans and receivables	3,383,097	3,524,735
Fixed-income securities – available for sale	18,227,062	17,328,911
Fixed-income securities – at fair value through profit or loss	187,478	161,130
Equity securities – available for sale	45,077	40,387
Other financial assets – at fair value through profit or loss	55,865	21,026
Real estate and real estate funds	521,279	525,097
Investments in associated companies	125,965	127,554
Other invested assets	945,390	931,421
Short-term investments	1,039,416	1,017,886
Cash	502,840	506,963
Total investments and cash under own management	**28,986,735**	**28,341,199**
Funds withheld	13,356,347	13,232,054
Contract deposits	157,569	109,719
Total investments	**42,500,651**	**41,682,972**
Reinsurance recoverables on unpaid claims	1,439,470	1,550,587
Reinsurance recoverables on benefit reserve	373,930	380,714
Prepaid reinsurance premium	121,080	91,823
Reinsurance recoverables on other technical reserves	6,501	7,810
Deferred acquisition costs	1,953,587	1,926,570
Accounts receivable	3,588,592	3,139,327
Goodwill	59,536	59,289
Deferred tax assets	694,017	682,888
Other assets	375,835	336,650
Accrued interest and rent	5,297	5,931
Assets held for sale	2,391	2,391
Total assets	**51,120,887**	**49,866,952**

Liabilities in EUR thousand	31.3.2012	31.12.2011
Loss and loss adjustment expense reserve	20,943,347	20,767,317
Benefit reserves	10,298,134	10,309,066
Unearned premium reserve	2,608,852	2,215,864
Other technical provisions	218,236	207,262
Funds withheld	703,148	644,587
Contract deposits	5,135,636	5,008,193
Reinsurance payable	752,128	733,348
Provisions for pensions	89,633	88,299
Taxes	210,830	185,015
Deferred tax liabilities	1,833,351	1,723,265
Other liabilities	434,111	443,671
Long-term debt and subordinated capital	1,921,060	1,934,410
Total liabilities	**45,148,466**	**44,260,297**
Shareholders’ equity		
Common shares	120,597	120,597
Nominal value: 120,597 Conditional capital: 60,299		
Additional paid-in capital	724,562	724,562
Common shares and additional paid-in capital	**845,159**	**845,159**
Cumulative other comprehensive income		
Unrealised gains and losses on investments	609,889	453,115
Cumulative foreign currency translation adjustment	(31,060)	11,559
Changes from cash flow hedges	8,477	–
Other changes in cumulative other comprehensive income	(12,539)	(18,553)
Total other comprehensive income	**574,767**	**446,121**
Retained earnings	3,940,459	3,679,351
Equity attributable to shareholders of Hannover Re	**5,360,385**	**4,970,631**
Non-controlling interests	612,036	636,024
Total shareholders' equity	**5,972,421**	**5,606,655**
Total liabilities	**51,120,887**	**49,866,952**

Consolidated statement of income

as at 31 March 2012

Figures in EUR thousand	**1.1.–31.3.2012**	1.1.–31.3.2011
Gross written premium	3,510,567	3,143,146
Ceded written premium	314,209	337,832
Change in gross unearned premium	(423,141)	(363,801)
Change in ceded unearned premium	42,948	49,206
Net premium earned	**2,816,165**	**2,490,719**
Ordinary investment income	258,159	222,744
Profit/loss from investments in associated companies	1,803	2,377
Realised gains and losses on investments	37,807	39,178
Unrealised gains and losses on investments	84,562	69,017
Total depreciation, impairments and appreciation of investments	7,052	(413)
Other investment expenses	18,393	17,588
Net income from investments under own management	**356,886**	**316,141**
Income/expense on funds withheld and contract deposits	83,730	75,860
Net investment income	**440,616**	**392,001**
Other technical income	385	3,043
Total revenues	**3,257,166**	**2,885,763**
Claims and claims expenses	2,046,111	2,148,562
Change in benefit reserves	109,036	114,412
Commission and brokerage, change in deferred acquisition costs	582,693	527,123
Other acquisition costs	3,274	1,914
Other technical expenses	1,016	3,153
Administrative expenses	74,091	81,261
Total technical expenses	**2,816,221**	**2,876,425**
Other income and expenses	(47,779)	38,014
Operating profit/loss (EBIT)	**393,166**	**47,352**
Interest on hybrid capital	25,371	26,823
Net income before taxes	**367,795**	**20,529**
Taxes	92,509	(58,567)
Net income	**275,286**	**79,096**
thereof		
Non-controlling interest in profit and loss	13,995	26,809
Group net income	**261,291**	**52,287**
Earnings per share		
Basic earnings per share in EUR	2.17	0.43
Diluted earnings per share in EUR	2.17	0.43

Consolidated statement of comprehensive income

as at 31 March 2012

Figures in EUR thousand	1.1.–31.3.2012	1.1.–31.3.2011
Net income	**275,286**	**79,096**
Unrealised gains and losses on investments		
Gains (losses) recognised directly in equity	248,539	(77,153)
Transferred to the consolidated statement of income	(9,682)	(36,872)
Tax income (expense)	(69,262)	16,886
	169,595	**(97,139)**
Currency translation		
Gains (losses) recognised directly in equity	(51,560)	(134,287)
Tax income (expense)	6,675	12,054
	(44,885)	**(122,233)**
Changes from cash flow hedges		
Gains (losses) recognised directly in equity	12,453	–
Tax income (expense)	(3,976)	–
	8,477	**–**
Other changes		
Gains (losses) recognised directly in equity	8,524	(3,841)
Tax income (expense)	(2,510)	1,028
	6,014	**(2,813)**
Total income and expense recognised directly in equity		
Gains (losses) recognised directly in equity	217,956	(215,281)
Transferred to the consolidated statement of income	(9,682)	(36,872)
Tax income (expense)	(69,073)	29,968
	139,201	**(222,185)**
Changes in the consolidated group	–	32
Total recognised income and expense	**414,487**	**(143,057)**
thereof:		
Attributable to non-controlling interests	24,538	17,864
Attributable to shareholders of Hannover Re	389,949	(160,921)

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
			Unrealised gains/ losses	Currency translation	Cash flow hedges	Other			
Balance as at 1.1.2011	**120,597**	**724,562**	**372,094**	**(52,954)**	**–**	**(6,450)**	**3,351,116**	**608,903**	**5,117,868**
Capital increases/ additions	–	–	–	–	–	–	–	30	30
Capital repayments	–	–	–	–	–	–	–	(8)	(8)
Total income and expense recognised after tax	–	–	(93,075)	(117,320)	–	(2,813)	52,287	17,864	(143,057)
Dividends paid	–	–	–	–	–	–	–	(36,384)	(36,384)
Balance as at 31.3.2011	**120,597**	**724,562**	**279,019**	**(170,274)**	**–**	**(9,263)**	**3,403,403**	**590,405**	**4,938,449**
Balance as at 1.1.2012	**120,597**	**724,562**	**453,115**	**11,559**	**–**	**(18,553)**	**3,679,351**	**636,024**	**5,606,655**
Changes in ownership interest with no change of control status	–	–	–	(12)	–	–	(183)	195	–
Capital increases/ additions	–	–	–	–	–	–	–	94	94
Capital repayments	–	–	–	–	–	–	–	(3,407)	(3,407)
Total income and expense recognised after tax	–	–	156,774	(42,607)	8,477	6,014	261,291	24,538	414,487
Dividends paid	–	–	–	–	–	–	–	(45,408)	(45,408)
Balance as at 31.3.2012	**120,597**	**724,562**	**609,889**	**(31,060)**	**8,477**	**(12,539)**	**3,940,459**	**612,036**	**5,972,421**

Consolidated cash flow statement as at 31 March 2012

Figures in EUR thousand	1.1.–31.3.2012	1.1.–31.3.2011
I. Cash flow from operating activities		
Net income	275,286	79,096
Appreciation/depreciation	10,005	6,676
Net realised gains and losses on investments	(37,807)	(39,178)
Amortisation of investments	18,879	12,554
Changes in funds withheld	(164,405)	(898,574)
Net changes in contract deposits	129,892	666,850
Changes in prepaid reinsurance premium (net)	379,974	314,442
Changes in tax assets/provisions for taxes	25,821	(93,616)
Changes in benefit reserve (net)	60,625	181,986
Changes in claims reserves (net)	531,229	793,095
Changes in deferred acquisition costs	(40,485)	(76,422)
Changes in other technical provisions	14,897	(1,746)
Changes in clearing balances	(425,852)	(414,389)
Changes in other assets and liabilities (net)	(41,434)	(58,253)
Cash flow from operating activities	**736,625**	**472,521**

Figures in EUR thousand	**1.1.–31.3.2012**	1.1.–31.3.2011
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	146,191	109,075
Fixed-income securities – loans and receivables		
Maturities, sales	166,857	56,332
Purchases	(39,418)	(173,399)
Fixed-income securities – available for sale		
Maturities, sales	2,434,153	2,078,654
Purchases	(3,285,477)	(2,474,253)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	11,918	42,998
Purchases	(31,599)	(3,148)
Equity securities – available for sale		
Sales	–	725,910
Purchases	(1,568)	(268,295)
Equity securities – at fair value through profit or loss		
Sales	185	–
Other invested assets		
Sales	11,239	19,314
Purchases	(32,637)	(27,869)
Affiliated companies and participating interests		
Sales	23	32
Purchases	(8,202)	(8,483)
Real estate and real estate funds		
Sales	28,954	132
Purchases	(33,901)	(11,030)
Short-term investments		
Changes	(32,666)	(186,173)
Other changes (net)	(3,770)	(2,968)
Cash flow from investing activities	**(669,718)**	**(123,171)**

Figures in EUR thousand	1.1.-31.3.2012	1.1.-31.3.2011
III. Cash flow from financing activities		
Contribution from capital measures	94	–
Payment on capital measures	(3,982)	(2,635)
Dividends paid	(45,408)	(36,384)
Repayment of long-term debts	(9,046)	(138,338)
Cash flow from financing activities	**(58,342)**	**(177,357)**
IV. Exchange rate differences on cash	**(12,688)**	**(23,247)**
Cash and cash equivalents at the beginning of the period	**506,963**	**475,227**
Change in cash and cash equivalents (I.+II.+III.+IV.)	**(4,123)**	**148,746**
Cash and cash equivalents at the end of the period	**502,840**	**623,973**
thereof cash and cash equivalents of disposal groups	**–**	**19,039**
Cash and cash equivalents at the end of the period excluding disposal groups	**502,840**	**604,934**
Income taxes	(55,693)	10,591
Interest paid	(53,794)	(57,397)

Consolidated segmental report

Segmentation of assets in EUR thousand	Non-life reinsurance	
	31.3.2012	31.12.2011
Assets		
Held to maturity	3,532,188	3,704,836
Loans and receivables	3,346,313	3,486,857
Available for sale	12,521,311	11,707,340
At fair value through profit or loss	150,207	118,327
Other invested assets	1,555,561	1,554,528
Short-term investments	727,228	638,128
Cash	356,814	385,531
Total investments and cash under own management	**22,189,622**	**21,595,547**
Funds withheld	841,452	836,170
Contract deposits	–	–
Total investments	**23,031,074**	**22,431,717**
Reinsurance recoverables on unpaid claims	1,232,594	1,352,406
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	117,663	89,109
Reinsurance recoverables on other reserves	2,811	4,239
Deferred acquisition costs	527,956	458,651
Accounts receivable	2,326,915	1,977,106
Other assets in the segment	1,458,547	1,469,312
Assets held for sale	2,391	2,391
Total assets	**28,699,951**	**27,784,931**
Segmentation of technical and other liabilities in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	18,084,986	18,030,010
Benefit reserve	–	–
Unearned premium reserve	2,500,310	2,110,289
Provisions for contingent commissions	151,644	145,915
Funds withheld	334,637	313,851
Contract deposits	92,475	96,611
Reinsurance payable	503,815	446,301
Long-term liabilities	188,206	202,823
Other liabilities in the segment	1,671,414	1,544,215
Total liabilities	**23,527,487**	**22,890,015**

Life/health reinsurance		Consolidation		Total	
31.3.2012	31.12.2011	31.3.2012	31.12.2011	31.3.2012	31.12.2011
198,809	199,846	222,269	251,407	3,953,266	4,156,089
26,343	27,560	10,441	10,318	3,383,097	3,524,735
5,419,714	5,355,477	331,114	306,481	18,272,139	17,369,298
66,119	40,346	27,017	23,483	243,343	182,156
34,640	27,041	2,433	2,503	1,592,634	1,584,072
286,187	339,662	26,001	40,096	1,039,416	1,017,886
142,540	118,835	3,486	2,597	502,840	506,963
6,174,352	**6,108,767**	**622,761**	**636,885**	**28,986,735**	**28,341,199**
12,514,895	12,395,934	–	(50)	13,356,347	13,232,054
157,569	109,719	–	–	157,569	109,719
18,846,816	**18,614,420**	**622,761**	**636,835**	**42,500,651**	**41,682,972**
208,069	199,332	(1,193)	(1,151)	1,439,470	1,550,587
373,930	380,714	–	–	373,930	380,714
3,506	2,802	(89)	(88)	121,080	91,823
3,690	3,571	–	–	6,501	7,810
1,425,627	1,467,915	4	4	1,953,587	1,926,570
1,261,936	1,162,401	(259)	(180)	3,588,592	3,139,327
458,854	467,140	(782,716)	(851,694)	1,134,685	1,084,758
–	–	–	–	2,391	2,391
22,582,428	**22,298,295**	**(161,492)**	**(216,274)**	**51,120,887**	**49,866,952**
2,859,555	2,738,458	(1,194)	(1,151)	20,943,347	20,767,317
10,298,219	10,309,149	(85)	(83)	10,298,134	10,309,066
108,542	105,575	–	–	2,608,852	2,215,864
66,592	61,347	–	–	218,236	207,262
368,511	330,736	–	–	703,148	644,587
5,043,161	4,911,582	–	–	5,135,636	5,008,193
248,883	287,692	(570)	(645)	752,128	733,348
–	–	1,732,854	1,731,587	1,921,060	1,934,410
1,657,967	1,730,456	(761,456)	(834,421)	2,567,925	2,440,250
20,651,430	**20,474,995**	**969,549**	**895,287**	**45,148,466**	**44,260,297**

Consolidated segmental report

Segmental statement of income in EUR thousand	Non-life reinsurance	
	1.1.–31.3.2012	1.1.–31.3.2011
Gross written premium	2,116,636	1,924,278
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	2,116,636	1,924,278
Net premium earned	1,554,703	1,376,341
Net investment income	254,519	250,263
thereof		
Deposit interest and expenses	3,308	3,118
Claims and claims expenses	1,115,144	1,354,070
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	351,939	306,605
Administrative expenses	40,862	46,551
Other income and expenses	(38,110)	56,086
Operating profit/loss (EBIT)	**263,167**	**(24,536)**
Interest on hybrid capital	–	–
Net income before taxes	**263,167**	**(24,536)**
Taxes	77,092	(67,513)
Net income	**186,075**	**42,977**
thereof		
Non-controlling interest in profit or loss	12,838	25,710
Group net income	**173,237**	**17,267**

as at 31 March 2012

Life/health reinsurance		Consolidation		Total	
1.1.–31.3.2012	1.1.–31.3.2011	1.1.–31.3.2012	1.1.–31.3.2011	1.1.–31.3.2012	1.1.–31.3.2011
1,393,977	1,219,359	(46)	(491)	3,510,567	3,143,146
46	491	(46)	(491)	–	–
1,393,931	1,218,868	–	–	3,510,567	3,143,146
1,261,464	1,114,453	(2)	(75)	2,816,165	2,490,719
177,398	127,799	8,699	13,939	440,616	392,001
80,422	72,742	–	–	83,730	75,860
931,164	794,717	(197)	(225)	2,046,111	2,148,562
109,037	114,486	(1)	(74)	109,036	114,412
236,408	223,462	(1,749)	(920)	586,598	529,147
34,105	35,424	(876)	(714)	74,091	81,261
(5,982)	(15,731)	(3,687)	(2,341)	(47,779)	38,014
122,166	**58,432**	**7,833**	**13,456**	**393,166**	**47,352**
–	–	25,371	26,823	25,371	26,823
122,166	**58,432**	**(17,538)**	**(13,367)**	**367,795**	**20,529**
20,912	15,830	(5,495)	(6,884)	92,509	(58,567)
101,254	**42,602**	**(12,043)**	**(6,483)**	**275,286**	**79,096**
1,157	1,099	–	–	13,995	26,809
100,097	**41,503**	**(12,043)**	**(6,483)**	**261,291**	**52,287**

Notes

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 23 April 2012 and released for publication.

2. Accounting principles including major accounting policies

The quarterly accounts of the consolidated companies included in the consolidated financial statement were drawn up as at 31 March 2012.

All standards adopted by the IASB as at 31 March 2012 with binding effect for the period under review have been observed in the consolidated financial statement.

New accounting standards or accounting standards applied for the first time

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

In addition, for transfers of financial assets that result in full derecognition but where the entity has continuing involvement in the assets, information is to be disclosed that allows users to evaluate the nature of and risks associated with the entity's continuing involvement in derecognised financial assets. This includes, inter alia, the maximum exposure to loss from continuing involvement as well as a maturity analysis of future cash flows. The amendments, which are applicable to financial years beginning on or after 1 July 2011, had no implications for Hannover Re in the period under review.

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

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

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

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

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

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

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

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

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

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

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

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

Standards	Applicable to financial years beginning on or after	Endorsement by European Commission
Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013	Pending
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	1 January 2014	Pending

Key exchange rates

The individual companies' statements of income prepared in the national currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statement. The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange on the balance sheet date.

Key exchange rates				1 EUR corresponds to:
	31.3.2012	31.12.2011	1.1.–31.3.2012	1.1.–31.3.2011
	Mean rate of exchange on the balance sheet date		Average rate of exchange	
AUD	1.2830	1.2723	1.2585	1.3545
BHD	0.5031	0.4881	0.4988	0.5182
CAD	1.3298	1.3198	1.3234	1.3558
CNY	8.4046	8.1489	8.3337	9.0448
GBP	0.8330	0.8362	0.8369	0.8639
HKD	10.3609	10.0565	10.2679	10.7043
KRW	1,512.0326	1,500.6009	1,497.8491	1,537.7077
MYR	4.0882	4.1038	4.0576	4.1990
SEK	8.8463	8.9063	8.8613	8.8938
USD	1.3345	1.2946	1.3231	1.3745
ZAR	10.2419	10.4800	10.2426	9.4824

Changes in accounting policies

The hybrid capital shown under debt and subordinated capital is recognised according to the effective interest rate method at amortised cost.

Components of income arising out of the amortisation of transaction costs and premiums/discounts occurring in the context of issuance were previously recognised in other income and expenses, while the nominal interest was recognised as interest on hybrid capital.

In order to better reflect the character of the effective interest rate method we recognise all expenses consistently as interest on hybrid capital. The amended recognition of the previous period pursuant to IAS 1 thus improved the other income and expenses by an amount of EUR 1.2 million to the detriment of the interest on hybrid capital.

Segmentation

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

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

3. Consolidated companies and consolidation principles

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 14.0 million (EUR 26.8 million) as at 31 March 2012.

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

Consolidation of business transactions within the Group

Receivables and liabilities between the companies included in the consolidated financial statement are offset against each other. Profits and expenses from business transactions within the Group are also eliminated. Transactions between a disposal group and the continuing operations of the Group are similarly eliminated in accordance with IAS 27 "Consolidated and Separate Financial Statements".

Consolidation of special purpose entities

Business relations with special purpose entities are to be examined in accordance with SIC–12 "Consolidation – Special Purpose Entities" with an eye to their implications for consolidation. In cases where IFRS do not currently contain any specific standards, Hannover Re's analysis – in application of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – also falls back on the relevant standards of US GAAP.

Retrocessions and Insurance-Linked Securities (ILS)

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

In connection with the sale of the operational companies of the subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton/Bermuda, a partial portfolio of CIGI was retroceded to a special purpose entity. Since Hannover Re is not the major beneficiary of the special purpose entity and does not exercise either indirect or direct control over it, there is no requirement to consolidate this special purpose entity.

Securitisation of reinsurance risks

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

Effective 30 March 2011 a structured transaction was entered into in order to finance the statutory reserves (so-called Triple-X reserves) of a US cedant. The structure 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 equivalent to EUR 374.7 million; an amount equivalent to EUR 187.3 million had been taken up as at the balance sheet date. The variable payments to the special purpose entity guaranteed by Hannover Re cover its payment obligations. By way of a compensation agreement Hannover Re is reimbursed by the cedant's parent company for all payments resulting from the swap in the event of a claim. Since Hannover Re does not bear the majority of the economic risks or benefits arising out of its business relations with the special purpose entity and does not exercise a controlling influence over it, there is no consolidation requirement for Hannover Re. Under IAS 39 this transaction is to be recognised at fair value as a financial guarantee. To this end Hannover Re uses the net method, according to which the present value of the agreed fixed swap premiums is netted with the present value of the guarantee commitment. The fair value on initial recognition therefore amounted to zero. The higher of the fair value and the amount carried as a provision on the liabilities side pursuant to IAS 37 is recognised at the point in time when utilisation is considered probable. This was not the case as at the balance sheet date. In this case the reimbursement claims from the compensation agreement are to be capitalised separately from and up to the amount of the provision.

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

By way of its "K" transactions Hannover Re has raised further underwriting capacity for catastrophe risks on the capital market. The "K Cession", which was placed with investors in North America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. The volume of this securitisation, which has been increased on multiple occasions, was equivalent to EUR 264.7 million (EUR 258.8 million) as at the balance sheet date. The transaction has an indefinite term and can be cancelled annually by the investors. 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.

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 2011.

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

Investments[1] in EUR thousand	31.3.2012	31.12.2011
Regional origin		
Germany	6,325,707	6,144,974
United Kingdom	2,549,891	2,356,400
France	1,881,240	1,828,923
Other	5,664,138	5,486,964
Europe	**16,420,976**	**15,817,261**
USA	7,069,057	6,744,589
Other	1,059,623	1,472,776
North America	**8,128,680**	**8,217,365**
Asia	1,237,327	1,235,331
Australia	2,056,109	2,020,017
Australasia	**3,293,436**	**3,255,348**
Africa	432,616	413,093
Other	711,027	638,132
Total	**28,986,735**	**28,341,199**

1 After elimination of internal transactions within the Group across segments

Notes

Maturities of the fixed-income and variable-yield securities				in EUR thousand
	31.3.2012		31.12.2011	
	Amortised cost[1]	Fair value	Amortised cost[1]	Fair value
Held to maturity				
due in one year	503,088	510,919	486,965	491,332
due after one through two years	974,368	1,001,309	926,846	942,245
due after two through three years	517,468	540,228	613,913	643,263
due after three through four years	1,200,358	1,288,379	1,097,347	1,161,746
due after four through five years	410,380	437,386	562,175	597,596
due after five through ten years	340,187	353,234	461,311	462,789
due after more than ten years	7,417	7,984	7,532	8,091
Total	**3,953,266**	**4,139,439**	**4,156,089**	**4,307,062**
Loans and receivables				
due in one year	127,291	129,653	106,731	107,501
due after one through two years	201,660	206,466	205,235	209,847
due after two through three years	340,886	357,128	505,043	523,717
due after three through four years	289,996	304,718	306,484	318,696
due after four through five years	499,717	541,055	321,807	348,653
due after five through ten years	1,018,558	1,085,148	1,174,558	1,250,207
due after more than ten years	904,989	994,590	904,877	983,320
Total	**3,383,097**	**3,618,758**	**3,524,735**	**3,741,941**
Available for sale				
due in one year[2]	2,988,627	2,999,817	3,063,034	3,070,822
due after one through two years	1,942,793	1,971,770	1,781,899	1,802,286
due after two through three years	1,882,722	1,964,652	2,197,915	2,228,729
due after three through four years	2,325,818	2,391,778	2,308,598	2,331,561
due after four through five years	2,031,066	2,105,462	1,807,404	1,844,680
due after five through ten years	5,751,058	5,938,920	5,204,281	5,299,165
due after more than ten years	2,201,256	2,396,919	2,074,463	2,276,517
Total	**19,123,340**	**19,769,318**	**18,437,594**	**18,853,760**
Financial assets at fair value through profit or loss				
due in one year	59,000	59,000	35,186	35,186
due after one through two years	59,234	59,234	66,826	66,826
due after two through three years	8,580	8,580	5,399	5,399
due after three through four years	9,362	9,362	7,510	7,510
due after four through five years	1,051	1,051	2,595	2,595
due after five through ten years	8,068	8,068	5,625	5,625
due after more than ten years	42,183	42,183	37,989	37,989
Total	**187,478**	**187,478**	**161,130**	**161,130**

1 Including accrued interest
2 Including short-term investments and cash

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

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

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

	31.3.2012				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	417,978	25,199	793	5,712	448,096
US treasury notes	890,693	36,467	1	9,553	936,712
Other foreign government debt securities	56,069	678	225	636	57,158
Debt securities issued by semi-governmental entities	678,614	39,592	144	10,392	728,454
Corporate securities	485,215	20,668	875	11,142	516,150
Covered bonds/asset-backed securities	1,363,854	65,924	317	23,408	1,452,869
Total	**3,892,423**	**188,528**	**2,355**	**60,843**	**4,139,439**

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

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

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value					Figures in EUR thousand
	31.3.2012				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	10,349	473	–	301	11,123
Debt securities issued by semi-governmental entities	1,966,327	150,937	–	32,470	2,149,734
Corporate securities	260,471	18,187	335	5,388	283,711
Covered bonds/asset-backed securities	1,088,210	66,413	14	19,581	1,174,190
Total	**3,325,357**	**236,010**	**349**	**57,740**	**3,618,758**

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

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

Figures in EUR thousand

	31.3.2012				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,457,774	55,640	10,878	17,425	1,519,961
US treasury notes	972,644	39,384	477	4,730	1,016,281
Other foreign government debt securities	1,200,370	26,106	812	13,456	1,239,120
Debt securities issued by semi-governmental entities	3,336,539	156,547	4,533	49,757	3,538,310
Corporate securities	8,072,776	321,805	42,574	129,628	8,481,635
Covered bonds/asset-backed securities	2,135,784	110,625	23,544	26,830	2,249,695
Investment funds	163,371	19,496	807	–	182,060
	17,339,258	**729,603**	**83,625**	**241,826**	**18,227,062**
Equity securities					
Shares	13,840	4,015	1	–	17,854
Investment funds	25,206	2,018	1	–	27,223
	39,046	**6,033**	**2**	**–**	**45,077**
Short-term investments	1,029,287	–	–	10,129	1,039,416
Total	**18,407,591**	**735,636**	**83,627**	**251,955**	**19,311,555**

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

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

Fair value of financial assets at fair value through profit or loss before and after accrued interest as well as accrued interest on such financial assets						Figures in EUR thousand
	31.3.2012	31.12.2011	31.3.2012	31.12.2011	31.3.2012	31.12.2011
	Fair value before accrued interest		Accrued interest		Fair value	
Financial assets at fair value through profit or loss						
Fixed-income securities						
Debt securities of semi-governmental entities	–	9,998	–	115	–	10,113
Corporate securities	79,204	81,974	13,077	1,194	92,281	83,168
Covered bonds/ asset-backed securities	95,197	67,849	–	–	95,197	67,849
	174,401	**159,821**	**13,077**	**1,309**	**187,478**	**161,130**
Other financial assets						
Derivatives	55,865	21,026	–	–	55,865	21,026
	55,865	21,026	**–**	–	**55,865**	21,026
Total	**230,266**	**180,847**	**13,077**	**1,309**	**243,343**	**182,156**

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

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

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

Non-controlling interests in the shareholders' equity of the subsidiaries amounted to EUR 612.0 million (EUR 636.0 million) as at the balance sheet date. They were principally attributable to non-controlling interests in the shareholders' equity of E+S Rück in an amount of EUR 592.6 million (EUR 611.6 million).

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

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

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

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

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

5.1 Gross written premium

Gross written premium[1] in EUR thousand	**1.1.–31.3.2012**	1.1.–31.3.2011
Regional origin		
Germany	413,847	403,349
United Kingdom	596,604	659,070
France	163,094	158,659
Other	529,107	402,715
Europe	**1,702,652**	**1,623,793**
USA	800,857	693,001
Other	134,143	108,110
North America	**935,000**	**801,111**
Asia	346,167	245,843
Australia	190,605	162,714
Australasia	**536,772**	**408,557**
Africa	122,397	114,868
Other	213,746	194,817
Total	**3,510,567**	**3,143,146**

1 After elimination of internal transactions within the Group across segments

Notes

5.2 Investment income

Investment income in EUR thousand	31.3.2012	31.3.2011
Income from real estate	11,490	8,992
Dividends	218	2,104
Interest income	256,086	215,694
Other investment income	(9,635)	(4,046)
Ordinary investment income	**258,159**	**222,744**
Profit or loss on shares in associated companies	1,803	2,377
Appreciation	176	14,067
Realised gains on investments	45,716	83,841
Realised losses on investments	7,909	44,663
Unrealised gains and losses on investments	84,562	69,017
Impairments on real estate	2,570	2,265
Impairments on equity securities	1,379	–
Impairments on fixed-income securities	–	4,636
Impairments on participating interests and other financial assets	3,279	6,753
Other investment expenses	18,393	17,588
Net income from assets under own management	**356,886**	**316,141**
Interest income on funds withheld and contract deposits	100,018	120,120
Interest expense on funds withheld and contract deposits	16,288	44,260
Total investment income	**440,616**	**392,001**

Of the impairments totalling EUR 4.7 million (EUR 11.5 million), an amount of EUR 3.3 million (EUR 6.8 million) was attributable to the area of alternative investments – specifically, exclusively to private equity. Impairments of EUR 1.4 million (EUR 0.0 million) were recognised on equities or equity funds whose fair value had fallen significantly – i.e. by at least 20% – or for a prolonged period – i.e. for at least nine months – below acquisition cost. No impairments had to be recognised on structured fixed-income products or other fixed-income securities (EUR 4.6 million). These write-downs contrasted with write-ups of EUR 0.2 million on investments written down in previous periods that were attributable entirely to alternative investments (write-ups of EUR 14.1 million on structured fixed-income products). The portfolio did not contain any overdue, unadjusted assets as at the balance sheet date since overdue securities are written down immediately.

Interest income on investments in EUR thousand	31.3.2012	31.3.2011
Fixed-income securities – held to maturity	38,100	31,288
Fixed-income securities – loans and receivables	30,361	18,366
Fixed-income securities – available for sale	176,750	158,552
Financial assets – at fair value through profit or loss	1,790	1,202
Other	9,085	6,286
Total	**256,086**	**215,694**

6. Other notes

6.1 Derivative financial instruments

Forward exchange contracts were taken out for the first time in the period under review in order to hedge currency risks associated with long-term investments in foreign operations. These instruments, which are recognised as hedges pursuant to IAS 39, resulted in disclosure of other assets of EUR 9.9 million. Ineffective components of the hedge amounting to EUR 2.6 million were recognised in profit and loss under other expenses.

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 21.6 million (31 December 2011: EUR 20.7 million) were recognised under other liabilities.

Hannover Re holds derivative financial instruments to hedge interest rate risks from loans connected with the financing of real estate; these gave rise to recognition of other liabilities in an amount of EUR 3.4 million (31 December 2011: EUR 3.2 million).

Hannover Re holds derivative financial instruments to hedge inflation risks associated with the loss reserves. These transactions resulted in the recognition of other financial assets at fair value through profit or loss in an amount of EUR 23.2 million (31 December 2011: EUR 12.2 million) as well as other liabilities in a minimal amount (31 December 2011: EUR 32.5 million).

The net changes in the fair value of instruments not recognised as hedges improved the result of the period under review by EUR 40.4 million (31 March 2011: improvement of EUR 68.1 million).

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

On this basis Hannover Re reported as financial assets at fair value through profit or loss technical derivatives in an amount of EUR 32.7 million as at 31 March 2012 (31 December 2011: EUR 8.8 million) that were separated from the underlying transaction and measured at fair value.

In addition, liabilities from derivatives in connection with the technical account totalling EUR 0.6 million (31 December 2011: EUR 13.0 million) were recognised under other liabilities as at the balance sheet date.

Of the derivatives carried on the assets side, fair values of EUR 24.3 million (31 December 2011: –) were attributable as at the balance sheet date to derivatives embedded in "modified coinsurance" and "coinsurance funds withheld" (ModCo) reinsurance treaties; no derivatives were carried on the liabilities side in this connection (31 December 2011: EUR 12.9 million).

Within the scope of the accounting of ModCo reinsurance treaties, under which securities deposits are held by the ceding companies and payments rendered on the basis of the income from certain securities of the ceding company, the interest-rate risk elements are clearly and closely related to the underlying reinsurance arrangements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio. Hannover Re calculates the fair value of the embedded derivatives in ModCo treaties using the market information available on the valuation date on the basis of a "credit spread" method. Under this method the derivative is valued at zero on the date when the contract commences and its value then fluctuates over time according to changes in the credit spreads of the securities.

The ModCo derivatives gave rise to an improvement in investment income of EUR 36.8 million before tax as at 31 March 2012 (31 March 2011: charge to investment income of EUR 1.9 million).

6.2 Related party disclosures

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

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

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

Companies belonging to the Talanx Group granted the Hannover Re Group insurance protection inter alia in the areas of public liability, fire, group accident and business travel collision insurance. Divisions of Talanx AG also performed services for us in the areas of taxes and general administration. All transactions were effected at usual market conditions.

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.

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

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

Business assumed and ceded in Germany and abroad — in EUR thousand

	31.3.2012		31.3.2011	
	Premium	Underwriting result	Premium	Underwriting result
Business assumed				
Non-life reinsurance	110,460	14,938	115,126	23,260
Life and health reinsurance	51,845	5,468	55,274	4,684
	162,305	**20,406**	**170,400**	**27,944**
Business ceded				
Non-life reinsurance	(3,068)	9,102	(2,413)	4,379
Life and health reinsurance	(12,194)	(2,161)	(2,284)	(1,452)
	(15,262)	**6,941**	**(4,697)**	**2,927**
Total	**147,043**	**27,347**	**165,703**	**30,871**

6.3 Staff

The average number of staff employed at the companies included in the consolidated financial statement of the Hannover Re Group was 2,223 during the period under review (2011 financial year: 2,210).

As at the balance sheet date altogether 2,228 (2,217) staff were employed by the Hannover Re Group, with 1,120 (1,110) employed in Germany and 1,108 (1,107) working for the consolidated Group companies abroad.

6.4 Earnings per share

Calculation of the earnings per share	1.1.–31.3.2012	1.1.–31.3.2011
Group net income in EUR thousand	261,291	52,287
Weighted average of issued shares	120,597,134	120,597,134
Basic earnings per share in EUR	2.17	0.43
Diluted earnings per share in EUR	2.17	0.43

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

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

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

6.5 Contingent liabilities and commitments

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

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

As security for technical liabilities to our US clients, we have established two trust accounts (master trust and supplemental trust) in the United States. They amounted to EUR 2,732.5 million (31 December 2011: EUR 2,756.1 million) and EUR 11.8 million (EUR 12.1 million) respectively as at the balance sheet date. In addition, we extended further collateral to our cedants in an amount of EUR 533.6 million (31 December 2011: EUR 367.4 million) through so-called "single trust funds".

As part of our business activities we hold collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the Group's major companies was EUR 2,092.3 million as at the balance sheet date (31 December 2011: EUR 2,017.4 million).

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

As security for our technical liabilities, various financial institutions have furnished guarantees for our company in the form of letters of credit. The total amount as at the balance sheet date was EUR 3,261.6 million (31 December 2011: EUR 3,097.8 million).

In addition, we keep own investments with a book value of EUR 26.4 million (31 December 2011: EUR 37.4 million) in blocked custody accounts as collateral provided under existing derivative transactions. We received collateral with a fair value of EUR 29.6 million (31 December 2011: EUR 5.2 million) for existing derivative transactions.

For liabilities in connection with participating interests in real estate companies and real estate transactions Hannover Re Real Estate Holdings has furnished the usual collateral under such transactions to various banks, the amount of which totalled EUR 327.4 million as at the balance sheet date (31 December 2011: EUR 309.3 million).

Outstanding capital commitments with respect to alternative investments exist on the part of the Group in the amount of EUR 439.0 million (31 December 2011: EUR 451.9 million). These primarily involve as yet unfulfilled payment obligations from participations entered into in private equity funds and venture capital firms.

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