somewhat different

# Interim Report 2/2012

hannover re®

# Key figures

| Figures in EUR million | 2012 | | | | | 2011[1] | | |
|---|---|---|---|---|---|---|---|---|
| | 1.1.– 31.3. | 1.4.– 30.6. | +/– previous year | 1.1.– 30.6. | +/– previous year | 1.4.– 30.6. | 1.1.– 30.6. | 31.12. |
| **Results** | | | | | | | | |
| Gross written premium | 3,510.6 | 3,377.9 | +16.4% | 6,888.4 | +14.0% | 2,901.7 | 6,044.8 | |
| Net premium earned | 2,816.2 | 3,008.6 | +13.2% | 5,824.8 | +13.1% | 2,657.2 | 5,147.9 | |
| Net underwriting result | 0.3 | (13.6) | | (13.2) | | (63.7) | (446.3) | |
| Net investment income | 440.6 | 268.8 | -4.3% | 709.5 | +5.4% | 280.8 | 672.8 | |
| Operating profit (EBIT) | 393.2 | 204.0 | +1.2% | 597.2 | +140.0% | 201.5 | 248.9 | |
| Group net income (loss) | 261.3 | 144.0 | -13.4% | 405.3 | +85.5% | 166.2 | 218.5 | |
| | | | | | | | | |
| **Balance sheet (as at the end of the period)** | | | | | | | | |
| Policyholders' surplus | 7,705.3 | | | 7,832.6 | +6.7% | | 6,656.7 | 7,338.2 |
| Equity attributable to shareholders of Hannover Re | 5,360.4 | | | 5,471.7 | +10.1% | | 4,324.6 | 4,970.6 |
| Non-controlling interests | 612.0 | | | 626.9 | -1.4% | | 599.1 | 636.0 |
| Hybrid capital | 1,732.9 | | | 1,734.0 | +0.1% | | 1,733.1 | 1,731.6 |
| Investments (excl. funds withheld by ceding companies) | 28,986.7 | | | 30,281.9 | +6.8% | | 25,330.6 | 28,341.2 |
| Total assets | 51,120.9 | | | 53,412.0 | +7.1% | | 46,958.3 | 49,867.0 |
| | | | | | | | | |
| **Share** | | | | | | | | |
| Earnings per share (basic and diluted) in EUR | 2.17 | 1.19 | -13.4% | 3.36 | +85.5% | 1.38 | 1.81 | |
| Book value per share in EUR | 44.45 | | | 45.37 | +10.1% | | 35.86 | 41.22 |
| Share price at the end of the period in EUR | 44.54 | | | 46.89 | +22.3% | | 35.97 | 38.325 |
| Market capitalisation at the end of the period | 5,371.4 | | | 5,654.8 | +22.3% | | 4,337.9 | 4,621.9 |
| | | | | | | | | |
| **Ratios** | | | | | | | | |
| Combined ratio (non-life reinsurance)[2] | 96.8% | 96.8% | | 96.8% | | 97.7% | 110.3% | |
| Major losses as percentage of net premium earned (non-life reinsurance)[3] | 3.9% | 4.1% | | 4.0% | | 3.6% | 21.9% | |
| Retention | 91.0% | 88.5% | | 89.8% | | 92.5% | 90.8% | |
| Return on investment (excl. funds withheld by ceding companies) | 5.0% | 2.6% | | 3.8% | | 3.1% | 4.0% | |
| EBIT margin[4] | 14.0% | 6.8% | | 10.3% | | 7.6% | 4.8% | |
| Return on equity | 20.2% | 10.6% | | 15.5% | | 15.3% | 9.9% | |

1 Adjusted on the basis of IAS 8
2 Incl. funds withheld
3 Hannover Re Group's net share for natural catastrophes and other major losses in excess of EUR 10 million gross as a percentage of net premium earned (until 31 December 2011: in excess of EUR 5 million gross)
4 Operating result (EBIT) / net premium earned

**Ulrich Wallin**
Chairman of the Executive Board

# Dear shareholders, ladies and gentlemen,

For the first half of 2012 I can report on a pleasing overall development of Hannover Re's business. Both the operating profit (EBIT) of around EUR 600 million and Group net income of EUR 405 million came in well above the comparable figures for the previous year. This was due principally to a considerably lighter burden of major losses from non-life business in the period under review than in the first six months of 2011, hence giving rise to a sharply improved underwriting result in non-life reinsurance. Yet we also achieved significantly improved results in life and health reinsurance. Not only that, we generated higher investment income than in the first half of 2011 despite the challenging interest rate environment. This can be attributed, among other things, to the enlarged asset volume – made possible in particular by the continued very favourable cash flow from operating activities – which again beat what was already a very good level in the previous year to reach EUR 1.35 billion for the first half-year 2012. Since the market climate for both our non-life and life/health reinsurance business can be assessed as broadly positive, we enjoyed another thoroughly pleasing increase in our business volume in the first half of 2012. Adjusted for exchange rate effects, gross premium grew by 9.6 percent.

Looking at the individual quarters, it is striking to note that the result for the first quarter of 2012 was significantly better than that of the second quarter. This difference derives almost entirely from the item unrealised gains and losses on investments, which on a six-month basis is unremarkable with a positive figure of EUR 3 million. On closer scrutiny of the two quarters, however, it can be seen that gains of EUR 85 million were booked here in the first quarter, as against losses of EUR 82 million in the second quarter. This is due to movements in the fair values of our inflation swaps and of the so-called ModCo derivative that we are required to establish in relation to the credit risk associated with some securities deposits held for our account by US life insurance clients. In economic terms we assume a neutral development for these two items over time, and hence the volatility that can occur in specific quarters has no bearing on the actual business performance. If this volatility in the unrealised gains and losses on investments is factored out of the results for the individual quarters, it becomes evident that EBIT for the two quarters is virtually identical.

I would like to describe for you below the development to date of our non-life and life/health reinsurance business as well as of our investment portfolio:

In non-life reinsurance, our largest business group, market conditions are generally good. The very pleasing outcome of the treaty renewals at the beginning of 2012 was in some areas actually surpassed in the round of renewals as at 1 April. Given the heavy loss expenditure from natural disasters in 2011, the rate increases – especially for property catastrophe business – were as anticipated appreciable. In Japan prices for earthquake covers increased by mid-double-digit percentages, having already moved higher in the previous year. Conditions for proportional property and casualty business also improved. Rate hikes were similarly recorded in US catastrophe business, with particularly substantial price increases attainable under programmes that had been impacted by the series of tornadoes. While this trend towards improved rates slowed somewhat in the latest treaty renewals as at 1 June/1 July, it has on the whole been sustained.

The major loss situation was very much on the moderate side in the second quarter of 2012, as it had been in the first quarter too, and the strains incurred by your company therefore remained below the anticipated level.

All in all, the development of non-life reinsurance was very pleasing: adjusted for exchange rate effects, gross premium income grew by 11.3 percent, while the operating profit (EBIT) was more than doubled relative to the corresponding period of the previous year. We are thoroughly satisfied with Group net income of some EUR 306 million as at 30 June 2012.

Our second business group, life and health reinsurance, developed in line with our expectations in the first half-year and improved appreciably on the comparable period of the previous year. Both mature insurance markets such as the United States, Germany and the United Kingdom as well as emerging markets in Asia – here most notably China and the retakaful sector – continue to offer good opportunities for profitable growth. We are currently in the process of focusing our internal structures even more sharply on our defined growth markets. Thus, for example, the setting up of our "Longevity" business center reflects the importance that we attach to pensions business. With the creation of our new "Asia" business center we are concentrating the new business potential offered by Asian markets and aligning ourselves even more closely with the needs of our clients.

Our total life and health reinsurance portfolio delivered gratifying growth of 12 percent in gross premium as at 30 June 2012; adjusted for exchange rate effects the increase was around 7 percent. The Group net income of EUR 128 million improved markedly on the comparable period of the previous year. The EBIT margin of 6.2 percent was within our medium-term strategic target.

Despite the persistent difficult conditions on capital markets, we are very satisfied with the development of our investments in the first half of 2012. In the area of fixed-income securities we continue to pursue our policy of a broadly diversified portfolio. The geographical spread of our government bonds was again largely preserved in the first six months. Relative to our total asset volume, it remains the case that our exposure to countries where credit spreads are wider is very low. Our holding of Spanish government bonds, which we had already substantially reduced in the first quarter, was further scaled back in the second quarter. As before, our portfolio does not contain any bonds of Greek issuers. Reflecting the enlarged asset volume, our ordinary investment income came in higher than in the corresponding period of the previous year. The fair values of our assets recognised at fair value through profit or loss also developed favourably in the first half-year. The exceptionally high unrealised gains booked in the first quarter on the so-called ModCo derivatives reverted to normal levels in the second quarter, but the fair values of this instrument remain positive. Our inflation swaps, the unrealised gains on which had also been high in the first quarter, declined in fair value from a six-month perspective to roughly the level at the beginning of the year due to lower inflationary expectations. All in all, given that the capital market environment continues to be challenging, we are highly satisfied with our net investment income from assets under own management of EUR 553 million since this is a level never previously attained in the corresponding period of prior years. Our portfolio of investments under own management produced a pleasing annualised average return – including effects from derivatives – of 3.8 percent.

In view of the highly satisfactory market conditions in non-life and life/health reinsurance as well as the results achieved to date, we are looking to a healthy profit for 2012. This is conditional upon the major loss expenditure not significantly exceeding the expected level of around EUR 560 million for the full year and assumes that there are no unforeseen downturns on capital markets.

I would also like to take this opportunity to update you, our valued shareholders, on the progress of our envisaged change in legal form: now that the Annual General Meeting has given its approval to the transformation of your company into a European public limited company (Societas Europaea, SE), I can inform you that the required process is moving forward as planned. It remains our assumption that the change in legal form can be completed by the beginning of 2013.

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 very satisfied with our result for the first half of 2012. Both business groups, namely non-life and life/health reinsurance, developed as planned. The major loss expenditure came in well below our expectations despite the severe earthquakes in Italy.

Gross written premium in total business increased by an appreciable 14.0% as at 30 June 2012 to reach EUR 6.9 billion (EUR 6.0 billion). At constant exchange rates growth would have amounted to 9.6%. The level of retained premium retreated slightly to 89.8% (90.8%). Net premium climbed 13.1% to EUR 5.8 billion (EUR 5.1 billion). Growth of 8.8% would have been recorded at constant exchange rates.

The development of our investments in the first half-year was also satisfactory. The portfolio of assets under own management grew to EUR 30.3 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 532.0 million (EUR 447.9 million). Our ordinary investment income thus already delivered a pleasing return of 3,6% (3,5%), thereby exceeding the return on investment of 3,5% targeted for the full financial year. Interest on deposits fell to EUR 156.3 million (EUR 161.3 million) owing to the continued low level of interest rates.

We succeeded in substantially boosting our investment income relative to the corresponding period of the previous year: it amounted to EUR 709.5 million (EUR 672.8 million) as at 30 June 2012. The unrealised gains on our asset holdings recognised at fair value through profit or loss reverted to normal levels after the very favourable development in the first quarter. The good investment performance was assisted by realised gains of EUR 68.0 million (EUR 43.9 million). The write-downs taken in the period under review were again only minimal in volume.

We are thoroughly satisfied with our operating profit (EBIT) of EUR 597.2 million for the first six months of 2012; the EBIT recorded in the comparable period had totalled just EUR 248.9 million on account of the heavy major loss expenditure. Group net income climbed sharply relative to the corresponding period of the previous year, surging by 85.5% to EUR 405.3 million (EUR 218.5 million). Earnings per share came in at EUR 3.36 (EUR 1.81).

Hannover Re's equity base was further strengthened to EUR 5.5 billion (31 December 2011: EUR 5.0 billion). The book value per share amounted to EUR 45.37 (31 December 2011: EUR 41.22). The annualised return on equity reached 15.5% (9.9%).

# Non-life reinsurance

Non-life reinsurance, our largest business group, delivered a pleasing development in the first six months; the state of the international reinsurance markets was broadly favourable. The positive outcome of the treaty renewals at the beginning of the year was in some cases even surpassed by the round of renewals as at 1 April 2012.

This was especially true of Japan, where rates again moved sharply higher after the increase seen in the previous year. Indeed, rates for earthquake covers saw percentage increases running into the mid-double-digits. Conditions for proportional property and casualty business also improved. Substantial rate rises were obtained in Korea, too, especially for programmes containing exposures to the earthquake in Japan or floods in Thailand. Rates also climbed in US catastrophe business. We were similarly satisfied with the outcome of the treaty renewals in marine and aviation business.

The gross premium for our non-life reinsurance business group increased by 15.1% relative to the corresponding period of the previous year to stand at EUR 4.1 billion (EUR 3.5 billion). At constant exchange rates, especially against the US dollar, growth would have been 11.3%. The level of retained premium remained virtually unchanged at 90.2% (90.0%). Net premium earned climbed 16.0% to EUR 3.3 billion (EUR 2.8 billion), or 12.2% adjusted for exchange rate effects.

The major loss situation in the second quarter was again relatively moderate. At EUR 132.4 million (EUR 625.2 million), the net burden of major losses as at 30 June 2012 came in below our expectations. The largest single loss events in the second quarter were the severe earthquakes on 20 and 29 May 2012 affecting several Italian provinces within the region of Emilia-Romagna. Not only did the earthquakes cause considerable human suffering, the economic losses and the damage to this part of Italy's extraordinary cultural landscape were also immense. The net loss expenditure for Hannover Re from these two events combined is in the order of EUR 61 million.

The underwriting result for the entire non-life reinsurance portfolio as at 30 June 2012 closed at a pleasing EUR 99.2 million (–EUR 299.4 million). The combined ratio for the first half-year 2012 improved markedly on the comparable period of the previous year to stand at 96.8% (110.3%).

The operating profit (EBIT) in non-life reinsurance was more than doubled as at 30 June 2012, totalling EUR 430.6 million (EUR 151.2 million). Group net income rose appreciably to EUR 305.6 million (EUR 164.1 million), producing earnings per share of EUR 2.53 (EUR 1.36).

**Key figures for non-life reinsurance** — in EUR million

| | 2012 | | | | | 2011 | |
|---|---|---|---|---|---|---|---|
| | 1.1.–31.3. | 1.4.–30.6. | +/– previous Year | 1.1.–30.6. | +/– previous Year | 1.4.–30.6. | 1.1.–30.6. |
| Gross written premium | 2,116.6 | 1,963.1 | +21.2% | 4,079.7 | +15.1% | 1,620.2 | 3,544.5 |
| Net premium earned | 1,554.7 | 1,748.7 | +18.8% | 3,303.4 | +16.0% | 1,472.3 | 2,848.6 |
| Underwriting result | 46.8 | 52.5 | +66.9% | 99.2 | | 31.4 | (299.4) |
| Net investment income | 254.5 | 155.7 | +2.2% | 410.2 | +1.9% | 152.2 | 402.5 |
| Operating profit/loss (EBIT) | 263.2 | 167.4 | -4.7% | 430.6 | +184.8% | 175.7 | 151.2 |
| Group net income (loss) | 173.2 | 132.4 | -9.9% | 305.6 | +86.2% | 146.8 | 164.1 |
| Earnings per share in EUR | 1.44 | 1.10 | -9.9% | 2.53 | +86.2% | 1.22 | 1.36 |
| Combined ratio[1] | 96.8% | 96.8% | | +96.8% | | 97.7% | 110.3% |
| Retention | 91.2% | 89.1% | | +90.2% | | 92.6% | 90.0% |

1 Including expenses on funds withheld and contract deposits

# Life and health reinsurance

The international life and health reinsurance market continues to offer promising business opportunities. In this respect, the considerable part played by mature insurance markets such as the United States, Germany, the United Kingdom, France and Scandinavia remains undiminished. Along with strong demand for annuity, health and long-term care insurance products driven by the demographic trend, major emerging markets such as China, India and some Latin American countries – such as Brazil – offer attractive new business potential. Clients here are looking for tailored financing solutions as well as traditional risk-oriented products. On the basis of long-term partnerships, which form a key part of our business practice, we assist primary insurers, among others, with the optimisation of their risk, capital and liquidity management.

Developments in the life and health reinsurance business group were within the bounds of our expectations in the first half of 2012. A below-average biometric risk experience in part of our US mortality portfolio was offset by a better-than-anticipated claims experience in some other areas, both in the US itself and in other regions. The pensions market continues to offer attractive potential, both in the UK and especially in other countries.

Gross written premium in life and health reinsurance climbed 12.4% to EUR 2.8 billion (EUR 2.5 billion) as at 30 June 2012. Adjusted for exchange rate effects, the increase would have been 7.3%. Net premium earned totalled EUR 2.5 billion (EUR 2.3 billion) in the period under review. At constant exchange rates, growth would have amounted to 4.7%.

After credit spreads on securities had moved in a favourable direction in the first quarter of 2012, an opposite trend on US bond markets in the second quarter resulted in a negative fair value development for the derivative that we recognise for the default risk associated with securities held for our account by US clients (ModCo). The resulting unrealised gains amounted to EUR 10.8 million, as against unrealised losses of EUR 9.9 million in the comparable period of the previous year. The operating profit (EBIT) totalled EUR 155.2 million (EUR 78.4 million) – a reflection of the good quality and positive performance of our book of business. The EBIT margin of 6.2% (3.4%) was within our strategic target. Group net income improved sharply on the corresponding period of the previous year, surging 73.1% to EUR 127.9 million (EUR 73.9 million). Earnings per share amounted to EUR 1.06 (EUR 0.61).

**Key figures for life and health reinsurance** — in EUR million

| | 2012 | | | | | 2011 | |
|---|---|---|---|---|---|---|---|
| | 1.1.–31.3. | 1.4.–30.6. | +/– previous Year | 1.1.–30.6. | +/– previous Year | 1.4.–30.6. | 1.1.–30.6. |
| Gross written premium | 1,394.0 | 1,414.8 | +10.5% | 2,808.8 | +12.4% | 1,280.5 | 2,499.8 |
| Net premium earned | 1,261.5 | 1,259.9 | +6.5% | 2,521.4 | +9.7% | 1,183.3 | 2,297.7 |
| Net investment income | 177.4 | 109.0 | -11.3% | 286.4 | +14.2% | 122.9 | 250.7 |
| Operating profit/loss (EBIT) | 122.2 | 33.0 | +65.3% | 155.2 | +97.9% | 20.0 | 78.4 |
| Group net income (loss) | 100.1 | 27.8 | -14.2% | 127.9 | +73.1% | 32.4 | 73.9 |
| Earnings per share in EUR | 0.83 | 0.23 | -14.2% | 1.06 | +73.1% | 0.27 | 0.61 |
| Retention | 90.8% | 87.6% | | 89.2% | | 92.6% | 92.1% |
| EBIT margin[1] | 9.7% | 2.6% | | 6.2% | | 1.7% | 3.4% |

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

# Investments

Both US treasury securities and German, French and UK government bonds recorded yield declines in medium and long durations in the first half of 2012. The picture as regards the countries with higher risk premiums – presently the focus of so much attention – was a mixed one: while Italian, Irish and Portuguese bonds recovered – sometimes markedly so – across all durations in the first quarter, yields on Spanish government bonds increased across all durations. Credit spreads in the area of European and US corporate bonds retreated across all rating classes. In total, the unrealised gains on our fixed-income securities rose to EUR 1,264.9 million (EUR 784.3 million). Our portfolio of assets under own management continued to grow to EUR 30.3 billion (EUR 28.3 billion) thanks to the pleasing inflow of cash into the technical account.

Despite the sustained low level of interest rates, ordinary investment income excluding interest on deposits was a significant 18.8% higher than in the corresponding period of the previous year at EUR 532.0 million (EUR 447.9 million). This can be attributed principally to the enlarged asset portfolio. Interest on deposits fell slightly short of the corresponding figure for the previous year, standing at EUR 156.3 million (EUR 161.3 million).

Impairments of altogether EUR 12.5 million (EUR 16.5 million) were taken. This includes impairments of EUR 4.7 million on alternative investments and EUR 2.2 million on equities. Scheduled depreciation on directly held real estate climbed to EUR 5.2 million (EUR 4.1 million), a reflection of our greater involvement in this area. The write-downs contrasted with write-ups of EUR 0.5 million (EUR 15.0 million), which were attributable primarily to structured 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 in the first quarter had given rise to exceptionally high unrealised gains recognised in investment income. These reverted to a normal, albeit still pleasing, level of EUR 10.8 million in the second quarter. The unrealised gains contrasted with unrealised losses of EUR 9.9 million in the previous year. The fair values of our inflation swaps taken out in 2010 to hedge part of the inflation risks associated with the loss reserves in our technical account – with respect to which the unrealised gains in the first quarter had similarly been very high – were reduced for the six-month period in view of lower inflation expectations. They gave rise to unrealised losses of EUR 9.9 million recognised in investment income, as against unrealised gains of EUR 48.1 million in the previous year. The changes in the fair values of the inflation swaps are recognised in income as a derivative pursuant to IAS 39. Altogether, the unrealised gains on our assets recognised at fair value through profit or loss amounted to EUR 2.9 million (EUR 53.7 million).

The net balance of gains realised from the sale of securities stood at EUR 68.0 million (EUR 43.9 million); it can be attributed primarily to portfolio regrouping in the area of government and corporate bonds as well as real estate.

Thanks above all to the further increase in ordinary investment income but also to higher realised gains, our investment income improved on the level of the comparable period. It amounted to EUR 709.5 million (EUR 672.8 million) in the period under review, equivalent to an annualised average return (including effects from derivatives) of 3.8% for our portfolio of assets under own management.

**Net investment income** — in EUR million

| | 2012 | | | | | 2011 | |
|---|---|---|---|---|---|---|---|
| | 1.1.–31.3. | 1.4.–30.6. | +/– previous Year | 1.1.–30.6. | +/– previous Year | 1.4.–30.6. | 1.1.–30.6. |
| Ordinary investment income[1] | 258.2 | 273.8 | +21.6% | 532.0 | +18.8% | 225.2 | 447.9 |
| Results from participation in associated companies | 1.8 | 1.6 | +61.6% | 3.4 | +1.6% | 1.0 | 3.4 |
| Realised gains/losses | 37.8 | 30.2 | | 68.0 | +54.7% | 4.8 | 43.9 |
| Appreciation | 0.2 | 0.3 | -64.9% | 0.5 | -96.5% | 0.9 | 15.0 |
| Impairments[2] | 7.2 | 5.3 | +84.8% | 12.5 | -24.1% | 2.8 | 16.5 |
| Unrealised gains/losses[3] | 84.6 | (81.6) | | 2.9 | -94.5% | (15.3) | 53.7 |
| Investment expenses | 18.4 | 22.8 | +24.2% | 41.2 | +14.6% | 18.3 | 35.9 |
| **Net investment income from assets under own management** | **356.9** | **196.3** | **+0.5%** | **553.2** | **+8.1%** | **195.4** | **511.5** |
| Net investment income from funds withheld | 83.7 | 72.6 | -15.1% | 156.3 | -3.1% | 85.4 | 161.3 |
| **Net investment income** | **440.6** | **268.8** | **-4.3%** | **709.5** | **+5.4%** | **280.8** | **672.8** |

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

# 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 statements. These processes for the organisation and implementation of consolidation tasks and for the preparation of the consolidated financial statements as well as the accompanying controls are documented and subject to regular review. All internal Group accounting principles are collated in an Accounting Manual that is available in IT-supported form to all relevant organisational units and all staff of the Hannover Re Group.

## Material risks

### Technical risks in non-life reinsurance

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

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

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

**Development of combined and catastrophe ratio** — in %

| | 1H 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 major losses[3] | 4.0 | 16.5 | 12.3 | 4.6 | 10.7 | 6.3 | 2.3 | 26.3 | 8.3 | 1.5 | 5.2 |

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

## Technical risks in life and health reinsurance

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

Regular reviews and holistic analyses (e.g. with an eye to lapse risks) are carried out with respect to new business activities and the assumption of international portfolios. The interest rate risk, which in the primary sector is important in life business owing to the guarantees that are given, is of only minimal relevance to our company thanks to the structure of our contracts. The actuarial reports and documentation required by local regulators ensure that regular scrutiny also takes place on the level of the subsidiaries. The Market Consistent Embedded Value (MCEV) is a ratio used for the valuation of life insurance and reinsurance business; it is calculated as the present value of the future shareholders' earnings from the worldwide life and health reinsurance portfolio plus the allocated capital. The calculation makes allowance as far as possible for all risks included in this business. For further explanation please see the MCEV for the 2011 financial year, which is published on our Internet website at the same time as the report on the first quarter of 2012.

## Market risks

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

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

**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% | -4.4 | -4.4 |
| | Share prices -20% | -8.8 | -8.8 |
| | Share prices +10% | +4.4 | +4.4 |
| | Share prices +20% | +8.8 | +8.8 |
| | | | |
| Fixed-income securities | Yield increase +50 basis points | -610.0 | -447.8 |
| | Yield increase +100 basis points | -1,191.9 | -874.1 |
| | Yield decrease -50 basis points | +632.5 | +464.4 |
| | Yield decrease -100 basis points | +1,292.3 | +949.7 |

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

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

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

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

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

**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 | 24.9 | 1,419.7 | 60.5 | 4,046.2 | 2.2 | 216.9 | 59.0 | 2,893.6 |
| AA | 57.6 | 3,281.0 | 35.8 | 2,390.1 | 14.8 | 1,468.4 | 23.2 | 1,140.9 |
| A | 7.3 | 417.5 | 2.9 | 193.2 | 49.0 | 4,846.8 | 8.4 | 410.3 |
| BBB | 8.0 | 456.2 | 0.7 | 48.0 | 28.2 | 2,793.9 | 5.0 | 243.5 |
| < BBB | 2.2 | 123.5 | 0.1 | 9.0 | 5.8 | 573.9 | 4.4 | 214.1 |
| **Total** | **100.0** | **5,697.9** | **100.0** | **6,686.4** | **100.0** | **9,899.8** | **100.0** | **4,902.5** |

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

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 151.5 million on a fair value basis. This corresponds to a proportion of 0.5%. No impairments had to be taken on these holdings. Our portfolio does not contain any bonds of Greek issuers.

The breakdown into individual countries and specific exposures is shown in the following table.

On a fair value basis EUR 3,612.3 million of the corporate bonds held by our company were issued by entities in the financial sector. Of this amount, EUR 2,981.8 million was attributable to banks. The vast majority of these bank bonds (66.4%) are rated "A" or better. Our investment portfolio under own management does not contain any directly written credit derivatives. We use derivative financial instruments only to a very limited extent. The primary purpose of such financial instruments is to hedge against potentially adverse situations on capital markets. The contracts are concluded solely with first-class counterparties and exposures are controlled in accordance with the restrictive parameters set out in the investment guidelines so as to avoid credit risks associated with the use of such transactions.

**Fair values** — in EUR million

| | Government bonds | Securities issued by semi-governmental entities | Corporate bonds | | Covered bonds/asset-backed securities | Total |
|---|---|---|---|---|---|---|
| | | | Financial bonds | Industrial bonds | | |
| Greece | – | – | – | – | – | **–** |
| Ireland | 27.4 | – | 5.0 | 24.7 | 97.3 | **154.4** |
| Italy | 17.1 | – | 95.4 | 79.0 | 209.7 | **401.3** |
| Portugal | 17.4 | – | – | 1.9 | 7.1 | **26.5** |
| Spain | 85.4 | 4.1 | 89.4 | 102.7 | 259.0 | **540.7** |
| **Total** | **147.4** | **4.1** | **189.9** | **208.4** | **573.1** | **1,122.8** |

## 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 315.9 million (8.5%) of our accounts receivable from reinsurance business totalling EUR 3,731.1 million were older than 90 days as at 30 June 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 continuing attractive market opportunities in non-life and life / health reinsurance and the pleasing performance as at 30 June 2012, we anticipate a good result for the full 2012 financial year. It remains our expectation that total gross premium will grow by 5% to 7% after adjustment for exchange rate effects.

Market conditions in non-life reinsurance are highly promising. In the renewal rounds on 1 July 2012 – when the focus is on North America and Australia / New Zealand – it was for the most part possible to push through rate increases. In Australia and New Zealand most treaty business traditionally comes up for renewal on 1 July. In view of the heavy losses caused by natural disasters in 2011 in Australia and especially in New Zealand, we obtained appreciable rate increases and improved conditions in these regions. The price rises reached double-digit percentages under loss-impacted programmes, while they were in the single digits for programmes that had been spared losses. In the casualty lines, too, rate

increases averaging 5% to 10% were booked. The previous year's natural disasters were not the only factor pushing prices in this region higher. More exacting regulatory requirements with respect to improved capital management also had positive implications, encouraging the purchase of more reinsurance protection. At the same time, a sharp decrease in the yield curve with adverse repercussions for investment income in Australia has also prompted market players to take a more disciplined approach to negotiating improved insurance and reinsurance conditions. All in all, we were able to modestly enlarge the premium volume of our portfolio in Australia and New Zealand while reducing the exposure. Looking ahead to the further treaty renewal dates of 1 October 2012 and 1 January 2013, it is our expectation that the positive price trend will be sustained. What is more, the upcoming model recalibration by the natural catastrophe modeller AIR to take account of secondary hazards previously not adequately factored into the pricing calculations will likely bring corresponding rate increases effective 1 January 2013.

We were broadly satisfied with the outcome of the renewals for our North American business, even though a consistent pattern of market hardening cannot yet be discerned. In property catastrophe reinsurance the trend towards further price increases was again sustained in this round of renewals. We obtained rate increases here of between 5% and 10% on average. The key factors were both the model adjustments made by RMS and the tornadoes of the past year. Price rises of 20% to 30% were possible for loss-impacted programmes in non-proportional property reinsurance, while in the case of programmes that had been spared losses rates remained stable or increases of up to 5% could be obtained. Rates and conditions in proportional reinsurance were very largely unchanged. In casualty business a trend towards recovery could be observed on the primary side; on the reinsurance side, however, it was not yet possible to push through consistent improvements in prices and conditions, although they at least held stable. Treaty renewals in Canadian business once again passed off very favourably for our company, even allowing for the fact that only a small part of the portfolio was up for renewal on 1 July 2012. It is our expectation that the positive trend here will be sustained.

In the upcoming rounds of treaty renewals, too, we expect to see positive outcomes overall. For the full 2012 financial year we anticipate growth – after adjustment for exchange rate effects – of 5% to 7% in gross premium income from non-life reinsurance.

The prospects for international life and health reinsurance remain bright. Long-term care and retirement provision products, in particular, as well as traditional life insurance are benefiting from the progressive ageing of the population in industrialised nations such as Japan, the United Kingdom, France and Germany combined with consistent growth in Asia's emerging markets, driven above all by China and India. Growth opportunities are also expected to derive from financially oriented reinsurance solutions designed to optimise solvency and provide relief for the equity base of life insurers in the primary sector. Especially for European insurers, this need is set to take an added significance with an eye to the implementation of Solvency II. In the field of longevity risks the United Kingdom – which is by far the most mature market – continues to offer the most attractive business prospects, both with respect to enhanced annuities and the assumption of risks from existing pension funds.

As things stand at the present moment, we are looking at a promising second half of 2012 and expect the current financial year to deliver organic growth – at constant exchange rates – 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 stand by our targeted 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 pleasing 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.

# Half-yearly financial report of the Hannover Re Group

# Consolidated balance sheet

| **Assets** in EUR thousand | **30.6.2012** | 31.12.2011 |
|---|---|---|
| Fixed-income securities – held to maturity | 3,903,373 | 4,156,089 |
| Fixed-income securities – loans and receivables | 3,424,306 | 3,524,735 |
| Fixed-income securities – available for sale | 19,680,398 | 17,328,911 |
| Fixed-income securities – at fair value through profit or loss | 178,507 | 161,130 |
| Equity securities – available for sale | 44,060 | 40,387 |
| Other financial assets – at fair value through profit or loss | 12,692 | 21,026 |
| Real estate and real estate funds | 607,657 | 525,097 |
| Investments in associated companies | 126,206 | 127,554 |
| Other invested assets | 970,859 | 931,421 |
| Short-term investments | 833,169 | 1,017,886 |
| Cash | 500,676 | 506,963 |
| **Total investments and cash under own management** | **30,281,903** | **28,341,199** |
| Funds withheld | 13,993,870 | 13,232,054 |
| Contract deposits | 112,178 | 109,719 |
| **Total investments** | **44,387,951** | **41,682,972** |
| Reinsurance recoverables on unpaid claims | 1,480,236 | 1,550,587 |
| Reinsurance recoverables on benefit reserve | 494,190 | 380,714 |
| Prepaid reinsurance premium | 179,666 | 91,823 |
| Reinsurance recoverables on other technical reserves | 795 | 7,810 |
| Deferred acquisition costs | 1,977,489 | 1,926,570 |
| Accounts receivable | 3,731,100 | 3,139,327 |
| Goodwill | 59,947 | 59,289 |
| Deferred tax assets | 708,634 | 682,888 |
| Other assets | 381,257 | 336,650 |
| Accrued interest and rent | 8,311 | 5,931 |
| Assets held for sale | 2,391 | 2,391 |
| **Total assets** | **53,411,967** | **49,866,952** |

| **Liabilities** in EUR thousand | 30.6.2012 | 31.12.2011 |
|---|---|---|
| Loss and loss adjustment expense reserve | 21,990,892 | 20,767,317 |
| Benefit reserves | 10,773,597 | 10,309,066 |
| Unearned premium reserve | 2,719,962 | 2,215,864 |
| Other technical provisions | 209,809 | 207,262 |
| Funds withheld | 734,941 | 644,587 |
| Contract deposits | 5,413,393 | 5,008,193 |
| Reinsurance payable | 890,209 | 733,348 |
| Provisions for pensions | 88,649 | 88,299 |
| Taxes | 188,995 | 185,015 |
| Provision for deferred taxes | 1,882,943 | 1,723,265 |
| Other liabilities | 485,579 | 443,671 |
| Long-term debt and subordinated capital | 1,934,416 | 1,934,410 |
| **Total liabilities** | **47,313,385** | **44,260,297** |
| Shareholders' equity | | |
| Common shares | 120,597 | 120,597 |
| Nominal value: 120,597<br>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 | 745,305 | 453,115 |
| Cumulative foreign currency translation adjustment | 93,561 | 11,559 |
| Changes from hedging instruments | (840) | – |
| Other changes in cumulative other comprehensive income | (29,625) | (18,553) |
| **Total other comprehensive income** | **808,401** | **446,121** |
| Retained earnings | 3,818,101 | 3,679,351 |
| **Equity attributable to shareholders of Hannover Re** | **5,471,661** | **4,970,631** |
| Non-controlling interests | 626,921 | 636,024 |
| **Total shareholders' equity** | **6,098,582** | **5,606,655** |
| | | |
| **Total liabilities** | **53,411,967** | **49,866,952** |

# Consolidated statement of income

as at 30 June 2012

| **Figures** in EUR thousand | 1.4.–30.6.2012 | 1.1.–30.6.2012 | 1.4.–30.6.2011[1] | 1.1.–30.6.2011[1] |
|---|---|---|---|---|
| Gross written premium | 3,377,877 | 6,888,444 | 2,901,682 | 6,044,828 |
| Ceded written premium | 389,552 | 703,761 | 216,188 | 554,020 |
| Change in gross unearned premium | (29,965) | (453,106) | (23,435) | (387,236) |
| Change in ceded unearned premium | 50,261 | 93,209 | (4,858) | 44,348 |
| **Net premium earned** | **3,008,621** | **5,824,786** | **2,657,201** | **5,147,920** |
| Ordinary investment income | 273,799 | 531,958 | 225,172 | 447,916 |
| Profit/loss from investments in associated companies | 1,646 | 3,449 | 1,018 | 3,395 |
| Realised gains and losses on investments | 30,187 | 67,994 | 4,772 | 43,950 |
| Unrealised gains and losses on investments | (81,617) | 2,945 | (15,336) | 53,681 |
| Total depreciation, impairments and appreciation of investments | 4,968 | 12,020 | 1,922 | 1,509 |
| Other investment expenses | 22,765 | 41,158 | 18,327 | 35,915 |
| **Net income from investments under own management** | **196,282** | **553,168** | **195,377** | **511,518** |
| Income/expense on funds withheld and contract deposits | 72,553 | 156,283 | 85,408 | 161,268 |
| **Net investment income** | **268,835** | **709,451** | **280,785** | **672,786** |
| Other technical income | 432 | 817 | 2,195 | 5,238 |
| **Total revenues** | **3,277,888** | **6,535,054** | **2,940,181** | **5,825,944** |
| Claims and claims expenses | 2,222,652 | 4,268,763 | 1,902,254 | 4,050,816 |
| Change in benefit reserves | 29,196 | 138,232 | 178,601 | 293,013 |
| Commission and brokerage, change in deferred acquisition costs | 683,338 | 1,266,031 | 564,304 | 1,091,427 |
| Other acquisition costs | 4,217 | 7,491 | 4,027 | 5,941 |
| Other technical expenses | 957 | 1,973 | 699 | 3,852 |
| Administrative expenses | 82,265 | 156,356 | 73,197 | 154,458 |
| **Total technical expenses** | **3,022,625** | **5,838,846** | **2,723,082** | **5,599,507** |
| Other income and expenses | (51,249) | (99,028) | (15,577) | 22,437 |
| **Operating profit/loss (EBIT)** | **204,014** | **597,180** | **201,522** | **248,874** |
| Interest on hybrid capital | 25,232 | 50,603 | 25,038 | 51,861 |
| **Net income before taxes** | **178,782** | **546,577** | **176,484** | **197,013** |
| Taxes | 32,414 | 124,923 | 4,336 | (54,231) |
| **Net income** | **146,368** | **421,654** | **172,148** | **251,244** |
| thereof | | | | |
| Non-controlling interest in profit and loss | 2,385 | 16,380 | 5,977 | 32,786 |
| **Group net income** | **143,983** | **405,274** | **166,171** | **218,458** |
| **Earnings per share in EUR** | **1.19** | **3.36** | **1.38** | **1.81** |

[1] Adjusted on the basis of IAS 8

# Consolidated statement of comprehensive income

as at 30 June 2012

| **Figures** in EUR thousand | 1.4.–30.6.2012 | 1.1.–30.6.2012 | 1.4.–30.6.2011 | 1.1.–30.6.2011 |
|---|---|---|---|---|
| **Net income** | **146,368** | **421,654** | **172,148** | **251,244** |
| Unrealised gains and losses on investments | | | | |
| Gains (losses) recognised directly in equity | 196,161 | 444,700 | 145,892 | 68,739 |
| Transferred to the consolidated statement of income | (9,301) | (18,983) | 4,270 | (32,602) |
| Tax income (expense) | (45,166) | (114,428) | (34,985) | (18,099) |
| | **141,694** | **311,289** | **115,177** | **18,038** |
| Currency translation | | | | |
| Gains (losses) recognised directly in equity | 145,012 | 93,452 | (25,058) | (159,345) |
| Tax income (expense) | (16,938) | (10,263) | 2,143 | 14,197 |
| | **128,074** | **83,189** | **(22,915)** | **(145,148)** |
| Changes from hedging instruments | | | | |
| Gains (losses) recognised directly in equity | (13,687) | (1,234) | – | – |
| Tax income (expense) | 4,370 | 394 | – | – |
| | **(9,317)** | **(840)** | **–** | **–** |
| Other changes | | | | |
| Gains (losses) recognised directly in equity | (24,392) | (15,868) | (617) | (4,458) |
| Tax income (expense) | 7,306 | 4,796 | 189 | 1,217 |
| | **(17,086)** | **(11,072)** | **(428)** | **(3,241)** |
| | | | | |
| Total income and expense recognised directly in equity | | | | |
| Gains (losses) recognised directly in equity | 303,094 | 521,050 | 120,217 | (95,064) |
| Transferred to the consolidated statement of income | (9,301) | (18,983) | 4,270 | (32,602) |
| Tax income (expense) | (50,428) | (119,501) | (32,653) | (2,685) |
| | **243,365** | **382,566** | **91,834** | **(130,351)** |
| | | | | |
| Changes in consolidated group | – | – | (32) | – |
| **Total recognised income and expense** | **389,733** | **804,220** | **263,950** | **120,893** |
| | | | | |
| thereof: | | | | |
| Attributable to non-controlling interests | 12,109 | 36,647 | 9,736 | 27,600 |
| Attributable to shareholders of Hannover Re | 377,624 | 767,573 | 254,214 | 93,293 |

# 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 | Hedging instruments | Other | | | |
| **Balance as at 1.1.2011** | **120,597** | **724,562** | **372,094** | **(52,954)** | **–** | **(6,450)** | **3,351,116** | **608,903** | **5,117,868** |
| Changes in ownership interest with no change of control status | – | – | – | – | – | – | 53 | 42 | 95 |
| Capital increases/additions | – | – | – | – | – | – | – | 29 | 29 |
| Capital repayments | – | – | – | – | – | – | – | (8) | (8) |
| Acquisition/disposal of treasury shares | – | – | – | – | – | – | (380) | – | (380) |
| Net income | – | – | – | – | – | – | 218,458 | 32,786 | 251,244 |
| Total income and expense regocnised directly in equity | – | – | 17,573 | (139,497) | – | (3,241) | – | (5,186) | (130,351) |
| Dividends paid | – | – | – | – | – | – | (277,373) | (37,484) | (314,857) |
| **Balance as at 30.6.2011** | **120,597** | **724,562** | **389,667** | **(192,451)** | **–** | **(9,691)** | **3,291,874** | **599,082** | **4,923,640** |
| | | | | | | | | | |
| **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 | – | – | (10) | (9) | – | – | (191) | 205 | (5) |
| Changes in the consolidated group | – | – | – | – | – | – | (12,716) | 1,016 | (11,700) |
| Capital increases/additions | – | – | – | – | – | – | – | 3,392 | 3,392 |
| Acquisition/disposal of treasury shares | – | – | – | – | – | – | (363) | – | (363) |
| Net income | – | – | – | – | – | – | 405,274 | 16,380 | 421,654 |
| Total income and expense regocnised directly in equity | – | – | 292,200 | 82,011 | (840) | (11,072) | – | 20,267 | 382,566 |
| Dividends paid | – | – | – | – | – | – | (253,254) | (50,363) | (303,617) |
| **Balance as at 30.6.2012** | **120,597** | **724,562** | **745,305** | **93,561** | **(840)** | **(29,625)** | **3,818,101** | **626,921** | **6,098,582** |

# Consolidated cash flow statement

as at 30 June 2012

| Figures in EUR thousand | 1.1.–30.6.2012 | 1.1.–30.6.2011 |
|---|---|---|
| **I. Cash flow from operating activities** | | |
| Net income | 421,654 | 251,244 |
| Appreciation/depreciation | 29,457 | 10,872 |
| Net realised gains and losses on investments | (67,994) | (43,950) |
| Amortisation of investments | 37,286 | 27,051 |
| Changes in funds withheld | (318,726) | (1,267,182) |
| Net changes in contract deposits | 294,050 | 720,968 |
| Changes in prepaid reinsurance premium (net) | 360,080 | 342,874 |
| Changes in tax assets/provisions for taxes | (5,530) | (233,757) |
| Changes in benefit reserve (net) | 93,984 | 796,516 |
| Changes in claims reserves (net) | 897,880 | 1,232,763 |
| Changes in deferred acquisition costs | (6,386) | (113,765) |
| Changes in other technical provisions | 4,786 | (14,742) |
| Changes in clearing balances | (376,392) | (433,431) |
| Changes in other assets and liabilities (net) | (19,607) | 19,229 |
| **Cash flow from operating activities** | **1,344,542** | **1,294,690** |

Consolidated accounts

| Figures in EUR thousand | 1.1.–30.6.2012 | 1.1.–30.6.2011 |
|---|---|---|
| **II. Cash flow from investing activities** | | |
| Fixed-income securities – held to maturity | | |
| Maturities | 293,362 | 163,209 |
| Fixed-income securities – loans and receivables | | |
| Maturities, sales | 272,512 | 283,557 |
| Purchases | (39,418) | (765,486) |
| Fixed-income securities – available for sale | | |
| Maturities, sales | 4,470,208 | 3,744,314 |
| Purchases | (6,061,112) | (4,939,503) |
| Fixed-income securities – at fair value through profit or loss | | |
| Maturities, sales | 23,270 | 39,012 |
| Purchases | (30,241) | (301) |
| Equity securities – available for sale | | |
| Sales | 1,939 | 726,563 |
| Purchases | (3,803) | (269,078) |
| Other financial assets – at fair value through profit or loss | | |
| Sales | 596 | 181 |
| Purchases | – | (76) |
| Other invested assets | | |
| Sales | 90,974 | 33,852 |
| Purchases | (73,140) | (71,472) |
| Affiliated companies and participating interests | | |
| Sales | 34 | – |
| Purchases | (2,792) | (8,862) |
| Real estate and real estate funds | | |
| Sales | 41,628 | 1,469 |
| Purchases | (110,682) | (68,663) |
| Short-term investments | | |
| Changes | 107,295 | 445,300 |
| Other changes (net) | (26,459) | (6,632) |
| **Cash flow from investing activities** | **(1,045,829)** | **(692,616)** |

| **Figures** in EUR thousand | 1.1.–30.6.2012 | 1.1.–30.6.2011 |
|---|---|---|
| **III. Cash flow from financing activities** | | |
| Contribution from capital measures | 3,392 | – |
| Payment on capital measures | – | (2,560) |
| Structural change without loss of control | (5) | 95 |
| Dividends paid | (303,617) | (314,857) |
| Repayment of long-term debts | (9,184) | (138,426) |
| Acquisition/disposal of treasury shares | (363) | (380) |
| **Cash flow from financing activities** | **(309,777)** | **(456,128)** |
| | | |
| **IV. Exchange rate differences on cash** | **4,777** | **(32,599)** |
| | | |
| **Cash and cash equivalents at the beginning of the period** | **506,963** | **475,227** |
| **Change in cash and cash equivalents (I.+II.+III.+IV.)** | **(6,287)** | **113,347** |
| **Cash and cash equivalents at the end of the period** | **500,676** | **588,574** |
| **thereof cash and cash equivalents of disposal groups** | **–** | **15,205** |
| **Cash and cash equivalents at the end of the period excluding disposal groups** | **500,676** | **573,369** |
| | | |
| Income taxes | (87,795) | (36,690) |
| Interest paid | (90,371) | (88,068) |

Consolidated accounts

# Consolidated segmental report

| Segmentation of assets in EUR thousand | Non-life reinsurance | |
|---|---|---|
| | 30.6.2012 | 31.12.2011 |
| **Assets** | | |
| Held to maturity | 3,511,366 | 3,704,836 |
| Loans and receivables | 3,333,233 | 3,486,857 |
| Available for sale | 13,573,408 | 11,707,340 |
| At fair value through profit or loss | 123,727 | 118,327 |
| Other invested assets | 1,659,033 | 1,554,528 |
| Short-term investments | 597,490 | 638,128 |
| Cash | 375,377 | 385,531 |
| **Total investments and cash under own management** | **23,173,634** | **21,595,547** |
| Funds withheld | 923,706 | 836,170 |
| Contract deposits | – | – |
| **Total investments** | **24,097,340** | **22,431,717** |
| Reinsurance recoverables on unpaid claims | 1,262,164 | 1,352,406 |
| Reinsurance recoverables on benefit reserve | – | – |
| Prepaid reinsurance premium | 178,132 | 89,109 |
| Reinsurance recoverables on other reserves | 795 | 4,239 |
| Deferred acquisition costs | 539,224 | 458,651 |
| Accounts receivable | 2,430,470 | 1,977,106 |
| Other assets in the segment | 1,532,934 | 1,469,312 |
| Assets held for sale | 2,391 | 2,391 |
| **Total assets** | **30,043,450** | **27,784,931** |

| Segmentation of technical and other liabilities in EUR thousand | | |
|---|---|---|
| **Liabilities** | | |
| Loss and loss adjustment expense reserve | 18,909,499 | 18,030,010 |
| Benefit reserve | – | – |
| Unearned premium reserve | 2,629,388 | 2,110,289 |
| Provisions for contingent commissions | 146,000 | 145,915 |
| Funds withheld | 356,196 | 313,851 |
| Contract deposits | 97,237 | 96,611 |
| Reinsurance payable | 667,842 | 446,301 |
| Long-term liabilities | 200,422 | 202,823 |
| Other liabilities in the segment | 1,810,858 | 1,544,215 |
| **Total** | **24,817,442** | **22,890,015** |

| Life/health reinsurance | | Consolidation | | Total | |
|---|---|---|---|---|---|
| 30.6.2012 | 31.12.2011 | 30.6.2012 | 31.12.2011 | 30.6.2012 | 31.12.2011 |
| | | | | | |
| 199,271 | 199,846 | 192,736 | 251,407 | 3,903,373 | 4,156,089 |
| 81,005 | 27,560 | 10,068 | 10,318 | 3,424,306 | 3,524,735 |
| 5,778,487 | 5,355,477 | 372,563 | 306,481 | 19,724,458 | 17,369,298 |
| 41,878 | 40,346 | 25,594 | 23,483 | 191,199 | 182,156 |
| 43,272 | 27,041 | 2,417 | 2,503 | 1,704,722 | 1,584,072 |
| 205,535 | 339,662 | 30,144 | 40,096 | 833,169 | 1,017,886 |
| 122,073 | 118,835 | 3,226 | 2,597 | 500,676 | 506,963 |
| **6,471,521** | **6,108,767** | **636,748** | **636,885** | **30,281,903** | **28,341,199** |
| 13,070,164 | 12,395,934 | – | (50) | 13,993,870 | 13,232,054 |
| 112,178 | 109,719 | – | – | 112,178 | 109,719 |
| **19,653,863** | **18,614,420** | **636,748** | **636,835** | **44,387,951** | **41,682,972** |
| 219,309 | 199,332 | (1,237) | (1,151) | 1,480,236 | 1,550,587 |
| 494,190 | 380,714 | – | – | 494,190 | 380,714 |
| 1,625 | 2,802 | (91) | (88) | 179,666 | 91,823 |
| – | 3,571 | – | – | 795 | 7,810 |
| 1,438,260 | 1,467,915 | 5 | 4 | 1,977,489 | 1,926,570 |
| 1,300,883 | 1,162,401 | (253) | (180) | 3,731,100 | 3,139,327 |
| 469,790 | 467,140 | (844,575) | (851,694) | 1,158,149 | 1,084,758 |
| – | – | – | – | 2,391 | 2,391 |
| **23,577,920** | **22,298,295** | **(209,403)** | **(216,274)** | **53,411,967** | **49,866,952** |
| | | | | | |
| | | | | | |
| | | | | | |
| 3,082,630 | 2,738,458 | (1,237) | (1,151) | 21,990,892 | 20,767,317 |
| 10,773,683 | 10,309,149 | (86) | (83) | 10,773,597 | 10,309,066 |
| 90,574 | 105,575 | – | – | 2,719,962 | 2,215,864 |
| 63,809 | 61,347 | – | – | 209,809 | 207,262 |
| 378,745 | 330,736 | – | – | 734,941 | 644,587 |
| 5,316,156 | 4,911,582 | – | – | 5,413,393 | 5,008,193 |
| 222,935 | 287,692 | (568) | (645) | 890,209 | 733,348 |
| – | – | 1,733,994 | 1,731,587 | 1,934,416 | 1,934,410 |
| 1,666,803 | 1,730,456 | (831,495) | (834,421) | 2,646,166 | 2,440,250 |
| **21,595,335** | **20,474,995** | **900,608** | **895,287** | **47,313,385** | **44,260,297** |

# Consolidated segmental report

| **Segmental statement of income** in EUR thousand | Non-life reinsurance | |
|---|---|---|
| | 1.1.–30.6.2012 | 1.1.–30.6.2011 |
| Gross written premium | 4,079,711 | 3,544,454 |
| thereof | | |
| From insurance business with other segments | – | – |
| From insurance business with external third parties | 4,079,711 | 3,544,454 |
| Net premium earned | 3,303,410 | 2,848,593 |
| Net investment income | 410,169 | 402,507 |
| thereof | | |
| Deposit interest and expenses | 6,026 | 6,168 |
| Claims and claims expenses | 2,347,133 | 2,432,627 |
| Change in benefit reserve | – | – |
| Commission and brokerage, change in deferred acquisition costs and other technical income/expenses | 771,988 | 627,960 |
| Administrative expenses | 85,056 | 87,450 |
| Other income and expenses | (78,833) | 48,107 |
| **Operating profit/loss (EBIT)** | **430,569** | **151,170** |
| Interest on hybrid capital | – | – |
| **Net income before taxes** | **430,569** | **151,170** |
| Taxes | 110,682 | (43,890) |
| **Net income** | **319,887** | **195,060** |
| thereof | | |
| Non-controlling interest in profit or loss | 14,299 | 30,977 |
| **Group net income** | **305,588** | **164,083** |

[1] Adjusted on the basis of IAS 8

| Life/health reinsurance | | Consolidation | | Total | |
|---|---|---|---|---|---|
| **1.1.–30.6.2012** | 1.1.–30.6.2011 | **1.1.–30.6.2012** | 1.1.–30.6.2011[1] | **1.1.–30.6.2012** | 1.1.–30.6.2011 |
| 2,808,824 | 2,499,832 | (91) | 542 | 6,888,444 | 6,044,828 |
| | | | | | |
| 91 | (542) | (91) | 542 | – | – |
| 2,808,733 | 2,500,374 | – | – | 6,888,444 | 6,044,828 |
| 2,521,377 | 2,297,733 | (1) | 1,594 | 5,824,786 | 5,147,920 |
| 286,408 | 250,744 | 12,874 | 19,535 | 709,451 | 672,786 |
| | | | | | |
| 150,257 | 155,100 | – | – | 156,283 | 161,268 |
| 1,921,989 | 1,618,194 | (359) | (5) | 4,268,763 | 4,050,816 |
| 138,235 | 291,408 | (3) | 1,605 | 138,232 | 293,013 |
| 505,992 | 468,966 | (3,302) | (944) | 1,274,678 | 1,095,982 |
| 72,514 | 70,042 | (1,214) | (3,034) | 156,356 | 154,458 |
| (13,873) | (21,464) | (6,322) | (4,206) | (99,028) | 22,437 |
| **155,182** | **78,403** | **11,429** | **19,301** | **597,180** | **248,874** |
| – | – | 50,603 | 51,861 | 50,603 | 51,861 |
| **155,182** | **78,403** | **(39,174)** | **(32,560)** | **546,577** | **197,013** |
| 25,242 | 2,733 | (11,001) | (13,074) | 124,923 | (54,231) |
| **129,940** | **75,670** | **(28,173)** | **(19,486)** | **421,654** | **251,244** |
| | | | | | |
| 2,081 | 1,809 | – | – | 16,380 | 32,786 |
| **127,859** | **73,861** | **(28,173)** | **(19,486)** | **405,274** | **218,458** |

# 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.

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 24 July 2012 and released for publication.

## 2. Accounting principles including major accounting policies

The quarterly accounts of the consolidated companies included in the consolidated financial statement were drawn up as at 30 June 2012.

The consolidated quarterly financial report was compiled in accordance with IAS 34 "Interim Financial Reporting". Consequently, the accounting policies adopted in the period under review were the same as those applied in the preceding consolidated annual financial statement; changes made in specific justified cases pursuant to IAS 8 are reported separately in the section entitled "Changes in accounting policies". For more details of the accounting policies please see the Group annual financial report for the previous year.

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

## New accounting standards or accounting standards applied for the first time

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In November 2009 the IASB issued IFRS 9 "Financial Instruments" on the classification and measurement of financial instruments. IFRS 9 is the first step in a three-phase project intended to replace IAS 39 "Financial Instruments: Recognition and Measurement" with a new standard. IFRS 9 introduces new requirements for classifying and measuring financial assets. The provisions of IFRS 9 were expanded in October 2010 with an eye to financial liabilities for which the fair value option is chosen. In November 2011 the IASB decided to make further limited modifications to IFRS 9 that are expected to be published at year-end 2012. The standard has not yet been ratified by the EU.

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

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

## Key exchange rates

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

**Key exchange rates** — 1 EUR corresponds to:

| | 30.6.2012 | 31.12.2011 | 1.1.–30.6.2012 | 1.1.–30.6.2011 |
|---|---|---|---|---|
| | Mean rate of exchange on the balance sheet date | | Average rate of exchange | |
| AUD | 1.2355 | 1.2723 | 1.2587 | 1.3541 |
| BHD | 0.4749 | 0.4881 | 0.4909 | 0.5317 |
| CAD | 1.2872 | 1.3198 | 1.3075 | 1.3762 |
| CNY | 8.0027 | 8.1489 | 8.2251 | 9.2164 |
| GBP | 0.8063 | 0.8362 | 0.8238 | 0.8750 |
| HKD | 9.7698 | 10.0565 | 10.1036 | 10.9758 |
| KRW | 1,441.4932 | 1,500.6009 | 1,483.8824 | 1,548.4548 |
| MYR | 3.9934 | 4.1038 | 4.0223 | 4.2719 |
| SEK | 8.7651 | 8.9063 | 8.8718 | 8.9355 |
| USD | 1.2595 | 1.2946 | 1.3020 | 1.4103 |
| ZAR | 10.3547 | 10.4800 | 10.3018 | 9.6412 |

## Changes in accounting policies

The hybrid capital shown under debt and subordinated capital is recognised according to the effective interest rate method at amortised cost. Components of income arising out of the amortisation of transaction costs and premiums/discounts occurring in the context of issuance were previously recognised in other income and expenses, while the nominal interest was recognised as interest on hybrid capital. In order to better reflect the character of the effective interest rate method we recognise all expenses consistently as interest on hybrid capital. The amended recognition of the previous period pursuant to IAS 8 thus improved the other income and expenses by an amount of EUR 2.1 million to the detriment of the interest on hybrid capital.

## Segmentation

Hannover Re's segmental report is based on IFRS 8 "Operating Segments" and on the principles set out in German Accounting Standard No. 3 "Segment Reporting" (DRS 3) of the German Accounting Standards Board as well as the requirements of DRS 3–20 "Segment Reporting of Insurance Enterprises". We would also refer to the relevant information in the consolidated financial statement as at 31 December 2011.

# 3. Consolidated companies and consolidation principles

## Acquisitions and new formations

In March 2010 Funis GmbH & Co. KG, which is wholly owned by Hannover Re, participated with a capital contribution of EUR 8.0 thousand (corresponding to 75.2% of the shares) in the newly established Svedea AB (formerly Foco 146 AB), which is based in Stockholm, Sweden. The company's business object consists principally of writing liability insurance for motor vehicles and yachts. For reasons of materiality Svedea was previously carried as a participating interest. Funis held a stake of EUR 15.0 million, equivalent to 69.2%, as at the balance sheet date. In view of the expansion of the business volume, the company was consolidated for the first time with effect from 30 June 2012. The assets-side difference arising out of initial consolidation in an amount of EUR 12.7 million was netted with the cumulative retained earnings outside income, as a result of which goodwill was not recognised.

## Capital consolidation

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

The capital consolidation is based on the acquisition method. In the context of the acquisition method the acquisition costs of the parent company are netted with the proportionate shareholders' equity of the subsidiary at the time when it is first included in the consolidated financial statement after the revaluation of all assets and liabilities. After recognition of all acquired intangible assets that in accordance with IFRS 3 "Business Combinations" are to be accounted for separately from goodwill, the difference between the revalued shareholders' equity of the subsidiary and the purchase price is recognised as goodwill. Under IFRS 3 scheduled amortisation is not taken on goodwill. Instead, impairment is taken where necessary on the basis of annual impairment tests. Immaterial and negative goodwill are recognised in the statement of income in the year of their occurrence. Costs associated with acquisition are expensed.

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

Non-controlling interests in shareholders' equity are reported separately within Group shareholders' equity in accordance with IAS 1 "Presentation of Financial Statements". The non-controlling interest in profit or loss, which forms part of net income and is shown separately after net income as a "thereof" note, amounted to EUR 16.4 million (EUR 32.8 million) as at 30 June 2012.

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

## Consolidation of business transactions within the Group

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

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

## Consolidation of special purpose entities

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

### Retrocessions and Insurance-Linked Securities (ILS)

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

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

### Securitisation of reinsurance risks

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

Effective 30 March 2011 a structured transaction was entered into in order to finance the statutory reserves (so-called Triple-X reserves) of a US cedant. The structure necessitated the involvement of a special purpose entity, namely the Delaware-based Maricopa LLC. The special purpose entity carries extreme mortality risks securitised by the cedant above a contractually defined retention and transfers these risks by way of a fixed/floating swap with a ten-year term to a Group company of the Hannover Re Group. The maximum capacity of the transaction is equivalent to EUR 397.0 million; the volume taken up was unchanged as at the balance sheet date, albeit in an amount equivalent to EUR 198.5 million. The variable payments to the special purpose entity guaranteed by Hannover Re cover its payment obligations. By way of a compensation agreement Hannover Re is reimbursed by the cedant’s parent company for all payments resulting from the swap in the event of a claim. Since Hannover Re does not bear the majority of the economic risks or benefits arising out of its business relations with the special purpose entity and does not exercise a controlling influence over it, there is no consolidation requirement for Hannover Re. Under IAS 39 this transaction is to be recognised at fair value as a financial guarantee. To this end Hannover Re uses the net method, according to which the present value of the agreed fixed swap premiums is netted with the present value of the guarantee commitment. The fair value on initial recognition therefore amounted to zero. The higher of the fair value and the amount carried as a provision on the liabilities side pursuant to IAS 37 is recognised at the point in time when utilisation is considered probable. This

was not the case as at the balance sheet date. In this case the reimbursement claims from the compensation agreement are to be capitalised separately from and up to the amount of the provision.

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

By way of its "K" transactions Hannover Re has raised further underwriting capacity for catastrophe risks on the capital market. The "K Cession", which was placed with investors in North America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. The volume of this securitisation, which has been increased on multiple occasions, was equivalent to EUR 280.5 million (EUR 258.8 million) as at the balance sheet date. The transaction has an indefinite term and can be cancelled annually by the investors.

Hannover Re uses the Bermuda-based special purpose entity Kaith Re Ltd. for parts of the "K Cession" as well as for various retrocessions of its traditional covers to institutional investors. In accordance with SIC–12 Kaith Re Ltd. is included in the consolidated financial statement.

### Investments

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

Hannover Re participates – primarily through the companies Secquaero ILS Fund Ltd. and Hannover Insurance-Linked Securities GmbH & Co. KG – in a number of special purpose entities for the securitisation of catastrophe risks by investing in "disaster bonds" (or "CAT bonds"). Since Hannover Re does not exercise a controlling influence in any of these transactions either there is no consolidation requirement.

## Further corporate changes

In the third quarter of 2012 Hannover Reinsurance (Ireland) Public Limited Company (formerly Hannover Reinsurance (Ireland) Limited, a wholly owned subsidiary of Hannover Rück Beteiligung Verwaltungs GmbH, HRBV), is to be merged into Hannover Life Reassurance (Ireland) Public Limited Company (formerly Hannover Life Reassurance (Ireland) Limited, a wholly owned subsidiary of Hannover Life Re AG). As at the balance sheet date the transaction was still subject to regulatory approval. The new trading name of the absorbing entity will be Hannover Re (Ireland) Plc. In preparation for the merger HRBV transferred Hannover Reinsurance (Ireland) to Hannover Life Reassurance (Ireland) via several intermediate steps by way of a capital increase against contribution in kind. Since this internal restructuring within the Group involves a transaction between companies under common control, the transaction does not give rise to goodwill nor does it have any implications for Group net income.

# 4. Notes on the individual items of the balance sheet

## 4.1 Investments under own management

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

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

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

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

| **Investments**[1] in EUR thousand | **30.6.2012** | 31.12.2011 |
|---|---|---|
| **Regional origin** | | |
| Germany | 6,140,764 | 6,144,974 |
| United Kingdom | 2,740,159 | 2,356,400 |
| France | 2,066,931 | 1,828,923 |
| Other | 5,721,284 | 5,486,964 |
| **Europe** | **16,669,138** | **15,817,261** |
| | | |
| USA | 7,781,825 | 6,744,589 |
| Other | 1,143,204 | 1,472,776 |
| **North America** | **8,925,029** | **8,217,365** |
| | | |
| Asia | 1,291,299 | 1,235,331 |
| Australia | 2,178,213 | 2,020,017 |
| **Australasia** | **3,469,512** | **3,255,348** |
| | | |
| Africa | 443,534 | 413,093 |
| Other | 774,690 | 638,132 |
| | | |
| **Total** | **30,281,903** | **28,341,199** |

1 After elimination of internal transactions within the Group across segments

| Maturities of the fixed-income and variable-yield securities | | | | in EUR thousand |
|---|---|---|---|---|
| | 30.6.2012 | | 31.12.2011 | |
| | Amortised cost[1] | Fair value | Amortised cost[1] | Fair value |
| **Held to maturity** | | | | |
| due in one year | 652,441 | 661,353 | 486,965 | 491,332 |
| due after one through two years | 872,407 | 894,783 | 926,846 | 942,245 |
| due after two through three years | 729,332 | 770,788 | 613,913 | 643,263 |
| due after three through four years | 995,776 | 1,062,135 | 1,097,347 | 1,161,746 |
| due after four through five years | 308,240 | 333,319 | 562,175 | 597,596 |
| due after five through ten years | 337,342 | 353,687 | 461,311 | 462,789 |
| due after ten years | 7,835 | 8,459 | 7,532 | 8,091 |
| Total | **3,903,373** | **4,084,524** | **4,156,089** | **4,307,062** |
| | | | | |
| **Loans and receivables** | | | | |
| due in one year | 132,657 | 138,282 | 106,731 | 107,501 |
| due after one through two years | 201,302 | 206,614 | 205,235 | 209,847 |
| due after two through three years | 339,911 | 355,986 | 505,043 | 523,717 |
| due after three through four years | 358,821 | 375,629 | 306,484 | 318,696 |
| due after four through five years | 560,142 | 609,141 | 321,807 | 348,653 |
| due after five through ten years | 978,470 | 1,066,692 | 1,174,558 | 1,250,207 |
| due after ten years | 853,003 | 967,578 | 904,877 | 983,320 |
| Total | **3,424,306** | **3,719,922** | **3,524,735** | **3,741,941** |
| | | | | |
| **Available for sale** | | | | |
| due in one year[2] | 3,010,914 | 3,023,663 | 3,063,034 | 3,070,822 |
| due after one through two years | 2,144,939 | 2,170,852 | 1,781,899 | 1,802,286 |
| due after two through three years | 2,141,544 | 2,192,996 | 2,197,915 | 2,228,729 |
| due after three through four years | 2,379,706 | 2,459,503 | 2,308,598 | 2,331,561 |
| due after four through five years | 2,271,355 | 2,344,230 | 1,807,404 | 1,844,680 |
| due after five through ten years | 5,916,362 | 6,202,833 | 5,204,281 | 5,299,165 |
| due after ten years | 2,361,314 | 2,620,166 | 2,074,463 | 2,276,517 |
| Total | **20,226,134** | **21,014,243** | **18,437,594** | **18,853,760** |
| | | | | |
| **Financial assets at fair value through profit or loss** | | | | |
| due in one year | 73,815 | 73,815 | 35,186 | 35,186 |
| due after one through two years | 28,600 | 28,600 | 66,826 | 66,826 |
| due after two through three years | 21,097 | 21,097 | 5,399 | 5,399 |
| due after three through four years | 15,240 | 15,240 | 7,510 | 7,510 |
| due after four through five years | – | – | 2,595 | 2,595 |
| due after five through ten years | 7,730 | 7,730 | 5,625 | 5,625 |
| due after ten years | 32,025 | 32,025 | 37,989 | 37,989 |
| Total | **178,507** | **178,507** | **161,130** | **161,130** |

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

Notes

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

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

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

| | 30.6.2012 | | | | |
|---|---|---|---|---|---|
| | Amortised cost | Unrealised gains | Unrealised losses | Accrued interest | Fair value |
| **Investments held to maturity** | | | | | |
| Fixed-income securities | | | | | |
| Government debt securities of EU member states | 421,014 | 26,447 | 1,378 | 8,205 | 454,288 |
| US treasury notes | 941,360 | 35,982 | 3 | 6,896 | 984,235 |
| Other foreign government debt securities | 57,666 | 824 | 21 | 157 | 58,626 |
| Debt securities issued by semi-governmental entities | 671,022 | 42,046 | – | 8,050 | 721,118 |
| Corporate securities | 451,063 | 18,152 | 2,433 | 13,648 | 480,430 |
| Covered bonds/asset-backed securities | 1,301,454 | 66,548 | 5,013 | 22,838 | 1,385,827 |
| **Total** | **3,843,579** | **189,999** | **8,848** | **59,794** | **4,084,524** |

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

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

**Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value**

in EUR thousand

| | 30.6.2012 | | | | |
|---|---|---|---|---|---|
| | Amortised cost | Unrealised gains | Unrealised losses | Accrued interest | Fair value |
| **Loans and receivables** | | | | | |
| Government debt securities of EU member states | 10,323 | 530 | – | 4 | 10,857 |
| Debt securities issued by semi-governmental entities | 1,975,759 | 196,010 | – | 34,475 | 2,206,244 |
| Corporate securities | 339,978 | 18,121 | 195 | 7,731 | 365,635 |
| Covered bonds/asset-backed securities | 1,033,016 | 81,661 | 511 | 23,020 | 1,137,186 |
| **Total** | **3,359,076** | **296,322** | **706** | **65,230** | **3,719,922** |

**Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value**

in EUR thousand

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

| Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as available for sale as well as their fair value | | | | | in EUR thousand |
|---|---|---|---|---|---|
| | 30.6.2012 | | | | |
| | Amortised cost | Unrealised gains | Unrealised losses | Accrued interest | Fair value |
| **Available for sale** | | | | | |
| Fixed-income securities | | | | | |
| Government debt securities of EU member states | 1,388,405 | 65,617 | 12,566 | 19,245 | 1,460,701 |
| US treasury notes | 1,253,833 | 54,635 | 1,447 | 6,050 | 1,313,071 |
| Other foreign government debt securities | 1,309,696 | 38,718 | 408 | 16,545 | 1,364,551 |
| Debt securities issued by semi-governmental entities | 3,753,034 | 201,745 | 5,560 | 47,899 | 3,997,118 |
| Corporate securities | 8,458,687 | 399,158 | 67,844 | 128,503 | 8,918,504 |
| Covered bonds/asset-backed securities | 2,304,795 | 122,372 | 31,648 | 26,439 | 2,421,958 |
| Investment funds | 179,158 | 26,119 | 782 | – | 204,495 |
| | **18,647,608** | **908,364** | **120,255** | **244,681** | **19,680,398** |
| | | | | | |
| Equity securities | | | | | |
| Shares | 14,515 | 3,117 | 1 | – | 17,631 |
| Investment funds | 24,939 | 1,659 | 169 | – | 26,429 |
| | **39,454** | **4,776** | **170** | **–** | **44,060** |
| Short-term investments | 830,049 | – | – | 3,120 | 833,169 |
| | | | | | |
| **Total** | **19,517,111** | **913,140** | **120,425** | **247,801** | **20,557,627** |

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

**Fair value of financial assets at fair value through profit or loss before and after accrued interest as well as accrued interest on such financial assets**

in EUR thousand

| | 30.6.2012 | 31.12.2011 | 30.6.2012 | 31.12.2011 | 30.6.2012 | 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 | 69,395 | 81,974 | 12,845 | 1,194 | 82,240 | 83,168 |
| Covered bonds/asset-backed securities | 96,267 | 67,849 | – | – | 96,267 | 67,849 |
| | **165,662** | **159,821** | **12,845** | **1,309** | **178,507** | **161,130** |
| | | | | | | |
| Other financial assets | | | | | | |
| Derivatives | 12,692 | 21,026 | – | – | 12,692 | 21,026 |
| | **12,692** | **21,026** | **–** | **–** | **12,692** | **21,026** |
| | | | | | | |
| **Total** | **178,354** | **180,847** | **12,845** | **1,309** | **191,199** | **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 626.9 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 597.8 million (EUR 611.6 million).

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

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

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

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

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

IAS 1 requires separate disclosure of treasury shares in shareholders' equity. As part of this year's employee share option plan Hannover Re acquired altogether 23,160 treasury shares during the second quarter of 2012 and delivered them to eligible employees at preferential conditions. These shares are blocked until 31 May 2016. This transaction reduced retained earnings by an amount of EUR 0.4 million. The company was no longer in possession of treasury shares as at 30 June 2012.

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

### 5.1 Gross written premium

| **Gross written premium**[1] in EUR thousand | **1.1.–30.6.2012** | 1.1.–30.6.2011 |
|---|---|---|
| **Regional origin** | | |
| Germany | 675,126 | 666,745 |
| United Kingdom | 1,226,160 | 1,184,610 |
| France | 289,761 | 283,884 |
| Other | 963,526 | 839,831 |
| **Europe** | **3,154,573** | **2,975,070** |
| | | |
| USA | 1,612,877 | 1,339,384 |
| Other | 299,801 | 212,648 |
| **North America** | **1,912,678** | **1,552,032** |
| | | |
| Asia | 764,155 | 588,234 |
| Australia | 378,493 | 295,342 |
| **Australasia** | **1,142,648** | **883,576** |
| | | |
| Africa | 246,393 | 228,054 |
| Other | 432,152 | 406,096 |
| | | |
| **Total** | **6,888,444** | **6,044,828** |

1 After elimination of internal transactions within the Group across segments

## 5.2 Investment income

| **Investment income** in EUR thousand | **1.1.–30.6.2012** | 1.1.–30.6.2011 |
|---|---|---|
| Income from real estate | 23,231 | 16,817 |
| Dividends | 1,525 | 4,448 |
| Interest income | 513,859 | 435,748 |
| Other investment income | (6,657) | (9,097) |
| **Ordinary investment income** | **531,958** | **447,916** |
| Profit or loss on shares in associated companies | 3,449 | 3,395 |
| Appreciation | 519 | 15,018 |
| Realised gains on investments | 80,851 | 107,678 |
| Realised losses on investments | 12,857 | 63,728 |
| Unrealised gains and losses on investments | 2,945 | 53,681 |
| Impairments on real estate | 5,328 | 4,657 |
| Impairments on equity securities | 2,178 | – |
| Impairments on fixed-income securities | 284 | 4,656 |
| Impairments on participating interests and other financial assets | 4,749 | 7,214 |
| Other investment expenses | 41,158 | 35,915 |
| **Net income from assets under own management** | **553,168** | **511,518** |
| Interest income on funds withheld and contract deposits | 226,244 | 236,574 |
| Interest expense on funds withheld and contract deposits | 69,961 | 75,306 |
| **Total investment income** | **709,451** | **672,786** |

Of the impairments totalling EUR 7.3 million (EUR 12.4 million), an amount of EUR 4.7 million (EUR 7.2 million) was attributable to the area of alternative investments – specifically, exclusively to private equity. Impairments of EUR 2.2 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. Impairments of EUR 0.3 million (EUR 4.7 million) had to be recognised on structured fixed-income products or other fixed-income securities. These write-downs contrasted with write-ups of EUR 0.5 million on investments written down in previous periods that were attributable entirely to alternative investments (write-ups of EUR 15.0 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 | **1.1.–30.6.2012** | 1.1.–30.6.2011 |
|---|---|---|
| Fixed-income securities – held to maturity | 74,736 | 58,548 |
| Fixed-income securities – loans and receivables | 61,910 | 41,769 |
| Fixed-income securities – available for sale | 358,881 | 311,193 |
| Financial assets – at fair value through profit or loss | 3,050 | 3,161 |
| Other | 15,282 | 21,077 |
| **Total** | **513,859** | **435,748** |

## 6. Other notes

### 6.1 Derivative financial instruments

The change in equity from hedging instruments that is not recognised in profit or loss pursuant to IAS 39 derives solely from the forward exchange contracts taken out for the first time in the year under review in order to hedge currency risks associated with long-term investments in foreign operations. These instruments resulted in the disclosure of other liabilities of EUR 15.1 million. Ineffective components of the hedge were recognised in profit and loss under other expenses in an amount of EUR 9.6 million.

Hannover Re's portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange contracts predominantly taken out to hedge cash flows from reinsurance contracts. The resulting liabilities of EUR 20.8 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 3.8 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 2.1 million (31 December 2011: EUR 12.2 million) as well as other liabilities in an amount of EUR 33.2 million (31 December 2011: EUR 32.5 million).

The net changes in the fair value of instruments not recognised as hedges resulted in a charge of EUR 12.0 million to the result of the period under review (30 June 2011: improvement in the result of EUR 56.4 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 10.5 million as at 30 June 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 4.8 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 1.0 million (31 December 2011: none) were attributable as at the balance sheet date to derivatives embedded in "modified coinsurance" and "coinsurance funds withheld" (ModCo) reinsurance treaties; derivatives amounting to EUR 1.7 million were carried on the liabilities side in this connection (31 December 2011: EUR 12.9 million).

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

The ModCo derivatives gave rise to an improvement in investment income of EUR 10.8 million before tax as at 30 June 2012 (30 June 2011: charge to investment income of EUR 9.9 million).

## 6.2 Related party disclosures

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

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

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

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

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

The Hannover Re Group provides reinsurance protection for the HDI Group. To this extent, numerous underwriting business relations exist with related parties in Germany and abroad which are not included in Hannover Re's consolidation. This includes business both assumed and ceded at usual market conditions.

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

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

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

| | 30.6.2012 | | 30.6.2011 | |
|---|---|---|---|---|
| | Premium | Underwriting result | Premium | Underwriting result |
| **Business assumed** | | | | |
| Non-life reinsurance | 236,457 | 9,545 | 209,403 | 11,783 |
| Life and health reinsurance | 106,376 | 7,155 | 113,978 | 10,591 |
| | **342,833** | **16,700** | **323,381** | **22,374** |
| **Business ceded** | | | | |
| Non-life reinsurance | (9,349) | (2,184) | (6,434) | 1,464 |
| Life and health reinsurance | (25,291) | (5,003) | (5,042) | (3,116) |
| | **(34,640)** | **(2,819)** | **(11,476)** | **(1,652)** |
| **Total** | **308,193** | **13,881** | **311,905** | **20,722** |

Under a contract dated 30 April 2012 Funis GmbH & Co. KG acquired 30% of the shares in Aspecta Assurance International Aktiengesellschaft, Vaduz/Liechtenstein, from Talanx International AG, Hannover. As at the balance sheet date the transaction was still subject to the approval of financial regulators and is expected to close in the third quarter of 2012.

## 6.3 Staff

The average number of staff employed at the companies included in the consolidated financial statement of the Hannover Re Group was 2,237 during the period under review (2011 financial year: 2,210).

As at the balance sheet date altogether 2,266 (2,217) staff were employed by the Hannover Re Group, with 1,138 (1,110) employed in Germany and 1,128 (1,107) working for the consolidated Group companies abroad.

## 6.4 Earnings per share

| Calculation of the earnings per share | 1.1.–30.6.2012 | 1.1.–30.6.2011 |
|---|---|---|
| Group net income in EUR thousand | 405,274 | 218,458 |
| Weighted average of issued shares | 120,596,619 | 120,596,864 |
| Basic earnings per share in EUR | 3.36 | 1.81 |
| Diluted earnings per share in EUR | 3.36 | 1.81 |

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

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

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

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

## 6.5 Contingent liabilities and commitments

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

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

As security for technical liabilities to our US clients, we have established two trust accounts (master trust and supplemental trust) in the United States. They amounted to EUR 2,962.8 million (31 December 2011: EUR 2,756.1 million) and EUR 12.4 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 572.8 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 2,159.4 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 3,351.1 million (31 December 2011: EUR 3,097.8 million).

In addition, we keep own investments with a book value of EUR 40.3 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 0.3 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 293.1 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 475.5 million (31 December 2011: EUR 451.9 million). These primarily involve as yet unfulfilled payment obligations from participations entered into in private equity funds and venture capital firms.

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

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

## 6.6 Events after the end of the quarter

On 19 July 2012 the Commercial Division of the Irish High Court gave final approval to the merger of Hannover Reinsurance (Ireland) plc into Hannover Life Reassurance (Ireland) plc. The measure is to be executed in law effective 3 September 2012. For additional information please see our remarks in the section entitled "Further corporate changes" at the end of Section 3. "Consolidated companies and consolidation principles".

The prolonged dry spell in July in the United States has resulted in a severe drought. It is our expectation that we will be impacted through our acceptances of agricultural risks. Hannover Re's market share in this region is, however, relatively small. At this stage it is still too early to make a reliable loss estimate.

# Responsibility statement

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

Hannover, 3 August 2012

Executive Board

Wallin

Arrago

Chèvre

Gräber

Dr. Miller

Dr. Pickel

Vogel

Notes

# Review report by the independent auditors

To Hannover Rückversicherung AG, Hannover

We have reviewed the condensed consolidated interim financial statements – comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity, consolidated cash flow statement and selected explanatory notes – together with the interim Group management report of Hannover Rückversicherung AG, Hannover, for the period from 1 January to 30 June 2012, which are components of the half-yearly financial report pursuant to § 37w of the German Securities Trading Act (WpHG). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim management report for the Group in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent company's Board of Management. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim management report for the Group based on our review.

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

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

Hannover, 3 August 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

| Busch | Möller |
|---|---|
| Wirtschaftsprüfer | Wirtschaftsprüfer |

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