

Interim Report 3/2010

Key figures

Figures in EUR million	2010					2009 ¹		
	1.1.– 30.6. ¹	1.7.– 30.9.	+/- previous Year	1.1.– 30.9.	+/- previous Year	1.7.– 30.9.	1.1.– 30.9.	31.12.
Results								
Gross written premium	5,682.3	2,872.3	+18.6%	8,554.6	+11.5%	2,420.9	7,671.5	
Net premium earned	4,819.7	2,651.5	+17.3%	7,471.2	+11.1%	2,260.4	6,726.4	
Net underwriting result	(120.1)	(32.9)	+269.9%	(153.0)	+82.2%	(8.9)	(84.0)	
Net investment income	551.4	320.8	+14.0%	872.2	+2.6%	281.3	850.5	
Operating result (EBIT)	490.7	371.3	+49.5%	862.0	+1.2%	248.4	851.7	
Group net income	310.6	271.4	+66.4%	582.0	-2.4%	163.1	596.6	
Balance sheet (as at the end of the period)								
Policyholders' surplus	6,167.8			6,926.1	+23.2%			5,621.6
Total shareholders' equity	4,239.4			4,456.8	+20.0%			3,714.4
Minority interests	561.4			601.4	+10.9%			542.1
Hybrid capital	1,367.0			1,867.9	+36.8%			1,365.1
Investments (excl. funds withheld by ceding companies)	25,360.1			25,499.1	+13.3%			22,507.0
Total assets	46,718.8			45,834.2	+12.2%			40,837.6
Share								
Earnings per share in EUR	2.58	2.25	+66.4%	4.83	-2.4%	1.35	4.95	
Book value per share in EUR	35.15			36.96	+20.0%		29.47	30.80
Share price at the end of the period in EUR	35.30			33.74	+3.1%		31.33	32.71
Market capitalisation at the end of the period	4,257.1			4,068.9	+3.1%		3,778.3	3,944.7
Ratios								
Combined ratio (non-life reinsurance) ²	99.5%	98.2%		99.0%		96.3%	96.8%	
Major losses as percentage of net premium earned (non-life reinsurance) ³	15.4%	10.2%		13.6%		2.7%	5.3%	
Retention	90.3%	92.3%		91.0%		90.7%	92.3%	
Return on investment (excl. funds withheld by ceding companies)	3.3%	3.9%		3.6%		4.4%	4.2%	
EBIT margin ⁴	10.2%	14.0%		11.5%		11.0%	12.7%	
Return on equity	15.6%	25.0%		19.0%		19.4%	24.9%	

1 Figures adjusted

2 Including funds withheld

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

4 Operating profit (EBIT)/net premium earned



ULRICH WALLIN
Chairman of the Executive Board

Dear Shareholders, Ladies and Gentlemen,

Having already been able to report to you mid-year that the development of your company's business had been broadly favourable, this was continued in the third quarter. Of the very good net income as at 30 September 2010 totalling EUR 582 million, the third quarter contributed EUR 271 million. The exceptionally strong earnings in the third quarter were in part assisted by a special effect on which we reported in an ad hoc notification released on 20 October. This stemmed from a final decision handed down by the German Federal Fiscal Court on a question of additional taxation, which is relevant to our company with respect to income generated by our Irish subsidiaries from the years 1993 to 2004. Given that additional taxation is not applicable in this regard according to the decision, we were able to release corresponding provisions that we had constituted on a precautionary basis. This development improved the net income after tax by some EUR 100 million, leaving earnings of EUR 173 million that we generated in the third quarter from our ordinary business activities. This, too, is in itself a gratifying amount since it surpassed our expectations.

If business in the fourth quarter develops in line with our expectations and disregarding any possible exceptional influencing factors, we should be able to generate a profit for the full financial year of more than EUR 700 million based on the results achieved in the first nine months.

Just as crucial to this good performance is the very pleasing development of our life and health reinsurance in the third quarter and our continued good investment income. Non-life reinsurance fulfilled our expectations, although it

should be noted that the third quarter of 2010 was again overshadowed by a considerable major loss incidence.

Also remarkable is the fact that our premium income in the first nine months again showed double-digit growth relative to the corresponding period of the previous year. It should, however, be borne in mind that exchange rate effects were a factor here.

I would especially like to mention that at the beginning of September we made the most of the relatively favourable interest rate level to raise additional hybrid capital of EUR 500 million. The issue will serve to further optimise our capital structure and support growth going forward. The bond, which was oversubscribed several times over, has a maturity of 30 years.

Another significant development was the move by the Florida Office of Insurance Regulation to allow our subsidiary Hannover Re (Bermuda) Ltd. to qualify as a so-called "Eligible Reinsurer". It was only in February of this year that the regulator granted this status to Hannover Re – as the first foreign reinsurer in the world. This reduces the collateral requirements for business that we write from ceding companies domiciled in Florida from 100 percent to 20 percent of the ceded premiums and loss reserves and hence makes business from Florida more attractive for our company.

Furthermore, we decided to join an initiative for the modelling of global earthquake risks. Given that – as a reinsurer – we are particularly involved in the coverage of natural catastrophe risks, we attach special importance to the reliable assessment of such risks. By joining the "Global Earthquake Model Foundation" we are playing our part in helping to ensure that the perils associated with earthquakes can be better evaluated. At the same time, we expect to gain valuable insights for our own risk assessment.

Permit me, if I may, to turn now to our business groups – namely non-life reinsurance and life/health reinsurance: the demand situation is enabling us to continue generating moderate growth at conditions commensurate with the risks. Of special significance here in relation to our European portfolio are the preparations being made by our clients – primary insurers – for the future regulatory framework under Solvency II.

In non-life reinsurance we are now seeing – having pushed through further improvements in conditions in just the past year – a resurgent trend towards gradual softening on the markets. In order to remain successful going forward, we therefore set great store by continuing our selective underwriting policy based on detailed risk analyses. Yet this softening is not equally evident across all lines. In loss-affected sectors the markets are still able to obtain the necessary improvements in conditions.

Although the hurricane season did not cause any sizeable losses in the third quarter, we nevertheless incurred – as in the first half-year, too – appreciable strains from natural disasters. Along with a number of mid-sized catastrophe losses, special mention should be made of the earthquake in New Zealand – which cost our company almost EUR 90 million. After nine months, then, the total burden of major losses is still significantly higher than our expected level. Thanks not least to the favourable trend in basic losses, in which low inflation was also a contributory factor, and due also to the special effect mentioned at the outset, we were still able to generate exceptionally healthy net income after tax of EUR 438 million as at 30 September.

The development of our life and health reinsurance has been exceptionally gratifying. We continued to post double-digit premium growth in this business group. The increasing part played by Asian business in this growth is particularly noteworthy. In the quarter just-ended, for example, we significantly enlarged our business in China by closing the first financing transaction in the market with a domestic life insurer and we anticipate further such transactions in the coming quarters. The development of the ING portfolio assumed last year also continues to progress entirely in line with the expectations that we had placed in this business upon acquisition. Our post-tax net income of EUR 170 million for total life and health reinsurance as at 30 September actually beat our expectations.

Investment income continues to be shaped by a very low interest rate level. While this puts a brake on the interest income that can be attained, it has also enabled us to generate gains from the sale of government bonds, in particular. When it comes to new investments of funds from our continued highly positive operating cash flow as well as reinvestments, we have increasingly preferred corporate bonds. While always safeguarding the high credit rating of debtors as

well as broad risk diversification, we have thus sharply boosted the proportion of our total portfolio attributable to corporate bonds. What is more, in the third quarter we began to invest again in listed equities, although for reasons of prudence we are targeting an equity allocation of only 2.8 percent by year-end.

The development of our shareholders' equity excluding minority interests was again pleasing, rising further in the third quarter to roughly EUR 4.5 billion. This is equivalent to an increase of 20 percent since the beginning of the year.

Driven not least by the higher book value per share reflected therein, our share price has continued to rise in 2010 after the rapid surge of 2009.

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

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Ulrich Wallin', with a stylized flourish at the end.

Ulrich Wallin
Chairman of the Executive Board

Boards and officers

Supervisory Board (Aufsichtsrat)

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

Chairman

Burgwedel

DR. KLAUS STURANY¹

Deputy Chairman

Dortmund

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

Berg

UWE KRAMP⁴

Hannover

KARL HEINZ MIDUNSKY³

Gauting

ASS. JUR. OTTO MÜLLER⁴

Hannover

DR. IMMO QUERNER

Ehlershausen

DR. ERHARD SCHIPPOREIT²

Hannover

GERT WAECHTLER⁴

Burgwedel

Executive Board (Vorstand)

ULRICH WALLIN

Chairman

Hannover

ANDRÉ ARRAGO

Hannover

DR. WOLF BECKE

Hannover

JÜRGEN GRÄBER

Völksen

DR. KLAUS MILLER

(FROM 1 SEPTEMBER 2010)

Munich

DR. MICHAEL PICKEL

Isernhagen

ROLAND VOGEL

Deputy Member

Wennigsen

1 Member of the Standing Committee

2 Member of the Finance and Audit Committee

3 Member of the Nomination Committee

4 Staff representative

Business development

We are thoroughly satisfied with the development of business in the third quarter, even though the burden of major losses in non-life reinsurance was again rather high in this period.

Market conditions for a reinsurer of good financial strength – such as Hannover Re – nevertheless remain good. Prices in non-life reinsurance were broadly commensurate with the risks and we therefore maintained our business on a stable level. Life and health reinsurance continues to offer sufficient potential – especially in light of the demographic shift in developed countries –, hence enabling us to achieve our growth targets.

In September Hannover Re used the relatively low interest rate level to place a subordinated hybrid bond issue of EUR 500 million on the European capital market. The bond, which has a maturity of 30 years, will serve to further optimise the capital structure and support future growth with appropriate capital resources.

Gross written premium in total business increased by a further 11.5% to EUR 8.6 billion (EUR 7.7 billion) as at 30 September 2010. At constant exchange rates, especially relative to the US dollar, growth would have come in at 7.7%. The level of retained premium retreated to 91.0% (92.3%). Net premium climbed by 11.1% to EUR 7.5 billion (EUR 6.7 billion).

Particularly bearing in mind our risk-averse asset allocation and the prevailing low interest rate level, we are highly satisfied with the development of our investments as at 30 September. Due to the inflow of cash from the technical account and thanks to the favourable development of their fair values owing to interest rate and currency effects, the volume of assets under own management grew to EUR 25.5 billion (EUR 22.5 billion). Despite lower interest rates, ordinary income excluding interest on deposits thus also surpassed the corresponding period of the previous year to reach EUR 655.1 million (EUR 603.8 million). Interest on deposits climbed to EUR 223.7 million (EUR 189.2 million).

The unrealised losses on our asset holdings recognised at fair value through profit or loss totalled EUR 93.6 million. The bulk of this amount – specifically EUR 89.4 million – derived from the fair value development of inflation swaps taken out to hedge inflation risks associated with our loss

reserves in the technical account. Our net investment income as at 30 September 2010 grew by 2.6% to EUR 872.2 million (EUR 850.5 million).

A decision of relevance to our company handed down by the Federal Fiscal Court (BFH) on additional taxation gave rise to a positive special effect on our result in the third quarter. After the BFH confirmed in its decision of 20 October 2010 the impermissibility of additional taxation of investment income generated by Irish subsidiaries in the case before the court, which is also determinative for the taxation of income booked by our Irish subsidiaries, we were able to release the provisions that we had set aside on a precautionary basis. This served to boost the result by EUR 98.0 million after tax. The core of the legal dispute had revolved around the question of whether the investment income generated by a reinsurance subsidiary domiciled in Ireland is also subject to additional taxation at the parent company in Germany if the material activities of the subsidiary are performed by personnel of a Group-owned Irish service company. The BFH has now confirmed the decision in the first instance handed down by the Lower Saxony Fiscal Court in Hannover. For further details please see the ad hoc notification released on 20 October 2010.

The operating profit (EBIT) climbed by 1.2 % to EUR 862.0 million (EUR 851.7 million) as at 30 September 2010. The comparable period of the previous year had been influenced by positive special effects in life and health reinsurance. These derived from the acquisition of the ING life reinsurance portfolio and the reversal of unrealised losses on deposits held by US clients on behalf of Hannover Re (ModCo derivatives). Group net income as at 30 September 2010 came in at EUR 582.0 million (EUR 596.6 million). Earnings per share of EUR 4.83 (EUR 4.95) were generated, while the annualised return on equity stood at 19.0% (24.9%).

Driven by Group net income, positive movements in exchange rates and unrealised gains on investments, shareholders' equity excluding minority interests improved on the level of 31 December 2009 by EUR 742.3 million to reach EUR 4.5 billion. The book value per share consequently also increased to EUR 36.96 (EUR 30.80). The policyholders' surplus, comprised of shareholders' equity, minority interests and hybrid capital, amounted to EUR 6.9 billion (EUR 5.6 billion).

Non-life reinsurance

Business developed largely to our satisfaction in non-life reinsurance. Overall, the situation on international reinsurance markets is favourable. While a trend towards gradual market softening can be discerned, prices remain broadly commensurate with the risks and good business opportunities are still available in special segments. In keeping with our policy of active cycle management, we enlarge our portfolio in markets and segments that promise a return in line with our margin requirements. In areas where premiums do not reflect the assumed risks, on the other hand, we reduce our involvement.

Treaties for some of our North American business as well as for the portfolio in Australia and New Zealand came up for renewal on 1 July 2010. With sufficient capacities available in the American market, rate increases were for the most part recorded only in loss-impacted programmes. In casualty business, including for example workers' compensation insurance, prices held stable. Property catastrophe business, on the other hand, was notable mainly for premium erosion – prompting us to refrain from increasing our participations.

In Australia the inflow of new reinsurance capacities put prices for non-proportional catastrophe covers with smaller and mid-sized insurance groups under pressure. Despite two hail events in the first quarter rates under the affected programmes fell short of our expectations, and we therefore reduced our involvement. All in all, we scaled back our portfolio of business from Australia and New Zealand.

Attractive opportunities are available to us in facultative reinsurance, i.e. the underwriting of individual risks, as well as in the areas of agricultural covers and – as in the past – credit and surety reinsurance.

Gross premium in total non-life reinsurance increased by 9.5% as at 30 September 2010 relative to the corresponding period of the previous year to reach EUR 4.8 billion (EUR 4.4 billion). At constant exchange rates, especially against the US dollar, growth would have come in at 6.5%. The level of retained premium fell to 90.5% (93.4%). Net premium earned climbed by 8.0% to EUR 4.1 billion (EUR 3.8 billion).

Although this year's hurricane season in North and Central America passed off very modestly in the third quarter and we did not incur any strains, the level of major losses – as in the preceding quarters – was again exceptionally high. The largest single loss event for our company in the third quarter was the earthquake in New Zealand, which caused severe destruction in Christchurch and the surrounding area. We set aside reserves of EUR 88.5 million for this loss. Altogether, the net burden of major losses for Hannover Re as at 30 September 2010 totalled EUR 554.1 million; this contrasted with just EUR 198.2 million in the comparable period of the previous year. The combined ratio stood at 99.0% (96.8%). The net underwriting result declined from EUR 98.1 million in the corresponding period of the previous year to EUR 32.4 million owing to the major loss expenditure.

Key figures for non-life reinsurance						figures in EUR million	
	2010					2009	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	3,271.7	1,553.2	+17.3%	4,824.9	+9.5%	1,323.7	4,405.2
Net premium earned	2,638.2	1,428.6	+11.3%	4,066.8	+8.0%	1,283.5	3,765.4
Underwriting result	7.2	25.2	-38.2%	32.4	-67.0%	40.8	98.1
Net investment income	308.7	168.7	+19.3%	477.4	+25.9%	141.4	379.3
Operating result (EBIT)	333.8	299.6	+87.3%	633.4	+32.8%	159.9	477.0
Group net income	215.1	222.5	+105.9%	437.7	+32.1%	108.1	331.3
Earnings per share in EUR	1.78	1.85	+105.9%	3.63	+32.1%	0.90	2.75
Combined ratio ¹	99.5%	98.2%		99.0%		96.3%	96.8%
Retention	90.1%	91.4%		90.5%		91.8%	93.4%

¹ Including expenses on funds withheld and contract deposits

The decision of the Federal Fiscal Court on a matter of additional taxation positively affected the Group net income in non-life reinsurance as at 30 September 2010 by an amount of EUR 98.0 million.

The operating profit (EBIT) in non-life reinsurance increased by 32.8% as at 30 September 2010 to EUR 633.4 million (EUR 477.0 million). Group net income climbed by 32.1% to EUR 437.7 million (EUR 331.3 million), producing earnings per share of EUR 3.63 (EUR 2.75).

Life and health reinsurance

The general business environment in international life and health reinsurance remains favourable: the increasing ageing of the population in developed countries such as the United States, Japan, the United Kingdom and Germany is generating heightened awareness of the need for provision. This is of particular benefit to providers of annuity and health insurance products. Urbanisation in leading emerging markets such as China, India or Brazil, which is fostering growing demand for insurance solutions designed to protect surviving dependants and afford individual retirement provision, has similarly positive implications for growth prospects.

Hannover Re, which in life and health reinsurance operates under the Hannover Life Re brand, booked significant double-digit organic growth across a broad front. Breaking the premium development down across the various subsegments, growth was especially striking in longevity business.

As to regional markets, the most appreciable growth stimuli derived from the United Kingdom, East Asia, Australia and South Africa. China delivered the strongest increase in percentage terms. The very low insurance density that is still the hallmark of this market contrasts with a sharply expanding middle class. Hannover Re has substantially enlarged its business here over the past three years and anticipates growth in excess of 50% for 2010.

Our subsidiary Hannover Life Re America was also able to boost its premium volume by 7.0%. In the United Kingdom – our second-largest market – annuity and pension business continues to offer considerable growth potential. Working together here with specialist providers, we cover the biometric risk of longevity but do not assume any interest rate guarantees.

In September the prestigious UK trade journal "The Review" honoured Hannover Life Re for its special expertise with the title of "Life Reinsurance Company of the Year". Particular mention was made of the exceptionally successful 2009 financial year and the acquisition of the US ING life reinsurance portfolio. Hannover Life Re's strong position in the UK in the field of enhanced annuities as well as its know-how in the area of reinsurance solutions for longevity risks were also singled out for praise.

Gross written premium in life and health reinsurance rose sharply by 14.2% to EUR 3.7 billion (EUR 3.3 billion) as at 30 September 2010. At constant exchange rates growth would have come in at 9.3%. The level of retained premium nudged higher to 91.5% (90.8%). Net premium earned increased by 15.0% to EUR 3.4 billion (EUR 3.0 billion).

Key figures for life and health reinsurance						figures in EUR million	
	2010					2009 ¹	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	2,411.1	1,319.3	+20.2%	3,730.4	+14.2%	1,097.2	3,266.3
Net premium earned	2,181.5	1,223.4	+25.2%	3,404.9	+15.0%	976.9	2,961.0
Net investment income	228.4	141.4	+18.4%	369.7	-14.7%	119.5	433.5
Operating result (EBIT)	145.5	68.2	-1.2%	213.6	-36.9%	69.0	338.3
Group net income	113.8	56.4	+6.7%	170.2	-39.2%	52.9	279.9
Earnings per share in EUR	0.94	0.47	+6.7%	1.41	-39.2%	0.44	2.32
Retention	90.6%	93.3%		91.5%		89.4%	90.8%
EBIT margin ²	6.7%	5.6%		6.3%		7.1%	11.4%

1 Figures adjusted

2 Operating result (EBIT)/net premium earned

Profitability as at 30 September 2010 was similarly gratifying: the operating profit (EBIT) amounted to EUR 213.6 million (EUR 338.3 million). The result for the comparable period of the previous year had been influenced by positive special effects of around EUR 187 million in connection with the acquisition of the US ING life reinsurance business as well as the reversal of unrealised losses on deposits held by US clients on behalf of Hannover Re. If these effects are factored out, we would have booked EBIT growth of 41%. The EBIT margin stood at 6.3%, a figure comfortably within the target corridor of 6% to 7%. Group net income came in at EUR 170.2 million (EUR 279.9 million). Excluding the special effects of around EUR 169 million in the corresponding period of the previous year, Group net income would have improved by roughly 53%. Earnings per share stood at EUR 1.41 (EUR 2.32).

Investments

Particularly in the area of European corporate bonds credit spreads had widened markedly in the first half of 2010, but in the course of the third quarter they moved back towards levels seen at the beginning of the year. US treasury securities and European government bonds experienced yield declines across virtually all duration ranges as the year progressed. The unrealised gains on our fixed-income securities consequently climbed to EUR 936.0 million (EUR 431.3 million). Combined with the positive operating cash flow and movements in exchange rates, this caused our portfolio of assets under own management to grow to EUR 25.5 billion (EUR 22.5 billion). Despite the low level of interest rates, ordinary income from assets under own management improved on the corresponding period of the previous year to reach EUR 655.1 million (EUR 603.8 million). Interest on deposits increased from EUR 189.2 million to EUR 223.7 million.

Impairments of altogether EUR 20.0 million (EUR 110.3 million) were taken. Of this amount, EUR 5.2 million was attributable to alternative investments and EUR 7.7 million to fixed-income securities. Scheduled depreciation on directly held real estate rose to EUR 5.2 million (EUR 0.5 million), a reflection of our increased involvement in this area. The total volume of write-downs contrasted with write-ups of EUR 14.4 million, of which EUR 11.4 million was attributable to fixed-income securities and EUR 3.0 million to alternative investments.

We recognise a derivative (ModCo) for the credit risk associated with special life reinsurance treaties under which securities deposits are held by cedants for our account; the performance of this derivative during the reporting period gave rise to unrealised gains of EUR 4.8 million (EUR 153.5 million) which were recognised in income. The changes in the fair values of inflation swaps taken out in the second quarter are recognised in income as a derivative pursuant to IAS 39. Since inflationary expectations have receded somewhat since the inflation swaps were purchased, they show a change in fair value of EUR 89.4 million. Given that they serve to hedge inflation exposures in the technical account, this position is opposed by anticipated positive effects in connection with the development of the loss reserves.

Thanks to the further rise in ordinary income and the reduced volume of write-downs, our net investment income came in slightly higher than the previous year's level despite the unrealised losses; it amounted to EUR 872.2 million (EUR 850.5 million) as at 30 September 2010.

Net investment income						figures in EUR million	
	2010					2009	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.– 30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Ordinary investment income ¹	441.2	213.9	+4.3%	655.1	+8.5%	205.0	603.8
Results from participation in associated companies	2.4	1.1	-34.0%	3.5		1.7	0.1
Appreciation	11.8	2.6		14.4		-	-
Realised gains/losses	77.3	57.9	+366.1%	135.2	+99.2%	12.4	67.9
Impairments ²	16.7	3.3	-80.7%	20.0	-81.9%	16.9	110.3
Unrealised gains/losses ³	(86.2)	(7.5)	-115.5%	(93.6)	-169.1%	48.2	135.4
Investment expenses	29.7	16.4	+22.6%	46.1	+28.9%	13.4	35.8
Net investment income from assets under own management	400.2	248.3	+4.8%	648.5	-1.9%	237.0	661.2
Net investment income from funds withheld	151.2	72.5	+63.5%	223.7	+18.2%	44.3	189.2
Net investment income	551.4	320.8	+14.0%	872.2	+2.6%	281.3	850.5

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

As an internationally operating reinsurer we are confronted with a broad diversity of risks that are indivisibly bound up with our entrepreneurial activities and which manifest themselves differently in the individual business groups and geographical regions.

The overriding goal of our risk management is to adhere to our strategically defined risk positions and to ensure that our capital resources are adequate at all times. We attach central importance to the following elements of our risk management system:

- Management and monitoring of individual risks so that the total risk remains within the permissible tolerances
- Separation of functions between divisions that enter into and manage risks, on the one hand, and those that monitor risks, on the other
- Process-independent monitoring by Internal Auditing
- Regular review of the efficiency of systems and, as appropriate, adjustment to the business environment and/or the changed risk situation within the scope of our internal risk management and control system
- Systematic and comprehensive monitoring of all conceivable risks from the current perspective that could jeopardise the company's profitability or continued

existence with the aid of efficient and practice-oriented management and control systems

- Appropriate reporting to the decision-making bodies that covers all the various types of risks
- Ad hoc reports as necessary
- Documentation of the material elements of the system in mandatory instructions
- Good financial strength and risk management ratings from the rating agencies of greatest relevance to our company

Another key element of the overall system is the Framework Guideline on the Internal Control System (ICS). The purpose of this set of rules is to ensure systematic execution of our company strategy with a special eye to capital protection. The Framework Guideline puts in place a consistent appreciation of controls as well as a uniform procedure and standards for implementation of the ICS across all organisational units of Hannover Re. The ICS consists of systematically structured organisational and technical measures/controls within the enterprise. They include, among other things:

- Documentation of the controls within processes, especially in accounting
- Principle of dual control
- Separation of functions
- Technical plausibility checks and access privileges within the systems

In the area of Group accounting, processes with integrated controls ensure the completeness and accuracy of the consolidated financial statement.

Material risks

The risk situation of Hannover Re is essentially defined by comprehensive analysis of the following risk categories:

- Technical risks in non-life reinsurance
- Technical risks in life and health reinsurance
- Market risks
- Credit risks
- Operational risks
- Other risks

Particularly in non-life reinsurance, the reserving risk – which results from the under-reserving of losses – constitutes a material technical risk. The loss reserves are calculated using actuarial methods, primarily on the basis of information provided by our ceding companies, and supplemented where necessary by additional reserves based on our own loss estimations. We also establish the so-called IBNR (incurred but not reported) reserve for losses that have already occurred but have not yet been reported to us. Annual audits conducted by external actuaries and auditors play an important part in the quality assurance of our own calculations regarding the adequacy of the reserves.

The risk of losses exceeding premiums derives from the fact that the initially calculated premiums may not suffice to pay compensation and long-term benefit commitments in the required amount. The combined ratio (loss ratio, expense ratio and major loss ratio) in non-life reinsurance is tracked over time and shown in the table below with an eye to the risk of losses exceeding premiums.

Catastrophe risks from natural hazards (earthquakes, windstorms) are also material for our company. Licensed scientific simulation models, supplemented by the expertise of our own specialist departments, are used to assess these

risks. Furthermore, we establish the risk to our portfolio with the aid of various scenarios (e.g. US/hurricane, Europe/windstorm, US/earthquake) in the form of probability distributions. For the purposes of risk limitation, maximum underwriting limits (capacities) are stipulated for various extreme loss scenarios and return periods in light of profitability criteria. Adherence to these limits is monitored within the scope of risk management activities.

All risks directly connected with the life of an insured person are referred to as biometric risks (miscalculation of mortality, life expectancy, morbidity and occupational disability); they constitute material risks for our company in the area of life and health reinsurance.

The Market Consistent Embedded Value (MCEV) is a ratio used to evaluate life insurance and reinsurance business; it is calculated as the present value of the future shareholders' earnings from the worldwide life and health reinsurance portfolio plus the allocated capital. The calculation makes appropriate allowance for all risks underlying the covered business. For further explanation we would refer to the MCEV for the 2009 financial year.

Risks in the investment sector consist primarily of market, credit default and liquidity risks. The most significant market price risks are share price, interest rate and currency risks. The overriding principle guiding our investment strategy is capital preservation while giving adequate consideration to the security, liquidity, mix and spread of the assets. Potential market price risks are reduced with the aid of a broad range of risk-steering measures.

The value at risk (VaR) is a vital tool used for monitoring and managing market price risks. Stress tests are conducted in order to be able to map extreme scenarios as well as normal market scenarios for the purpose of calculating the value at risk. In this context, the loss potentials for fair values and shareholders' equity (before tax) are simulated on the basis of already occurred or notional extreme events.

Combined and catastrophe ratio											
Figures in %	Q3 2010	2009	2008	2007	2006	2005 ¹	2004 ¹	2003 ^{1,2}	2002 ^{1,2}	2001 ^{1,2}	2000 ^{1,2}
Combined ratio (non-life reinsurance)	99.0	96.6	95.4	99.7	100.8	112.8	97.2	96.0	96.3	116.5	107.8
thereof major losses ³	13.6	4.6	10.7	6.3	2.3	26.3	8.3	1.5	5.2	23.0	3.7

1 Incl. financial reinsurance and specialty insurance

2 Based on figures reported in accordance with US GAAP

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

Scenarios for changes in the fair value of our securities		figures in EUR million	
	Scenario	Portfolio change based on fair value	Change in shareholder equity before tax
Equity securities	Share prices -10%	(17.2)	(17.2)
	Share prices -20%	(34.3)	(34.3)
	Share prices +10%	+17.2	+17.2
	Share prices +20%	+34.3	+34.3
Fixed-income securities	Yield increase +50 basis points	(437.0)	(333.0)
	Yield increase +100 basis points	(859.8)	(654.8)
	Yield decrease -50 basis points	+448.0	+342.4
	Yield decrease -100 basis points	+910.1	+696.0

Rating structure of our fixed-income securities ¹								
Rating classes	Government bonds		Securities issued by semi-governmental entities		Corporate bonds		Covered bonds/ asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	84,0	4.947,9	61,1	3.423,4	4,3	263,1	75,2	2.973,1
AA	5,4	317,8	34,5	1.932,1	20,4	1.261,3	15,4	609,2
A	6,4	379,8	3,9	217,9	56,5	3.497,5	1,4	55,0
BBB	3,6	209,6	0,3	16,4	15,6	962,9	2,3	91,8
<BBB	0,6	36,1	0,2	9,3	3,1	195,6	5,7	225,7
Total	100,0	5.891,2	100,0	5.599,1	100,0	6.180,4	100,0	3.954,8

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

Further information on the risk concentrations of our investments can be obtained from the tables on the changes in the fair values of our securities as well as on the rating structure of the fixed-income securities.

The credit risk consists primarily of the complete or partial failure of the counterparty and the associated default on payment. Since the business that we accept is not always fully retained, but instead portions are retroceded as necessary, the credit risk is also material for our company – especially in non-life reinsurance. Our retrocession partners are carefully selected in light of credit considerations in order to keep this risk as small as possible. In terms of the Hannover Re Group's major companies, EUR 254.7 million (8.2%) of our accounts receivable from reinsurance business totalling EUR 3,111.2 million were older than 90 days as at the balance sheet date. The average default rate over the past three years was 0.11%.

In our understanding, operational risks encompass the risk of losses occurring because of the inadequacy or failure of internal processes or as a result of events triggered by

employee-related, system-induced or external factors. The operational risk also extends to legal risks. Of material importance to our company in the category of other risks are primarily emerging risks, strategic risks, reputational risks and liquidity risks. Given the broad spectrum of operational and other risks, there is a wide range of different management and monitoring measures tailored to individual types of risk.

Assessment of the risk situation

The above remarks describe the material risks to which we, as an internationally operating reinsurance group, are exposed as well as the steps taken to manage and monitor them. The specified risks can potentially have a significant impact on our assets, financial position and net income. Yet consideration solely of the risk aspect does not fit our holistic conception of risk, since risks always go hand-in-hand with opportunities.

Based on our currently available insights arrived at from a holistic analysis of the risk situation, the Executive Board of

Hannover Re cannot at present discern any risks that could jeopardise the continued existence of our company in the short or medium term or have a material and lasting effect on our assets, financial position or net income.

Additional information on the risk situation is provided in the Group annual report 2009.

Outlook

In light of developments to date on the international reinsurance markets, we see good prospects of achieving our growth and profit targets for 2010 from our ordinary business activities. As already mentioned, provisions that had been constituted as a precautionary move were released in light of the decision handed down by the Federal Fiscal Court on 20 October 2010, thereby further boosting the result. We are well positioned in both non-life and life/health reinsurance and will benefit accordingly from the available market opportunities thanks to our excellent rating.

In addition to the business prospects already described, we see further opportunities with respect to the upcoming new supervisory regulations under Solvency II. Given the increasingly exacting capital requirements facing insurers, reinsurance will continue to gain in importance as a risk optimisation tool for our clients. Against this backdrop, we are looking to additional growth stimuli.

At constant exchange rates, the net premium volume for 2010 is now expected to grow by around 8%.

By and large, markets in [non-life reinsurance](#) are still offering adequate prices. There is, however, no mistaking the fact that the substantial capacity made available by reinsurers relative to the demand for their products is leading to more intense competitive pressure. Consequently, rate increases can now only be obtained in loss-impacted sectors of the business. The oil platform disaster in the Gulf of Mexico will prompt hardening of the offshore insurance market; on the reinsurance side, too, we anticipate substantial price increases.

Given the high frequency of severe natural disasters in the current financial year we expect to see price increases in catastrophe-exposed business. Premium growth should also be possible in the area of agricultural risks as well as in emerging markets.

A study conducted by the renowned US Flaspöhler Research Group again chose Hannover Re – for the fourth time in succession – as the best overall reinsurer in North America. This achievement is especially significant given that the bulk of our US non-life reinsurance business is placed through brokers.

In total non-life reinsurance we continue to anticipate net premium growth of around 6% in the original currencies as well as a healthy profit contribution for 2010. This is dependent upon the burden of major losses remaining within the bounds of our expectations in the fourth quarter.

The general climate in international [life and health reinsurance](#) continues to be very positive. A particularly significant factor here is the demographic trend in established insurance markets such as the United States, Japan, United Kingdom and Germany. The increasing ageing of the population is especially beneficial to annuity and health insurance.

In the area of longevity risks we anticipate particularly brisk demand in the coming years, which is even likely to exceed the capacity of the international life reinsurance market and will therefore result in additional capital market transactions involving longevity risks. We shall continue to participate in this business.

In the United Kingdom it is our assumption that business involving the biometric risk of longevity – both in the form of enhanced annuities with a reduced payment period and through the assumption of risks associated with existing pension funds – will continue to enjoy strong growth.

Financially oriented reinsurance solutions, i.e. models designed to strengthen the solvency base of primary insurers, are enjoying sustained demand. In life and health reinsurance we now plan to grow net premium by roughly 12% in the current year. The EBIT margin should come in within the target range of 6% to 7%.

The expected positive cash flow that we generate from the technical account and our [investments](#) should – subject to stable exchange rates – lead to further growth in our asset portfolio. In the area of fixed-income securities we continue to stress the high quality and diversification of our portfolio. We are targeting a return on investment of 3.5% for 2010.

The positive special effect associated with the aforementioned decision of the Federal Fiscal Court on additional taxation should also favourably influence the net income of around EUR 600 million that had previously been anticipated at year-end. Consequently, we now expect **net income** in excess of EUR 700 million. This is subject to the premise that the major loss burden in the fourth quarter does not exceed the expected level and also assumes that there are no adverse movements on capital markets. As for the **dividend**, we continue to aim for a payout ratio in the range of 35% to 40% of Group net income.

Quarterly financial report of the Hannover Re Group

Consolidated balance sheet

Assets in EUR thousand	30.9.2010	31.12.2009 ¹
Fixed-income securities – held to maturity	2,985,632	2,953,489
Fixed-income securities – loans and receivables	2,506,400	2,701,831
Fixed-income securities – available for sale	15,912,888	13,805,048
Fixed-income securities – at fair value through profit or loss	220,629	235,149
Equity securities – available for sale	171,688	19,357
Other financial assets – at fair value through profit or loss	47,517	58,273
Real estate and real estate funds	356,265	216,801
Investments in associated companies	129,798	128,316
Other invested assets	787,416	578,861
Short-term investments	1,908,832	1,352,475
Cash	472,014	457,412
Total investments and cash under own management	25,499,079	22,507,012
Funds withheld	11,476,241	10,160,380
Contract deposits	710,185	625,481
Total investments	37,685,505	33,292,873
Reinsurance recoverables on unpaid claims	1,790,477	1,747,991
Reinsurance recoverables on benefit reserve	342,311	104,868
Prepaid reinsurance premium	125,844	47,651
Reinsurance recoverables on other technical reserves	3,027	400
Deferred acquisition costs	1,848,410	1,838,450
Accounts receivable	3,111,199	2,869,874
Goodwill	45,034	44,393
Deferred tax assets	484,141	515,867
Other assets	389,122	372,012
Accrued interest and rent	9,110	3,189
Total assets	45,834,180	40,837,568

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

Liabilities in EUR thousand	30.9.2010	31.12.2009 ¹
Loss and loss adjustment expense reserve	18,944,547	17,425,293
Benefit reserves	8,629,861	7,952,640
Unearned premium reserve	1,964,985	1,512,840
Other technical provisions	206,908	148,827
Funds withheld	1,252,928	857,440
Contract deposits	4,685,518	4,038,420
Reinsurance payable	793,435	1,021,364
Provisions for pensions	81,165	77,497
Taxes	239,868	266,747
Provision for deferred taxes	1,546,696	1,485,157
Other liabilities	395,812	313,450
Long-term debt and subordinated capital	2,034,246	1,481,336
Total liabilities	40,775,969	36,581,011
Shareholders' equity		
Common shares	120,597	120,597
Nominal value: 120,597		
Conditional capital: 60,299		
Additional paid-in capital	724,562	724,562
Common shares and additional paid-in capital	845,159	845,159
Cumulative other comprehensive income		
Unrealised gains and losses on investments	563,280	241,569
Cumulative foreign currency translation adjustment	(118,303)	(224,084)
Other changes in cumulative other comprehensive income	(17,953)	(4,728)
Total other comprehensive income	427,024	12,757
Retained earnings	3,184,611	2,856,529
Shareholders' equity before minorities	4,456,794	3,714,445
Minority interests	601,417	542,112
Total shareholders' equity	5,058,211	4,256,557
Total liabilities	45,834,180	40,837,568

¹ Adjusted on the basis of IAS 8 and IFRS 3

Figures in EUR thousand	1.7.–30.9.2010	1.1.–30.9.2010	1.7.–30.9.2009 ¹	1.1.–30.9.2009 ¹
Gross written premium	2,872,261	8,554,587	2,420,928	7,671,457
Ceded written premium	222,033	772,383	225,010	591,559
Change in gross unearned premium	(6,015)	(384,161)	27,449	(412,702)
Change in ceded unearned premium	7,309	73,148	37,051	59,162
Net premium earned	2,651,522	7,471,191	2,260,418	6,726,358
Ordinary investment income	213,884	655,085	205,007	603,829
Profit/loss from investments in associated companies	1,100	3,470	1,666	131
Realised gains and losses on investments	57,905	135,224	12,423	67,885
Unrealised gains and losses on investments	(7,462)	(93,647)	48,203	135,441
Total depreciation, impairments and appreciation of investments	662	5,535	16,927	110,311
Other investment expenses	16,443	46,108	13,411	35,770
Net income from investments under own management	248,322	648,489	236,961	661,205
Income/expense on funds withheld and contract deposits	72,451	223,662	44,315	189,246
Net investment income	320,773	872,151	281,276	850,451
Other technical income	1,547	9,523	6,430	8,193
Total revenues	2,973,842	8,352,865	2,548,124	7,585,002
Claims and claims expenses	1,863,661	5,311,537	1,561,388	4,715,603
Change in benefit reserves	142,588	429,662	164,003	493,405
Commission and brokerage, change in deferred acquisition costs	602,353	1,646,987	481,935	1,395,916
Other acquisition costs	2,754	9,456	3,693	10,676
Other technical expenses	10,164	32,269	7,813	25,650
Administrative expenses	64,452	203,791	56,911	177,267
Total technical expenses	2,685,972	7,633,702	2,275,743	6,818,517
Other income and expenses	83,433	142,801	(23,938)	85,247
Operating profit/loss (EBIT)	371,303	861,964	248,443	851,732
Interest on hybrid capital	20,608	58,672	19,346	57,516
Net income before taxes	350,695	803,292	229,097	794,216
Taxes	32,582	148,911	51,303	164,355
Net income	318,113	654,381	177,794	629,861
thereof				
Minority interest in profit and loss	46,739	72,374	14,715	33,278
Group net income	271,374	582,007	163,079	596,583
Earnings per share				
Earnings per share in EUR	2.25	4.83	1.35	4.95

¹ Adjusted on the basis of IAS 8 and IFRS 3

Consolidated statement of comprehensive income

as at 30 September 2010

Figures in EUR thousand	1.7.–30.9.2010	1.1.–30.9.2010	1.7.–30.9.2009 ¹	1.1.–30.9.2009 ¹
Net income	318,113	654,381	177,794	629,861
Unrealised gains and losses on investments				
Gains (losses) recognised directly in equity	176,482	557,366	350,187	130,117
Transferred to the consolidated statement of income	(64,796)	(137,163)	7,736	48,711
Tax income (expense)	(19,270)	(90,377)	(83,769)	(37,933)
	92,416	329,826	274,154	140,895
Currency translation				
Gains (losses) recognised directly in equity	(160,635)	114,001	(50,231)	(12,727)
Transferred to the consolidated statement of income	(4,764)	2,616	(6,635)	(6,467)
Tax income (expense)	15,446	(6,969)	(382)	2,780
	(149,953)	109,648	(57,248)	(16,414)
Changes from the measurement of associated companies				
Gains (losses) recognised directly in equity	–	–	(4,640)	(2,258)
	–	–	(4,640)	(2,258)
Other changes				
Gains (losses) recognised directly in equity	(2,379)	(20,867)	(2,319)	7,513
Tax income (expense)	885	7,641	765	(2,811)
	(1,494)	(13,226)	(1,554)	4,702
Total income and expense recognised directly in equity				
Gains (losses) recognised directly in equity	13,468	650,500	292,997	122,645
Transferred to the consolidated statement of income	(69,560)	(134,547)	1,101	42,244
Tax income (expense)	(2,939)	(89,705)	(83,386)	(37,964)
	(59,031)	426,248	210,712	126,925
Changes in the consolidated group	(16)	(16)	(5)	–
Total recognised income and expense	259,066	1,080,613	388,501	756,786
thereof:				
Attributable to minority interests	41,661	84,139	20,810	33,434
Attributable to the Group	217,405	996,474	367,691	723,352

1 Adjusted on the basis of IAS 8 and IFRS 3

Consolidated statement of changes in shareholders' equity 2010

Figures in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)			Retained earnings	Minority interests	Share- holders' equity
			Currency translation	Unrealised gains/ losses	Other			
Balance as at 1.1.2009	120,597	724,562	(247,565)	113,864	(4,577)	2,123,178	501,434	3,331,493
Capital increases/ additions	–	–	–	–	–	–	157	157
Capital repayments	–	–	–	–	–	–	(7)	(7)
Total income and expense recognised after tax ¹	–	–	(14,627)	136,681	4,715	596,583	33,434	756,786
Dividends paid	–	–	–	–	–	–	(13,470)	(13,470)
Balance as at 30.9.2009¹	120,597	724,562	(262,192)	250,545	138	2,719,761	521,548	4,074,959
Balance as at 1.1.2010¹	120,597	724,562	(224,084)	241,569	(4,728)	2,856,529	542,112	4,256,557
Changes in ownership interest with no change of control status	–	–	35	(235)	–	(378)	7,300	6,722
Capital increases/ additions	–	–	–	–	–	–	58	58
Capital repayments	–	–	–	–	–	–	(1,543)	(1,543)
Acquisition/disposal of treasury shares	–	–	–	–	–	(293)	–	(293)
Total income and expense recognised after tax	–	–	105,746	321,946	(13,225)	582,007	84,139	1,080,613
Dividends paid	–	–	–	–	–	(253,254)	(30,649)	(283,903)
Balance as at 30.9.2010	120,597	724,562	(118,303)	563,280	(17,953)	3,184,611	601,417	5,058,211

1 Adjusted on the basis of IAS 8 and IFRS 3

Figures in EUR thousand	1.1.–30.9.2010	1.1.–30.9.2009 ¹
I. Cash flow from operating activities		
Net income	654,381	629,861
Appreciation/depreciation	(37,440)	100,600
Net realised gains and losses on investments	(135,224)	(67,885)
Income from the recognition of negative goodwill	–	(92,653)
Amortisation of investments	5,172	12,812
Changes in funds withheld	(548,948)	(777,485)
Net changes in contract deposits	405,943	252,299
Changes in prepaid reinsurance premium (net)	308,981	353,733
Changes in tax assets/provisions for taxes	(24,510)	101,733
Changes in benefit reserve (net)	170,220	505,902
Changes in claims reserves (net)	887,672	948,978
Changes in deferred acquisition costs	70,735	(31,575)
Changes in other technical provisions	46,678	(19,127)
Changes in clearing balances	(338,867)	(508,262)
Changes in other assets and liabilities (net)	(50,741)	(174,837)
Cash flow from operating activities	1,414,052	1,234,094

1 Adjusted on the basis of IAS 8 and IFRS 3

Figures in EUR thousand	1.1.–30.9.2010	1.1.–30.9.2009 ¹
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	21,870	42,833
Purchases	–	(43,415)
Fixed-income securities – loans and receivables		
Maturities, sales	677,036	98,655
Purchases	(497,891)	(724,134)
Fixed-income securities – available for sale		
Maturities, sales	6,615,742	8,172,054
Purchases	(7,725,676)	(8,734,214)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	42,963	67,293
Purchases	(8,444)	(9,450)
Equity securities – available for sale		
Sales	976	20,931
Purchases	(158,383)	(22,267)
Other financial assets – at fair value through profit or loss		
Sales	1,737	1,073
Purchases	–	(123)
Other invested assets		
Sales	45,235	3,866
Purchases	(96,360)	(37,560)
Affiliated companies and participating interests		
Sales	76	3,995
Purchases	(4,837)	(1,266)
Acquisition of ING life reinsurance portfolio		
Acquisition of cash in hand	–	117,170
Purchase price paid for other assets acquired	–	(12,878)
Real estate and real estate funds		
Sales	2,868	126
Purchases	(139,200)	(46,378)
Short-term investments		
Changes	(473,463)	(73,702)
Other changes (net)	(7,653)	(11,111)
Cash flow from investing activities	(1,703,404)	(1,188,502)

1 Adjusted on the basis of IAS 8 and IFRS 3

Figures in EUR thousand	1.1.–30.9.2010	1.1.–30.9.2009 ¹
III. Cash flow from financing activities		
Contribution from capital measures	97	(1,577)
Structural change without loss of control	7,005	–
Dividends paid	(283,903)	(13,470)
Proceeds from long-term debts	548,612	24
Repayment of long-term debts	(4,196)	(15,220)
Acquisition/disposal of treasury shares	(293)	–
Cash flow from financing activities	267,322	(30,243)
IV. Exchange rate differences on cash	36,632	(7,101)
Cash and cash equivalents at the beginning of the period	457,412	430,225
Change in cash and cash equivalents (I.+II.+III.+IV.)	14,602	8,248
Cash and cash equivalents at the end of the period	472,014	438,473
Income taxes	(104,173)	(72,329)
Interest paid	(99,976)	(95,106)

1 Adjusted on the basis of IAS 8 and IFRS 3

Segmental report

Segmentation of assets in EUR thousand	Non-life reinsurance	
	30. 9. 2010	31. 12. 2009
Assets		
Held to maturity	2,683,789	2,651,188
Loans and receivables	2,450,089	2,624,702
Available for sale	11,613,308	9,820,513
At fair value through profit or loss	137,269	154,707
Other invested assets	1,239,492	894,289
Short-term investments	1,544,651	1,031,880
Cash	296,488	253,797
Total investments and cash under own management	19,965,086	17,431,076
Funds withheld by ceding companies	681,222	625,753
Contract deposits	–	–
Total investments	20,646,308	18,056,829
Reinsurance recoverables on unpaid claims	1,618,629	1,589,438
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	122,579	44,607
Reinsurance recoverables on other reserves	936	305
Deferred acquisition costs	376,764	331,091
Accounts receivable	1,904,356	1,896,362
Other assets in the segment	1,316,260	1,429,320
Total assets	25,985,832	23,347,952
Segmentation of technical and other liabilities in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	16,476,131	15,393,548
Benefit reserve	–	–
Unearned premium reserve	1,873,174	1,437,490
Provisions for contingent commissions	144,437	106,313
Funds withheld	264,199	209,925
Contract deposits	99,920	123,927
Reinsurance payable	560,719	701,103
Long-term liabilities	166,323	116,286
Other liabilities in the segment	1,559,882	1,461,588
Total liabilities	21,144,785	19,550,180

1 Adjusted on the basis of IAS 8 and IFRS 3

Segmental report

Segmental statement of income in EUR thousand	Non-life reinsurance	
	1.1.–30.9.2010	1.1.–30.9.2009
Gross written premium	4,824,900	4,405,195
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	4,824,900	4,405,195
Net premium earned	4,066,773	3,765,404
Net investment income	477,420	379,309
thereof		
Deposit interest and expenses	7,136	21,750
Claims and claims expenses	2,999,167	2,766,040
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	916,677	787,387
Administrative expenses	118,528	113,839
Other income and expenses	123,576	(433)
Operating profit (EBIT)	633,397	477,014
Interest on hybrid capital	–	–
Net income before taxes	633,397	477,014
Taxes	127,103	117,566
Net income	506,294	359,448
thereof		
Minority interest in profit or loss	68,639	28,142
Group net income	437,655	331,306

1 Adjusted on the basis of IAS 8 and IFRS 3

Life/health reinsurance		Consolidation		Total	
1.1.–30.9.2010	1.1.–30.9.2009 ¹	1.1.–30.9.2010	1.1.–30.9.2009	1.1.–30.9.2010	1.1.–30.9.2009 ¹
3,730,367	3,266,262	(680)	–	8,554,587	7,671,457
680	–	(680)	–	–	–
3,729,687	3,266,262	–	–	8,554,587	7,671,457
3,404,896	2,960,954	(478)	–	7,471,191	6,726,358
369,743	433,503	24,988	37,639	872,151	850,451
216,526	167,494	–	2	223,662	189,246
2,312,881	1,950,066	(511)	(503)	5,311,537	4,715,603
430,154	493,405	(492)	–	429,662	493,405
767,178	641,097	(4,666)	(4,435)	1,679,189	1,424,049
86,931	66,235	(1,668)	(2,807)	203,791	177,267
36,113	94,682	(16,888)	(9,002)	142,801	85,247
213,608	338,336	14,959	36,382	861,964	851,732
–	–	58,672	57,516	58,672	57,516
213,608	338,336	(43,713)	(21,134)	803,292	794,216
39,659	53,336	(17,851)	(6,547)	148,911	164,355
173,949	285,000	(25,862)	(14,587)	654,381	629,861
3,735	5,136	–	–	72,374	33,278
170,214	279,864	(25,862)	(14,587)	582,007	596,583

1. General reporting principles

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

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

The consolidated quarterly financial report has been compiled in accordance with IAS 34 “Interim Financial Reporting”. As provided for by IAS 34.41, in our preparation of the consolidated quarterly financial statement, consisting of the consolidated balance sheet, consolidated statement of income, consolidated statement of comprehensive income, consolidated cash flow statement, consolidated statement of changes in shareholders’ equity and selected explanatory notes, we draw on estimates and assumptions to a greater extent than is the case with the annual financial reporting. This can have implications for items in the balance sheet and the statement of income as well as for other financial obligations. Although the estimates are always based on realistic premises, they are of course subject to uncertainties that may be reflected accordingly in the result. Losses from natural disasters and other catastrophic losses impact the result of the reporting period in which they occur. Furthermore, belatedly reported claims for major loss events can also lead to substantial fluctuations in individual quarterly results. Gains and losses on the disposal of investments are accounted for in the quarter in which the investments are sold.

The present consolidated quarterly financial statement was prepared by the Executive Board at its meeting on 25 October 2010 and released for publication.

2. Accounting principles including major accounting policies

The quarterly accounts of the consolidated companies included in the consolidated financial statement were drawn up as at 30 September 2010.

All standards adopted by the IASB as at 30 September 2010 with binding effect for the reporting period have been observed in the consolidated financial statement.

New accounting standards or accounting standards applied for the first time

In June 2009 the IASB published amendments to IFRS 2 “Group Cash-settled Share-based Payment Transactions”. The amendments do not have any significant implications for Hannover Re.

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

In November 2009 the IASB published the revised IAS 24 “Related Party Disclosures”. A major new feature of IAS 24 (rev. 2009) is the requirement for disclosures of “commitments”, for example guarantees, undertakings and other commitments, which are dependent upon whether (or not) a particular event occurs in the future. The definition of a related entity or a related person is also clarified. The standard, the implications of which for Hannover Re are currently under review, was ratified by the European Union effective 20 July 2010 and must be applied from 1 January 2011 onwards.

In November 2009 the IASB also issued IFRS 9 “Financial Instruments” on the classification and measurement of financial instruments. IFRS 9 is the first step in a three-phase project intended to replace IAS 39 “Financial Instruments: Recognition and Measurement” with a new standard. IFRS 9 introduces new requirements for classifying and measuring financial assets. This standard has not yet been ratified by the European Union.

Changes in accounting policies

Hannover Re has corrected the balance sheet recognition of certain life reinsurance contracts. In accordance with applicable US GAAP (FASB ASC 340-30), technical assets and liabilities relating to these contracts are to be offset in the balance sheet. This offsetting was partially omitted in previous reporting periods.

In accordance with IAS 8 we have therefore adjusted the comparative figures in the present quarterly financial statement. The adjustments have no implications for the Group net income or shareholders’ equity in any of the preceding reporting periods. Contrary to the figures originally shown, the balance sheet items “funds withheld” (assets side) and “contract deposits” (liabilities side) are each reduced by EUR 1,429.2 million as at 31 December 2009. The decrease in these balance sheet items in the opening balance sheet as at 1 January 2009 amounts to EUR 1,852.1 million in each case.

In the previous year Hannover Re completed the acquisition of the US ING life reinsurance portfolio and initially included the acquired business in the consolidated quarterly financial statement on a provisional basis. In the context of this provisional recognition pursuant to IFRS 3 the provisional carrying amounts were adjusted in the quarterly financial statement as at 30 September 2009. At the same time, the translation of intangible assets held in foreign currencies also had to be adjusted pursuant to IAS 8 in the quarterly financial statement as at 30 September 2009 and in the financial statement as at 31 December 2009.

The effects of the aforementioned adjustments on items of the consolidated balance sheet and consolidated statement of income were as follows:

Adjustments pursuant to IFRS 3 and IAS 8			
Figures in EUR thousand	1. 1. 2009	30. 9. 2009	31. 12. 2009
Funds withheld	(1,852,064)	(1,520,864)	(1,429,178)
Reinsurance recoverables on benefit reserve		(26,711)	
Deferred tax assets		(8,281)	
Other assets		+19,970	+2,527
Total change in assets	(1,852,064)	(1,535,886)	(1,426,651)
Benefit reserves		(29,944)	
Contract deposits	(1,852,064)	(1,520,864)	(1,429,178)
Reinsurance payable		+3,232	
Provision for deferred taxes		+1,775	
Other liabilities		(8,281)	
Retained earnings		+18,195	+2,527
Total change in liabilities	(1,852,064)	(1,535,886)	(1,426,651)
		1.1.–30.9.2009	1.1.–31.12.2009
Other income and expenses		+6,939	+2,527
Taxes		(11,256)	
Total change in items of the statement of income		+18,195	+2,527
Change in earnings per share (in EUR)		+0.15	+0.02

Segmentation

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

We would also refer to the relevant information in the consolidated financial statement as at 31 December 2009.

3. Consolidated companies and consolidation principles

Consolidated companies

Effective 8 March 2010 Hannover Rück Beteiligung Verwaltungs-GmbH (HRBV), which is wholly owned by Hannover Re, reached agreement with a third party outside the Group on the sale of 0.5% of its stake in E+S Rück – by way of a share reduction without a change of control status. Upon closing of the transaction HRBV held an interest of 63.69% in E+S Rück.

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

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

The Hannover Re- and E+S Rück-owned company Penates A, Ltd., Tortola, British Virgin Islands, was liquidated effective 22 September 2010.

Capital consolidation

The capital consolidation complies with the requirements of IAS 27 "Consolidated and Separate Financial Statements". Subsidiaries are consolidated as soon as Hannover Re acquires a majority voting interest or de facto controlling influence. The capital consolidation is based on the revaluation method. In the context of the "acquisition method" the acquisition costs of the parent company are netted with the proportionate shareholders' equity of the subsidiary at the time when it is first included in the consolidated financial statement after the revaluation of all assets and liabilities. After recognition of all acquired intangible assets that in accordance with IFRS 3 "Business Combinations" are to be accounted for separately from goodwill, the difference between the revalued shareholders' equity of the subsidiary and the purchase price is recognised as goodwill. As at the balance sheet date Hannover Re had not exercised the option available under IFRS 3 to recognise on a transaction-by-transaction basis the entire goodwill instead of merely the portion of total goodwill corresponding to the proportionate interest acquired. Under IFRS 3 scheduled amortisation is not taken on goodwill. Instead, unscheduled amortisation is taken where necessary on the basis of annual impairment tests. Immaterial and negative goodwill are recognised in the statement of income in the year of their occurrence.

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

Minority interests in shareholders' equity are reported separately within Group shareholders' equity in accordance with IAS 1 "Presentation of Financial Statements". The minority interest in profit or loss, which forms part of net income and is shown separately after net income as a "thereof" note, amounted to EUR 72.4 million (EUR 33.3 million) as at 30 September 2010.

Debt consolidation

Receivables and liabilities between the companies included in the consolidated financial statement were offset against each other.

Consolidation of expenses and profit

The effects of business transactions within the Group were eliminated.

Consolidation of special purpose entities

Securitisation of reinsurance risks

The securitisation of reinsurance risks is largely structured through the use of special purpose entities. The existence of a consolidation requirement in respect of such entities is to be examined in accordance with SIC-12 “Consolidation – Special Purpose Entities”. In cases where IFRS do not currently contain any specific standards, Hannover Re’s analysis – in application of IAS 8.12 – also falls back on the relevant standards of US GAAP.

With the aim of transferring to the capital market peak natural catastrophe exposures deriving from European windstorm events, Hannover Re issued a catastrophe (“CAT”) bond that can be traded on a secondary market for the second time in July 2009. The CAT bond, which has a volume of EUR 150.0 million, was placed with institutional investors from Europe and North America by Euris II Ltd., a special purpose entity domiciled in the Cayman Islands. Hannover Re does not exercise a controlling influence over the special purpose entity. Under IFRS this transaction is to be recognised as a financial instrument.

In September 2009, in a transaction referred to as “FacPool Re”, Hannover Re for the first time transferred a portfolio of facultative reinsurance risks to the capital market as part of its extended Insurance-Linked Securities (ILS) activities. The contracts, which cover worldwide individual risks, are mediated by an external reinsurance intermediary, written by Hannover Re and placed on the capital market in conjunction with a service provider. The “FacPool Re” transaction consists of a quota share reinsurance arrangement and two non-proportional cessions. The total amount of capital provided stands at USD 60 million (equivalent to EUR 44.0 million), with Hannover Re keeping a share of approximately USD 5 million (equivalent to EUR 3.7 million) and additionally assuming losses that exceed the capacity of “FacPool Re”. A number of special purpose entities participate in the reinsurance cessions within “FacPool Re”; Hannover Re does not hold any shares in these special purpose entities and does not bear the majority of the economic benefits or risks arising out of their activities through any of its business relations.

With effect from 1 January 2009 Hannover Re again used the capital market to obtain underwriting capacity for catastrophe risks. The “K5” transaction, which ended on 31 December 2008, was replaced by the successor transaction “K6”. The volume of “K6”, which was equivalent to EUR 120.3 million as at 31 December 2009, was increased to USD 329.4 million on 1 January 2010 and is now equivalent to EUR 241.4 million. This securitisation, which was again placed with institutional investors in North America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. As with the “K3” and “K5” transactions, Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is being used for the securitisation. The planned term of the transaction runs until 31 December 2011, or 31 December 2012 in the case of the additional interests placed on 1 January 2010. In addition, Hannover Re uses the special purpose entity Kaith Re Ltd. for various retrocessions of its traditional covers to institutional investors. In accordance with SIC-12 Kaith Re Ltd. is included in the consolidated financial statement.

In 2007 the Hannover Re Group transferred risks from reinsurance recoverables to the capital market. The securitisation had a term of five years; the securities serving as collateral were issued through the special purpose entity Merlin CDO I B.V. In March 2010 Hannover Re made use of its

right of early cancellation and terminated the credit default swap underlying the “Merlin” transaction effective 26 April 2010. The derivative established by the “Merlin” transaction was therefore derecognised in the second quarter, causing a decrease in net income.

Investments

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

Hannover Re participates – primarily through the companies Secquaero ILS Fund Ltd., Hannover Insurance-Linked Securities GmbH & Co. KG and Hannover Re (Bermuda) Ltd. – in a number of special purpose entities for the securitisation of catastrophe risks by taking up certain capital market securities known as “disaster bonds” (or “CAT bonds”). Since Hannover Re does not exercise a controlling influence in any of these transactions either there is no consolidation requirement.

4. Notes on the individual items of the balance sheet

4.1 Investments under own management

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

Fixed-income securities classified as held to maturity as well as loans and receivables originated by the entity that are not listed on an active market or sold at short notice are measured at purchase cost – i.e. fair value as at purchase date including directly allocable transaction costs – plus amortised cost. The amortised cost derives from the difference between the nominal value and purchase cost and is spread over the time to maturity of the fixed-income securities.

Fixed-income securities classified as available for sale are measured at fair value. The difference between the fair value and amortised cost is recognised outside the statement of income until realisation. Financial assets at fair value through profit or loss and securities held for trading are measured at fair value. The difference between the fair value and amortised cost is recognised in the statement of income.

The investments under own management also encompass investments in associated companies, real estate and real estate funds (also includes: investment property), other invested assets, short-term investments and cash. The other investments primarily consist of shares in private equity limited partnerships. For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2009.

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

Investments in EUR thousand	30. 9. 2010	31. 12. 2009
Germany	6,812,310	6,560,026
United Kingdom	1,753,343	1,363,938
France	1,860,231	1,865,540
Other	4,713,951	3,928,606
Europe	15,139,835	13,718,110
USA	6,765,926	6,007,409
Other	791,798	840,207
North America	7,557,724	6,847,616
Asia	666,176	530,497
Australia	1,409,071	941,664
Australasia	2,075,247	1,472,161
Africa	418,285	416,139
Other	307,988	52,986
Total	25,499,079	22,507,012

Maturities of the fixed-income and variable-yield securities				
in EUR thousand	30.9.2010		31.12.2009	
	Cost or amortised cost ¹	Fair value	Cost or amortised cost ¹	Fair value
Held to maturity				
due in one year	335,617	352,879	106,788	117,125
due after one through two years	379,044	392,402	280,725	290,471
due after two through three years	632,973	670,805	469,248	490,878
due after three through four years	221,291	234,832	521,196	542,714
due after four through five years	770,919	844,956	298,115	315,856
due after five through ten years	627,042	693,930	1,259,917	1,319,098
due after ten years	18,746	18,159	17,500	15,852
Total	2,985,632	3,207,963	2,953,489	3,091,994
Loans and receivables				
due in one year	141,249	142,109	220,814	221,111
due after one through two years	95,821	95,722	80,127	82,095
due after two through three years	114,224	116,725	41,048	41,219
due after three through four years	638,453	660,707	332,716	339,025
due after four through five years	519,223	547,194	485,554	490,978
due after five through ten years	925,908	997,187	1,294,842	1,323,459
due after ten years	71,522	67,925	246,730	244,384
Total	2,506,400	2,627,569	2,701,831	2,742,271
Available for sale				
due in one year ²	4,436,396	4,476,480	3,890,651	3,926,328
due after one through two years	2,175,576	2,201,891	1,686,180	1,725,646
due after two through three years	1,842,830	1,882,488	1,656,235	1,698,765
due after three through four years	1,948,931	2,055,238	1,718,907	1,782,188
due after four through five years	2,202,599	2,240,255	1,875,448	1,907,847
due after five through ten years	3,413,782	3,611,890	3,151,562	3,196,970
due after ten years	1,681,216	1,825,492	1,383,350	1,377,191
Total	17,701,330	18,293,734	15,362,333	15,614,935
Financial assets at fair value through profit or loss				
due in one year	63,553	63,553	22,145	22,145
due after one through two years	25,845	25,845	70,245	70,245
due after two through three years	54,610	54,610	18,358	18,358
due after three through four years	10,251	10,251	39,155	39,155
due after four through five years	1,507	1,507	4,541	4,541
due after five through ten years	1,362	1,362	11,239	11,239
due after ten years	63,501	63,501	69,466	69,466
Total	220,629	220,629	235,149	235,149

1 Including accrued interest

2 Including short-term investments and cash

The stated maturities may in individual cases diverge from the contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty. Variable-rate bonds (so-called “floaters”) are shown under the maturities due in one year and constitute our interest-related, within-the-year reinvestment risk.

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as held to maturity as well as their fair value					
Figures in EUR thousand	30.9.2010				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	324,844	20,067	–	5,261	350,172
US treasury notes	371,211	52,455	–	4,705	428,371
Other foreign government debt securities	10,776	897	–	106	11,779
Debt securities issued by semi-governmental entities	695,945	49,311	587	10,375	755,044
Corporate securities	560,160	35,123	909	8,533	602,907
Covered bonds/asset-backed securities	974,621	66,080	106	19,095	1,059,690
Total	2,937,557	223,933	1,602	48,075	3,207,963

Figures in EUR thousand	31.12.2009				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	323,510	3,065	946	6,854	332,483
US treasury notes	351,776	36,182	825	2,808	389,941
Other foreign government debt securities	13,445	664	–	25	14,134
Debt securities issued by semi-governmental entities	685,126	30,212	2,052	12,932	726,218
Corporate securities	559,900	27,107	1,121	12,334	598,220
Covered bonds/asset-backed securities	964,236	46,223	4	20,543	1,030,998
Total	2,897,993	143,453	4,948	55,496	3,091,994

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value					
Figures in EUR thousand	30.9.2010				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	50,000	1,437	–	465	51,902
Debt securities issued by semi-governmental entities	1,112,863	54,007	70	16,554	1,183,354
Corporate securities	466,080	25,546	1,184	9,350	499,792
Covered bonds/asset-backed securities	838,087	44,254	2,821	13,001	892,521
Other	–	–	–	–	–
Total	2,467,030	125,244	4,075	39,370	2,627,569

Figures in EUR thousand	31.12.2009				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	79,498	1,713	415	739	81,535
Debt securities issued by semi-governmental entities	1,148,549	8,579	2,597	11,531	1,166,062
Corporate securities	543,718	16,508	1,163	9,470	568,533
Covered bonds/asset-backed securities	639,446	20,322	2,507	9,279	666,540
Other	200,036	–	–	59,565	259,601
Total	2,611,247	47,122	6,682	90,584	2,742,271

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

Figures in EUR thousand	30.9.2010				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	2,283,806	63,581	11,729	29,548	2,365,206
US treasury notes	1,957,222	115,176	14	10,895	2,083,279
Other foreign government debt securities	635,921	16,730	435	3,934	656,150
Debt securities issued by semi-governmental entities	3,555,615	148,943	3,521	55,606	3,756,643
Corporate securities	4,684,882	197,401	5,814	76,768	4,953,237
Covered bonds/asset-backed securities	1,919,010	102,251	35,847	24,638	2,010,052
Investment funds	82,576	8,520	2,775	–	88,321
	15,119,032	652,602	60,135	201,389	15,912,888
Equity securities					
Shares	156,248	3,617	5,277	–	154,588
Investment funds	16,709	636	245	–	17,100
	172,957	4,253	5,522	–	171,688
Short-term investments	1,908,195	717	780	700	1,908,832
Total	17,200,184	657,572	66,437	202,089	17,993,408

Figures in EUR thousand	31.12.2009				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	2,179,903	39,399	4,675	28,867	2,243,494
US treasury notes	1,986,505	27,876	13,049	14,483	2,015,815
Other foreign government debt securities	568,788	5,798	3,135	3,044	574,495
Debt securities issued by semi-governmental entities	3,755,392	94,194	6,731	53,603	3,896,458
Corporate securities	3,151,323	96,853	27,921	54,645	3,274,900
Covered bonds/asset-backed securities	1,573,093	85,303	50,824	20,937	1,628,509
Investment funds	162,156	27,466	18,245	–	171,377
	13,377,160	376,889	124,580	175,579	13,805,048
Equity securities					
Shares	14,086	3,100	189	–	16,997
Investment funds	1,959	479	78	–	2,360
	16,045	3,579	267	–	19,357
Short-term investments	1,351,309	354	61	873	1,352,475
Total	14,744,514	380,822	124,908	176,452	15,176,880

Fair value of financial assets at fair value through profit or loss before and after accrued interest as well as accrued interest on such financial assets						
Figures in EUR thousand	30.9.2010	31.12.2009	30.9.2010	31.12.2009	30.9.2010	31.12.2009
	Fair value before accrued interest		Accrued interest		Fair value	
Financial assets at fair value through profit or loss						
Fixed-income securities						
Debt securities of semi-governmental entities	6,695	7,066	56	162	6,751	7,228
Corporate securities	113,577	121,589	632	5,208	114,209	126,797
Covered bonds/asset-backed securities	99,109	100,775	560	349	99,669	101,124
	219,381	229,430	1,248	5,719	220,629	235,149
Other financial assets						
Derivatives	47,517	58,273	–	–	47,517	58,273
	47,517	58,273	–	–	47,517	58,273
Total	266,898	287,703	1,248	5,719	268,146	293,422

4.2 Debt and subordinated capital

In September 2010 Hannover Re placed a new subordinated bond on the European capital market through its subsidiary Hannover Finance (Luxembourg) S.A. This subordinated debt of nominally EUR 500.0 million has a maturity of 30 years with a first scheduled call option after ten years. The bond carries a fixed coupon of 5.75% p.a. (yield to first call 5.75%) in the first ten years, after which the interest basis changes to a floating rate of 3-month EURIBOR +423.5 basis points. As at the balance sheet date altogether four subordinated debts are now carried at a cost or amortised cost of EUR 1,867.9 million. For further details we would refer the reader to the relevant information in the consolidated financial statement as at 31 December 2009.

4.3 Shareholders' equity, minority interests and treasury shares

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

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

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

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

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

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

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

5.1 Gross written premium

Gross written premium in EUR thousand	1. 1.–30. 9. 2010	1. 1.–30. 9. 2009
Regional origin		
Germany	974,642	1,058,290
United Kingdom	1,703,163	1,326,878
France	390,570	389,365
Other	1,029,247	924,273
Europe	4,097,622	3,698,806
USA	2,227,119	2,147,849
Other	304,185	291,438
North America	2,531,304	2,439,287
Asia	707,432	601,087
Australia	365,327	287,779
Australasia	1,072,759	888,866
Africa	326,456	254,064
Other	526,446	390,434
Total	8,554,587	7,671,457

5.2 Investment income

Investment income in EUR thousand	30.9.2010	30.9.2009
Income from real estate	22,064	1,606
Dividends	2,369	2,592
Interest income	612,800	594,403
Other income	17,852	5,228
Ordinary investment income	655,085	603,829
Profit or loss on shares in associated companies	3,470	131
Appreciation	14,447	–
Realised gains on investments	204,816	123,454
Realised losses on investments	69,592	55,569
Unrealised gains and losses on investments	(93,647)	135,441
Impairments/depreciation on real estate	6,515	994
Impairments on equity securities	569	3,327
Impairments on fixed-income securities	7,723	35,171
Impairments on participating interests and other financial assets	5,175	70,819
Other investment expenses	46,108	35,770
Net income from assets under own management	648,489	661,205
Interest income on funds withheld and contract deposits	286,048	312,339
Interest expense on funds withheld and contract deposits	62,386	123,093
Total investment income	872,151	850,451

Of the impairments totalling EUR 14.7 million, an amount of EUR 5.2 million was attributable to alternative investments. The impairments on fixed-income securities of EUR 7.7 million were taken predominantly on structured assets. An impairment loss of EUR 0.6 million was recognised on equities whose fair value had fallen significantly – i.e. by at least 20% – or for a prolonged period – i.e. for at least nine months – below acquisition cost. The portfolio did not contain any overdue, unadjusted assets as at the balance sheet date since overdue securities are written down immediately.

Of the write-ups totalling EUR 14.4 million, an amount of EUR 11.4 million was attributable to fixed-income securities and an amount of EUR 3.0 million to alternative assets.

Interest income on investments in EUR thousand	30.9.2010	30.9.2009
Fixed-income securities – held to maturity	93,819	110,770
Fixed-income securities – loans and receivables	79,436	48,714
Fixed-income securities – available for sale	417,864	396,306
Financial assets – at fair value through profit or loss	9,396	12,053
Other	12,285	26,560
Total	612,800	594,403

6. Other notes

6.1 Derivative financial instruments

Hannover Re's portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange contracts that were taken out chiefly to hedge cash flows from reinsurance contracts. These transactions gave rise to recognition of other financial assets at fair value through profit or loss in an amount of EUR 0.2 million (31 December 2009: EUR 0.3 million) and other liabilities in an amount of EUR 28.5 million (31 December 2009: EUR 17.8 million). The net changes in the fair value of these instruments produced a charge to investment income of EUR 10.8 million in the period under review (30 September 2009: EUR 15.4 million).

In the second quarter of 2010 Hannover Re acquired derivative financial instruments to hedge inflation risks within the loss reserves. These transactions gave rise to recognition of other liabilities in an amount of EUR 89.4 million. The changes in the fair values of these instruments produced a charge to investment income of EUR 89.4 million in the period under review.

Certain reinsurance treaties meet criteria which require application of the prescriptions in IFRS 4.7 to 4.9 governing embedded derivatives. These accounting regulations require that derivatives embedded in reinsurance contracts be separated from the underlying insurance contract ("host contract") according to the conditions specified in IFRS 4 and IAS 39 and recognised separately at fair value in accordance with IAS 39. Fluctuations in the fair value of the derivative components are to be recognised in income in subsequent periods.

On this basis Hannover Re reported as financial assets at fair value through profit or loss technical derivatives in an amount of EUR 47.4 million as at 30 September 2010 (31 December 2009: EUR 58.0 million) that were separated from the underlying transaction and measured at fair value.

In addition, liabilities from derivatives in connection with the technical account totalling EUR 6.4 million (31 December 2009: EUR 3.3 million) were recognised under other liabilities.

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

Of the derivatives carried on the assets side fair values of EUR 38.1 million (31 December 2009: EUR 31.9 million) were attributable as at the balance sheet date to derivatives embedded in ModCo reinsurance treaties.

Principally due to a narrowing of credit spreads in the securities portfolios, investment income from the ModCo derivatives improved by EUR 4.8 million as at 30 September 2010 (30 September 2009: EUR 153.5 million).

6.2 Related party disclosures

IAS 24 defines related parties as group companies of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself. In the reporting period the following significant business relations existed with related parties.

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

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

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

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

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

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

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

Business assumed and ceded in Germany and abroad				
Figures in EUR thousand	30.9.2010		30.9.2009	
	Premium	Underwriting result	Premium	Underwriting result
Business assumed				
Non-life reinsurance	278,280	51,619	265,754	34,063
Life and health reinsurance	216,089	11,986	249,138	56,338
	494,369	63,605	514,892	90,401
Business ceded				
Non-life reinsurance	(2,084)	(1,069)	298	(5,281)
Life and health reinsurance	(7,366)	(3,553)	–	–
	(9,450)	(4,622)	298	(5,281)
Total	484,919	58,983	515,190	85,120

6.3 Staff

The average number of staff employed at the companies included in the consolidated financial statement of the Hannover Re Group was 2,115 during the reporting period (2009 financial year: 1,984).

As at the balance sheet date altogether 2,159 (2,053) staff were employed by the Hannover Re Group, with 1,074 (1,023) employed in Germany and 1,085 (1,030) working for the consolidated Group companies abroad.

6.4 Earnings per share

Calculation of the earnings per share	1.7.–30.9.2010	1.1.–30.9.2010	1.7.–30.9.2009	1.1.–30.9.2009
Group net income in EUR thousand	271,374	582,007	163,079	596,583
Weighted average of issued shares	120,597,134	120,596,791	120,586,082	120,593,450
Earnings per share in EUR	2.25	4.83	1.35	4.95

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

On the basis of this year's employee share purchase scheme Hannover Re acquired treasury shares in the course of the second quarter of 2010 and sold them to the eligible employees. The weighted average number of shares does not include 23,163 treasury shares pro rata temporis for the period from 7 to 10 May 2010. For further details please see our comments in Section 4.3 "Shareholders' equity, minority interests and treasury shares".

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

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

6.5 Contingent liabilities and commitments

Hannover Re has placed four subordinated debts on the European capital markets through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured by subordinated guarantee the debt issued in 2001, the volume of which now stands at EUR 138.1 million, the debt from the 2004 financial year in an amount of EUR 750.0 million and the debts from 2005 and 2010 in amounts of EUR 500.0 million respectively. For further details we would refer to Section 4.2 of this report and the relevant information in the consolidated financial statement as at 31 December 2009.

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

As security for technical liabilities to our US clients, we have established two trust accounts (master trust and supplemental trust) in the United States. As at the balance sheet date they amounted to EUR 2,568.8 million (31 December 2009: EUR 2,341.3 million) and EUR 7.9 million (31 December 2009: none) respectively. In addition, we extended further collateral to our cedants in an amount of EUR 354.0 million (31 December 2009: EUR 309.6 million) through so-called "single trust funds".

As part of our business activities we hold collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the Group's major companies was EUR 1,888.4 million (31 December 2009: EUR 1,587.8 million) as at the balance sheet date. The securities held in the blocked custody accounts and trust accounts are recognised predominantly as available-for-sale investments.

As security for our technical liabilities, various financial institutions have furnished guarantees for our company in the form of letters of credit. The total amount as at the balance sheet date was EUR 2,587.3 million (31 December 2009: EUR 2,552.2 million).

For liabilities in connection with participating interests in real estate companies and real estate transactions Hannover Re Real Estate Holdings has furnished the usual collateral under such transactions to various banks, the amount of which totalled EUR 258.4 million as at the balance sheet date (31 December 2009: EUR 174.4 million).

Outstanding capital commitments with respect to alternative investments exist on the part of the Group in the amount of EUR 272.5 million (31 December 2009: EUR 328.8 million). These primarily involve as yet unfulfilled payment obligations from participations entered into in private equity funds and venture capital firms.

6.6 Currency translation

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	Mean rate of exchange on the balance sheet date		Average rate of exchange	
	30. 9. 2010	31. 12. 2009	1. 1. – 30. 9. 2010	1. 1. – 30. 9. 2009
1 EUR corresponds to:				
AUD	1.4086	1.6048	1.4776	1.8318
BHD	0.5145	0.5404	0.4999	0.5181
CAD	1.4079	1.5048	1.3815	1.6001
CNY	9.1328	9.7847	9.0193	9.3879
GBP	0.8583	0.9042	0.8603	0.8944
HKD	10.5917	11.1172	10.3031	10.6504
KRW	1,556.2018	1,669.5842	1,547.0884	1,786.5350
MYR	4.2132	4.9113	4.3269	4.8731
SEK	9.1514	10.2986	9.6719	10.6936
USD	1.3648	1.4336	1.3261	1.3740
ZAR	9.5159	10.6121	9.8600	11.7964

6.7 Events after the end of the quarter

On 20 October 2010 the German Federal Fiscal Court (BFH) confirmed a decision in the first instance of the Lower Saxony Fiscal Court, according to which additional taxation of the investment income of Irish subsidiaries is not permissible. This decision is of relevance to the Group with respect to income generated by Irish subsidiaries from the years 1993 to 2004. In accordance with IAS 10 we have recognised this development in the quarterly financial statement as at 30 September 2010 and released corresponding provisions that had been set aside on a precautionary basis. The net income after tax consequently improved by EUR 98.0 million.

Contact information

Corporate Communications

Karl Steinle

Tel. +49 511 5604-1500

Fax +49 511 5604-1648

karl.steinle@hannover-re.com

Media Relations

Gabriele Handrick

Tel. +49 511 5604-1502

Fax +49 511 5604-1648

gabriele.handrick@hannover-re.com

Investor Relations

Klaus Paesler

Tel. +49 511 5604-1736

Fax +49 511 5604-1648

klaus.paesler@hannover-re.com

Published by

Hannover Rückversicherung AG

Karl-Wiechert-Allee 50

30625 Hannover, Germany

Tel. +49 511 5604-0

Fax +49 511 5604-1188

info@hannover-re.com

www.hannover-re.com

Production

herbstwerbung

Concept and design, Hannover

Picture credits

Manfred Zimmermann: page 1

Print

Druckerei Biewald, Hannover

Printed on paper from environmentally responsible, socially compatible and economically viable forest management



