somewhat different

Interim Report 3/2011

hannover re®

Key figures

Figures in EUR million	2011					2010		
	1.1.–30.6.	1.7.–30.9.	+/– previous year	1.1.–30.9.	+/– previous year	1.7.–30.9.	1.1.–30.9.	31.12.
Results								
Gross written premium	6,044.8	3,019.9	+5.1%	9,064.7	+6.0%	2,872.3	8,554.6	
Net premium earned	5,147.9	2,732.0	+3.0%	7,879.9	+5.5%	2,651.5	7,471.2	
Net underwriting result	(446.3)	33.0		(413.3)		(32.9)	(153.0)	
Net investment income	672.8	278.0	–13.3%	950.8	+9.0%	320.8	872.2	
Operating profit (EBIT)	246.8	241.0	–35.1%	487.8	–43.4%	371.3	862.0	
Group net income (loss)	218.5	163.2	–39.9%	381.7	–34.4%	271.4	582.0	
Balance sheet (as at the end of the period)								
Policyholders' surplus	6,656.7			7,046.5	+0.9%			6,987.0
Equity attributable to shareholders of Hannover Re	4,324.6			4,698.8	+4.2%			4,509.0
Non-controlling interests	599.1			613.7	+0.8%			608.9
Hybrid capital	1,733.1			1,734.0	–7.2%			1,869.1
Investments (excl. funds withheld by ceding companies)	25,330.6			27,062.8	+6.5%			25,411.1
Total assets	46,958.3			48,024.8	+2.8%			46,725.3
Share								
Earnings per share (basic and diluted) in EUR	1.81	1.35	–39.9%	3.16	–34.4%	2.25	4.83	
Book value per share in EUR	35.86			38.96	+4.2%		36.96	37.39
Share price at the end of the period in EUR	35.97			34.04	–15.2%		33.74	40.14
Market capitalisation at the end of the period	4,337.9			4.105.1	–15.2%		4,068.9	4,840.8
Ratios								
Combined ratio (non-life reinsurance)[1]	110.3%	95.2%		105.0%		98.2%	99.0%	
Major losses as percentage of net premium earned (non-life reinsurance)[2]	21.9%	7.6%		16.9%		10.2%	13.6%	
Retention	90.8%	90.3%		90.7%		92.3%	91.0%	
Return on investment (excl. funds withheld by ceding companies)	4.0%	2.9%		3.6%		3.9%	3.6%	
EBIT margin[3]	4.8%	8.8%		6.2%		14.0%	11.5%	
Return on equity	9.9%	14.5%		11.1%		25.0%	19.0%	

1 Incl. funds withheld

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

3 Operating result (EBIT)/net premium earned

Ulrich Wallin
Chairman of the Executive Board

Dear shareholders, ladies and gentlemen,

The development of our business in the third quarter was broadly satisfactory. Although a number of major losses were again recorded in the third quarter, these were comparatively slight in terms of their loss amount. The major loss expenditure for the third quarter therefore came in below our expected level. Looking at the first nine months of the current year as a whole, though, the burden of major losses continues to be dominated by the severe natural catastrophe losses incurred in the first quarter.

Even though the capital market climate also remains challenging – with implications for investment income in both non-life reinsurance and life/health reinsurance –, we were able to generate Group net income of EUR 382 million as at 30 September 2011. This is in line with our current expectations and should enable us – provided the fourth quarter passes off normally – to achieve our declared profit target of at least EUR 500 million.

We are satisfied with the organic growth in our gross premium volume. Excluding currency effects, the increase was in excess of 8 percent as at 30 September 2011 – driven in particular by non-life reinsurance. Based on this development, it remains our expectation that we can attain our targeted premium growth of 7 to 8 percent – excluding currency effects – on the Group level.

In the third quarter we completed the regular review of our corporate strategy. The core of our strategy remains essentially unchanged, since it has proven its worth in recent years. Nevertheless, we have elaborated our business model even more clearly with a view to safeguarding attainment of our goal: namely, the expansion and consolidation of our position as a leading reinsurance group of above-average profitability. The focus here is on generating profitable growth and a sustained, better-than-average return for our shareholders on their capital. In order to ensure that the risk associated with our portfolio remains calculable and that exceptional major losses cannot take an unduly heavy toll on the result, we continue to attach great importance to our risk management. Given the accumulation of natural catastrophe events recorded this year, I am thoroughly satisfied as far as our own burden of major losses is concerned. Our risk management has proven its resilience.

I would now like to turn to the development of our two business groups and our investment portfolio:

In non-life reinsurance the gradual hardening that we had already observed on the markets in connection with the renewals as at 1 April 2011 continued in the treaty renewals as at 1 July 2011. Prices for catastrophe covers under programmes that had been spared losses nevertheless continued to fall short of expectations. The need for price increases in this area too was reaffirmed by reinsurers at the industry gatherings in Monte Carlo, Baden-Baden and the United States in September and October. The prevailing uncertainties on financial markets combined with the low interest rate level and the associated challenge of generating sufficient investment income should prompt considerable discipline on the technical pricing side.

All in all, we anticipate stable to rising demand for reinsurance protection – not least due also to the adoption of risk-based solvency systems such as Solvency II in Europe. Adjustments to the models for natural catastrophe exposures should also be conducive to further growth.

In spite of the substantial major losses recorded in the first quarter, we succeeded in generating Group net income of EUR 295 million in non-life reinsurance as at 30 September 2011. Bearing in mind that the major loss burden after the first nine months still exceeds our expectations by EUR 343 million, this result is thoroughly gratifying overall. It demonstrates the underlying favourable development of our non-life portfolio. This is all the more true in view of the fact that in the third quarter the performance of inflation swaps taken out for hedging purposes had a markedly negative impact on the result. Effects in the first quarter, namely tax refunds and a positive run-off of our loss reserves, helped to boost profitability.

With Group net income of EUR 113 million, the result in life and health reinsurance fell somewhat short of our expectations. The adverse conditions on capital markets hit investment income in life and health reinsurance particularly hard in the third quarter: the widening of credit spreads on bond markets was reflected in a negative performance of the derivative recognised in connection with deposits held for our account by US clients. The result was further impacted by unfavourable movements in exchange rates. Nevertheless, these negative influences were largely offset by a pleasing business experience, most notably in the United Kingdom, Germany, Scandinavia, France and Asian markets.

Despite the turmoil on international capital markets we are thoroughly satisfied with the performance of our investments. This is, of course, due in part to the fact our exposure to listed equities has been very slight since the first quarter – as a consequence of which virtually no write-downs have had to be taken. Our policy on bonds continues to be geared towards a diversified portfolio. The geographical spread of our government bonds again remained largely unchanged in the third quarter. Relative to our total asset portfolio, our exposure to countries where credit spreads are higher remains low; our portfolio does not contain any Greek government bonds. Our ordinary income came in well above the level of the corresponding period of the previous year. In response to the low level of interest rates we realised gains in the third quarter, thereby offsetting the negative effects of our asset holdings measured at fair value through profit or loss. Against the backdrop of a challenging capital market climate, we are – in relative terms – highly satisfied with our net investment income of EUR 951 million. This produced an average return of 3.6 percent for our portfolio of assets under own management.

As already mentioned, I can report to you, our valued shareholders, that we continue to expect Group net income of at least EUR 500 million to be attainable for the 2011 financial year. This guidance allows for major loss expenditure that does not exceed the expected level as well as investment income that is not impacted by any adverse special effects.

Depending on the development of the underwriting result and IFRS equity in the fourth quarter we aim to pay a dividend for the 2011 financial year which could even exceed 40% of Group net income.

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

Yours sincerely,

Ulrich Wallin
Chairman of the Executive Board

Boards and officers

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Burgwedel
Chairman

Dr. Klaus Sturany[1,3]
Dortmund
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Wolf-Dieter Baumgartl[1,2,3]
Berg

Uwe Kramp[4]
Hannover

Karl Heinz Midunsky[3]
(until 3 May 2011)
Gauting

Ass. jur. Otto Müller[4]
Hannover

Dr. Andrea Pollak
(from 3 May 2011)
Vienna, Austria

Dr. Immo Querner
Hannover

Dr. Erhard Schipporeit[2]
Hannover

Gert Wächtler[4]
Burgwedel

Executive Board (Vorstand)

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Hannover
Chairman

André Arrago
Hannover

Dr. Wolf Becke
Hannover

Jürgen Gräber
Völksen

Dr. Klaus Miller
Munich

Dr. Michael Pickel
Hannover

Roland Vogel
Wennigsen

1 Member of the Standing Committee
2 Member of the Finance and Audit Committee
3 Member of the Nomination Committee
4 Staff representative

Business development

The business development in non-life reinsurance in the third quarter was satisfactory. Although the major loss expenditure came in below the expected level, the technical result for the full nine months is still overshadowed by the strains from the severe natural disasters in the first quarter. The performance of the inflation swaps taken out for hedging purposes also adversely impacted the result in the third quarter.

The result in life and health reinsurance as at 30 September 2011 did not quite match up to expectations. The third-quarter performance was affected by the difficult situation on the capital markets. Our underwriting business nevertheless fared well, especially in European and Asian markets.

Gross written premium in total business increased by 6.0% as at 30 September 2011 to reach EUR 9.1 billion (EUR 8.6 billion). At constant exchange rates growth would have come in at 8.1%. The level of retained premium was virtually unchanged at 90.7% (91.0%). Net premium climbed 5.5% to EUR 7.9 billion (EUR 7.5 billion).

The development of our investments in the first nine months of the year was highly satisfactory despite the challenging market conditions. The portfolio of assets under own management continued to grow, reaching EUR 27.1 billion (EUR 25.4 billion) as at 30 September 2011. Despite the persistently low interest rate level, ordinary investment income excluding interest on deposits was comfortably higher than in the comparable period at EUR 712.0 million (EUR 655.1 million). Interest on deposits also climbed to EUR 247.2 million (EUR 223.7 million). The unrealised losses on our asset holdings recognised at fair value through profit or loss totalled EUR 70.0 million (EUR 93.6 million). Our net investment income consequently improved on the corresponding period of the previous year, amounting to EUR 950.8 million (EUR 872.2 million) as at 30 September 2011.

The operating profit (EBIT) fell short of the strong performance in the comparable period (EUR 862.0 million) – which had been influenced by positive special effects – to stand at EUR 487.8 million, reflecting the heavy burden of major losses in the first quarter and the profit decline in life and health reinsurance. Group net income as at 30 September 2011 totalled EUR 381.7 million (EUR 582.0 million). Earnings per share came in at EUR 3.16 (EUR 4.83).

Shareholders' equity was further boosted to EUR 4.7 billion (EUR 4.5 billion). The annualised return on equity stood at 11.1% (19.0%).

Non-life reinsurance

Business developed broadly to our satisfaction in non-life reinsurance. The situation on the international reinsurance markets is favourable on the whole. Owing to the massive scale of the natural disasters in the first quarter, the treaty renewals during the year saw the anticipated sharp surges in rates, especially under programmes that had suffered losses. In Australia and New Zealand, where the bulk of treaties are traditionally renewed as at 1 July, appreciably rate increases and improved conditions were booked on the back of the heavy losses attributable to natural disasters. The 1 June / 1 July renewals in our target market of North America passed off favourably, albeit not without qualifications. In US catastrophe business, for example, rate increases of 5% to 15% were obtained. Casualty covers, on the other hand, failed to see any significant trend reversal towards market hardening, although prices have now bottomed out.

The gross premium for our non-life reinsurance business group increased by 8.2% as at 30 September 2011 relative to the corresponding period of the previous year to stand at EUR 5.2 billion (EUR 4.8 billion). At constant exchange rates, especially against the US dollar, growth would have been as much as 10.5%. The level of retained premium remained virtually unchanged at 90.3% (90.5%). Net premium earned climbed 8.0% to EUR 4.4 billion (EUR 4.1 billion).

The third quarter passed off relatively moderately in terms of major losses; at EUR 118.0 million the strain was below the expected level of EUR 165 million. The largest single loss for our account was Hurricane "Irene", with a net burden of EUR 20.2 million. In view of the exceptionally heavy major loss incidence in the first quarter, however, the net burden of catastrophe losses and major claims as at 30 September 2011 totalled EUR 743.2 million – a figure still well in excess of the corresponding period of the previous year (EUR 554.1 million). The combined ratio stood at 105.0% (99.0%), or a very good 95.2% for the third quarter in isolation. The net underwriting result came in at –EUR 229.2 million (EUR 32.4 million).

The operating profit (EBIT) in non-life reinsurance fell to EUR 332.9 million (EUR 633.4 million) as at 30 September 2011 on account of the heavy burden of major losses in the first quarter as well as the negative performance of the inflation swaps in the third quarter. The very healthy profit in the comparable period of the previous year was, however, also influenced by a positive special effect. Group net income stood at EUR 295.0 million (EUR 437.7 million), producing earnings per share of EUR 2.45 (EUR 3.63).

Key figures for non-life reinsurance — in EUR million

	2011					2010	
	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	3,544.5	1,676.0	+7.9%	5,220.5	+8.2%	1,553.2	4,824.9
Net premium earned	2,848.6	1,542.6	+8.0%	4,391.2	+8.0%	1,428.6	4,066.8
Underwriting result	(299.4)	70.3		(229.2)		25.2	32.4
Net investment income (loss)	402.5	178.6	+5.8%	581.1	+21.7%	168.7	477.4
Operating profit/loss (EBIT)	151.2	181.8	–39.3%	332.9	–47.4%	299.6	633.4
Group net income (loss)	164.1	130.9	–41.2%	295.0	–32.6%	222.5	437.7
Earnings per share in EUR	1.36	1.09	–41.2%	2.45	–32.6%	1.85	3.63
Combined ratio[1]	110.3%	95.2%		105.0%		98.2%	99.0%
Retention	90.0%	91.1%		90.3%		91.4%	90.5%

1 Including expenses on funds withheld and contract deposits

Life and health reinsurance

The international life and health reinsurance markets continue to offer us attractive business opportunities. The demographic trend in mature insurance markets such as the United States, United Kingdom, Germany, France and Australia is generating heightened awareness overall of the need for provision. This is of particular benefit to providers of annuity and health insurance products. Yet in leading emerging markets such as China, India and Brazil demand for individual protection against biometric risks is also rising.

We support our clients with tailored reinsurance solutions for their management of capital, liquidity and risk. We are thoroughly satisfied with the development of our business in the United Kingdom, above all in the area of longevity risks. The reinsurance of enhanced annuities taken out with a single premium payment continues to account for a large share of UK annuity business. In the current financial year we have continued to expand our assumption of blocks of existing pension obligations from pension funds and primary insurers.

Gross written premium in life and health reinsurance climbed 3.0% to EUR 3.8 billion (EUR 3.7 billion) as at 30 September 2011. At constant exchange rates growth would have come in at 5.0%. Net premium earned increased by 2.4% to EUR 3.5 billion (EUR 3.4 billion).

The development of the result in life and health reinsurance did not entirely live up to our expectations. The further widening of credit spreads on bond markets resulted in a strain of around EUR 70 million on deposits held by US clients for Hannover Re's account. What is more, we incurred adverse currency effects of –EUR 11.8 million in the first nine months, contrasting with a positive effect of EUR 31.8 million in the corresponding period of the previous year.

The operating profit (EBIT) of EUR 138.6 million (EUR 213.6 million) generated despite the aforementioned negative effects is a testament to the good quality and excellent diversification of our book of life and health reinsurance. In most markets the business development for our company was – as anticipated – pleasing. The EBIT margin stood at 4.0% (6.3%). The Group net income of EUR 113.1 million fell well short of the result for the corresponding period of the previous year (EUR 170.2 million). Earnings per share amounted to EUR 0.94 (EUR 1.41).

Key figures for life and health reinsurance — in EUR million

	2011					2010	
	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	2,499.8	1,343.8	+1.9%	3,843.6	+3.0%	1,319.3	3,730.4
Net premium earned	2,297.7	1,189.2	–2.8%	3,486.9	+2.4%	1,223.4	3,404.9
Net investment income	250.7	99.3	–29.7%	350.1	–5.3%	141.4	369.7
Operating profit/loss (EBIT)	78.4	60.2	–11.6%	138.6	–35.1%	68.2	213.6
Group net income (loss)	73.9	39.2	–30.5%	113.1	–33.5%	56.4	170.2
Earnings per share in EUR	0.61	0.33	–30.5%	0.94	–33.5%	0.47	1.41
Retention	92.1%	89.4%		91.1%		93.3%	91.5%
EBIT margin[1]	3.4%	5.1%		4.0%		5.6%	6.3%

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

Investments

Credit spreads in the area of European and US corporate bonds increased across all rating classes. US treasury securities as well as German and French government bonds, on the other hand, saw in some cases sharp yield declines across all duration ranges. The picture as regards the countries on the Eurozone periphery – presently the focus of so much attention – was a mixed one. While Spanish and Irish bonds recovered markedly in some instances as the year progressed, their Italian and Portuguese counterparts recorded significant yield increases. In total, the unrealised gains on our fixed-income securities rose to EUR 811.8 million (EUR 497.1 million). Our portfolio of assets under own management continued to grow to EUR 27.1 billion (EUR 25.4 billion).

Despite the sustained low level of interest rates, ordinary investment income excluding interest on deposits was higher than in the corresponding period of the previous year at EUR 712.0 million (EUR 655.1 million). Interest on deposits also increased to EUR 247.2 million (EUR 223.7 million).

Impairments of altogether EUR 20.9 million (EUR 20.0 million) were taken. This includes impairments of EUR 8.0 million on alternative investments and EUR 4.7 million on fixed-income securities. Scheduled depreciation on directly held real estate climbed as anticipated to EUR 6.5 million (EUR 5.2 million), a reflection of the further stepping up of our involvement in this area. The total volume of write-downs contrasted with write-ups of EUR 16.9 million (EUR 14.4 million), which were attributable to fixed-income securities.

We recognise a derivative for the credit risk associated with special life reinsurance treaties (ModCo) under which securities deposits are held by cedants for our account; the performance of this derivative during the reporting period gave rise to unrealised losses of EUR 69.9 million which were taken as a charge against investment income.

Altogether, the unrealised losses on our assets recognised at fair value through profit or loss amounted to EUR 70.0 million – after losses of EUR 93.6 million in the corresponding quarter of the previous year. The inflation swaps taken out in 2010 to hedge part of the inflation risks associated with the loss reserves in our technical account gave rise to unrealised losses of EUR 11.3 million (EUR 89.4 million), which were recognised in income. Their hedging effect diminishes slightly over time owing to their fixed maturity. In the first quarter, therefore, we took out further inflation swaps to the extent necessary in order to restore the original protective effect. The changes in the fair values of the inflation swaps are recognised in income as a derivative pursuant to IAS 39.

With interest rates in some cases at historically low levels, we realised gains in the third quarter; the net balance of realised gains consequently stood at EUR 113.4 million (EUR 135.2 million).

Thanks to the increased ordinary investment income and the reduction of unrealised losses on our assets recognised at fair value through profit or loss, our net investment income comfortably surpassed the previous year's level. It amounted to EUR 950.8 million (EUR 872.2 million) in the period under review. This produced an average return of 3.6% for our portfolio of assets under own management.

Net investment income — in EUR million

	2011					2010	
	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]	447.9	264.1	+23.5%	712.0	+8.7%	213.9	655.1
Results from participation in associated companies	3.4	1.7	+55.5%	5.1	+47.1%	1.1	3.5
Appreciation	15.0	1.9	–26.9%	16.9	+17.3%	2.6	14.4
Realised gains/losses	43.9	69.4	+19.9%	113.4	–16.2%	57.9	135.2
Impairments[2]	16.5	4.4	+33.3%	20.9	+4.4%	3.3	20.0
Unrealised gains/losses[3]	53.7	(123.7)		(70.0)	–25.2%	(7.5)	(93.6)
Investment expenses	35.9	17.0	+3.6%	53.0	+14.8%	16.4	46.1
Net investment income from assets under own management	**511.5**	**192.1**	**–22.6%**	**703.6**	**+8.5%**	**248.3**	**648.5**
Net investment income from funds withheld	161.3	85.9	+18.6%	247.2	+10.5%	72.5	223.7
Net investment income	**672.8**	**278.0**	**13.3%**	**950.8**	**9.0%**	**320.8**	**872.2**

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

Risk report

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

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

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

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

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

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

Material risks

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

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

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

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

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

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

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

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

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

Development of combined and catastrophe ratio in %

	Q1–3 2011	2010	2009	2008	2007	2006	2005[1]	2004[1,2]	2003[1,2]	2002[1,2]	2001[1,2]
Combined ratio (non-life reinsurance)	105.0	98.2	96.6	95.4	99.7	100.8	112.8	97.2	96.0	96.3	116.5
thereof major losses[3]	16.9	12.3	4.6	10.7	6.3	2.3	26.3	8.3	1.5	5.2	23.0

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

Scenarios for changes in the fair value of material investment positions			in EUR million
	Scenario	Portfolio change on a fair value basis	Change in equity before tax
Equity securities	Share prices –10%	–4.0	–4.0
	Share prices –20%	–8.1	–8.1
	Share prices +10%	+4.0	+4.0
	Share prices +20%	+8.1	+8.1
Fixed-income securities	Yield increase +50 basis points	–525.6	–380.0
	Yield increase +100 basis points	–1,024.5	–742.3
	Yield decrease –50 basis points	+546.5	+395.3
	Yield decrease –100 basis points	+1,116.4	+808.1

Yet credit risks are relevant to our investments and in life and health reinsurance, too, because we prefinance acquisition costs for our ceding companies. Our clients, retrocessionaires and broker relationships as well as our investments are therefore carefully evaluated and limited in light of credit considerations and are constantly monitored and controlled within the scope of our system of limits and thresholds.

In terms of the Hannover Re Group's major companies, EUR 232.1 million (7.7%) of our accounts receivable from reinsurance business totalling EUR 3,010.3 million were older than 90 days as at 30 September 2011, the average default rate over the past three years was 0.2%.

Credit risks from investments may arise out of the risk of a failure to pay (interest and/or capital repayment) or a change in the credit status (rating downgrade) of issuers of securities. We attach equally vital importance to exceptionally broad diversification as we do to credit assessment conducted on the basis of the quality criteria set out in the investment guidelines. The measurement and monitoring mechanisms that have been put in place result in a prudent, broadly diversified investment strategy. This is reflected inter alia in the fact that exposures to government bonds or instruments backed by government guarantees of EU countries that are currently under close scrutiny total just EUR 401.6 million on a fair value basis within our portfolio of assets under own management. This is equivalent to a share of 1.5%. The amounts attributable to individual countries are as follows: Spain EUR 319.1 million, Ireland EUR 37.7 million, Italy EUR 25.4 million and Portugal EUR 19.4 million. No impairments had to be taken on these holdings. Our assessment is based on the safeguards afforded on the European level (so-called European Stability Mechanism). Our portfolio no longer contains any bonds issued by Greece.

Rating structure of our fixed-income securities[1]

Rating classes	Government bonds		Securities issued by semi-governmental entities		Corporate bonds		Covered bonds/asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	38.0	2,003.4	55.5	3,462.7	3.1	239.8	75.9	3,406.2
AA	50.8	2,673.6	40.9	2,548.1	17.4	1,365.6	15.7	703.4
A	6.4	338.7	2.9	182.0	54.4	4,268.6	1.2	53.9
BBB	3.2	168.1	0.4	26.7	22.3	1,750.8	2.9	128.8
< BBB	1.6	82.6	0.3	17.0	2.8	224.0	4.3	195.5
Total	**100.0**	**5,266.4**	**100.0**	**6,236.5**	**100.0**	**7,848.8**	**100.0**	**4,487.8**

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

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

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

Assessment of the risk situation

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

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

Outlook

In light of the market opportunities in our two business groups of non-life and life/health reinsurance and given our very good positioning, it is our expectation that we shall achieve our growth and profit targets for the full 2011 financial year. At constant exchange rates, our total net premium volume is expected to grow by 7% to 8%.

In non-life reinsurance the bottom line is that market conditions remain good. In view of the heavy losses suffered by the (re)insurance industry from natural catastrophe events (especially in the first quarter of 2011), it is our expectation that the market hardening observed across the board – albeit to varying degrees – in the renewals during the year will be sustained. This tendency was underscored not only by the industry gatherings in September in Monte Carlo and in October in Baden-Baden and the United States, but also by the recent round of renewals completed last month in North America. In aviation business, too – a line in which Hannover Re ranks among the market leaders – we continue to see good prospects; this is especially true of the so-called BRIC markets.

In total non-life reinsurance we anticipate net premium growth of 8% to 10% in the original currencies in the current financial year.

The prospects in international life and health reinsurance remain favourable. A particularly significant factor here is the demographic trend in established insurance markets such as the United States, United Kingdom and Germany. Yet rising demand can also be observed in the markets of Eastern Europe and Asia. The increasing ageing of the population has proven beneficial to providers of annuity and health insurance. In major markets for our company, such as the United States, risk-oriented reinsurance solutions are taking on greater importance. Financially oriented reinsurance solutions, i.e. models designed to strengthen the equity base of primary insurers, continue to enjoy sustained demand. Business involving longevity risks also offers healthy growth opportunities, particularly in the United Kingdom; this applies both to enhanced annuities and the assumption of risks associated with existing pension funds. For the current financial year we are looking to grow net premium in life and health reinsurance by more than 5% at constant exchange rates.

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

In view of our very good positioning and the advantageous situation on reinsurance markets, we currently expect to generate Group net income in the order of at least EUR 500 million. This is subject to the premise that further major losses do not significantly exceed the expected level and also assumes that there are no drastic downturns on capital markets.

Depending on the development of the underwriting result and IFRS equity in the fourth quarter we aim to pay a dividend for the 2011 financial year which could even exceed 40% of Group net income.

Quarterly financial report of the Hannover Re Group

Consolidated balance sheet

Assets in EUR thousand	30.9.2011	31.12.2010
Fixed-income securities – held to maturity	2,742,283	3,028,018
Fixed-income securities – loans and receivables	3,485,665	2,314,429
Fixed-income securities – available for sale	17,451,256	15,877,634
Fixed-income securities – at fair value through profit or loss	160,254	217,597
Equity securities – available for sale	40,457	536,755
Other financial assets – at fair value through profit or loss	9,847	54,756
Real estate and real estate funds	505,941	394,087
Investments in associated companies	132,909	127,644
Other invested assets	931,170	841,896
Short-term investments	1,067,678	1,570,502
Cash	535,337	447,753
Total investments and cash under own management	**27,062,797**	**25,411,071**
Funds withheld	12,823,373	11,920,725
Contract deposits	104,391	715,353
Total investments	**39,990,561**	**38,047,149**
Reinsurance recoverables on unpaid claims	1,527,082	1,025,332
Reinsurance recoverables on benefit reserve	335,307	347,069
Prepaid reinsurance premium	143,403	83,224
Reinsurance recoverables on other technical reserves	6,485	1,831
Deferred acquisition costs	1,906,431	1,834,496
Accounts receivable	3,010,297	2,841,303
Goodwill	58,427	45,773
Deferred tax assets	657,754	622,136
Other assets	384,195	336,443
Accrued interest and rent	4,833	11,182
Assets held for sale	–	1,529,355
Total assets	**48,024,775**	**46,725,293**

Liabilities in EUR thousand	30.9.2011	31.12.2010
Loss and loss adjustment expense reserve	19,884,221	18,065,395
Benefit reserves	9,821,655	8,939,190
Unearned premium reserve	2,269,174	1,910,422
Other technical provisions	200,267	184,528
Funds withheld	625,339	1,187,723
Contract deposits	4,699,308	4,704,267
Reinsurance payable	850,366	733,473
Provisions for pensions	86,020	81,657
Taxes	138,513	286,394
Provision for deferred taxes	1,738,108	1,632,527
Other liabilities	458,114	443,932
Long-term debt and subordinated capital	1,941,205	2,056,797
Liabilities related to assets held for sale	–	1,381,120
Total liabilities	**42,712,290**	**41,607,425**
Shareholders’ equity		
Common shares	120,597	120,597
Nominal value: 120,597 Conditional capital: 60,299		
Additional paid-in capital	724,562	724,562
Common shares and additional paid-in capital	**845,159**	**845,159**
Cumulative other comprehensive income		
Unrealised gains and losses on investments	503,840	372,094
Cumulative foreign currency translation adjustment	(81,609)	(52,954)
Other changes in cumulative other comprehensive income	(23,787)	(6,450)
Total other comprehensive income	**398,444**	**312,690**
Retained earnings	3,455,159	3,351,116
Equity attributable to shareholders of Hannover Re	**4,698,762**	**4,508,965**
Non-controlling interests	613,723	608,903
Total shareholders' equity	**5,312,485**	**5,117,868**
Total liabilities	**48,024,775**	**46,725,293**

Consolidated statement of income

as at 30 September 2011

Figures in EUR thousand	1.7.–30.9.2011	1.1.–30.9.2011	1.7.–30.9.2010	1.1.–30.9.2010
Gross written premium	3,019,883	9,064,711	2,872,261	8,554,587
Ceded written premium	292,308	846,328	222,033	772,383
Change in gross unearned premium	(10,079)	(397,315)	(6,015)	(384,161)
Change in ceded unearned premium	14,516	58,864	7,309	73,148
Net premium earned	**2,732,012**	**7,879,932**	**2,651,522**	**7,471,191**
Ordinary investment income	264,101	712,017	213,884	655,085
Profit/loss from investments in associated companies	1,711	5,106	1,100	3,470
Realised gains and losses on investments	69,409	113,359	57,905	135,224
Unrealised gains and losses on investments	(123,684)	(70,003)	(7,462)	(93,647)
Total depreciation, impairments and appreciation of investments	2,411	3,920	662	5,535
Other investment expenses	17,035	52,950	16,443	46,108
Net income from investments under own management	**192,091**	**703,609**	**248,322**	**648,489**
Income/expense on funds withheld and contract deposits	85,905	247,173	72,451	223,662
Net investment income	**277,996**	**950,782**	**320,773**	**872,151**
Other technical income	1,202	6,440	1,547	9,523
Total revenues	**3,011,210**	**8,837,154**	**2,973,842**	**8,352,865**
Claims and claims expenses	1,890,208	5,941,024	1,863,661	5,311,537
Change in benefit reserves	148,051	441,064	142,588	429,662
Commission and brokerage, change in deferred acquisition costs	594,967	1,686,394	602,353	1,646,987
Other acquisition costs	2,196	8,137	2,754	9,456
Other technical expenses	2,302	6,154	10,164	32,269
Administrative expenses	62,476	216,934	64,452	203,791
Total technical expenses	**2,700,200**	**8,299,707**	**2,685,972**	**7,633,702**
Other income and expenses	(69,998)	(49,661)	83,433	142,801
Operating profit/loss (EBIT)	**241,012**	**487,786**	**371,303**	**861,964**
Interest on hybrid capital	24,397	74,158	20,608	58,672
Net income before taxes	**216,615**	**413,628**	**350,695**	**803,292**
Tax expense (income)	41,971	(12,260)	32,582	148,911
Net income	**174,644**	**425,888**	**318,113**	**654,381**
thereof				
Non-controlling interest in profit and loss	11,434	44,220	46,739	72,374
Group net income	**163,210**	**381,668**	**271,374**	**582,007**
Earnings per share				
Basic earnings per share in EUR	1.35	3.16	2.25	4.83
Diluted earnings per share in EUR	1.35	3.16	2.25	4.83

Consolidated statement of comprehensive income

as at 30 September 2011

Figures in EUR thousand	1.7.–30.9.2011	1.1.–30.9.2011	1.7.–30.9.2010	1.1.–30.9.2010
Net income	**174,644**	**425,888**	**318,113**	**654,381**
Unrealised gains and losses on investments				
Gains (losses) recognised directly in equity	206,228	274,967	176,482	557,366
Transferred to the consolidated statement of income	(59,591)	(92,193)	(64,796)	(137,163)
Tax income (expense)	(32,633)	(50,732)	(19,270)	(90,377)
	114,004	**132,042**	**92,416**	**329,826**
Currency translation				
Gains (losses) recognised directly in equity	104,642	(54,703)	(160,635)	114,001
Transferred to the consolidated statement of income	23,098	23,098	(4,764)	2,616
Tax income (expense)	(13,464)	733	15,446	(6,969)
	114,276	**(30,872)**	**(149,953)**	**109,648**
Changes from the measurement of associated companies				
Gains (losses) recognised directly in equity	–	–	–	–
	–	**–**	**–**	**–**
Other changes				
Gains (losses) recognised directly in equity	(20,190)	(24,648)	(2,379)	(20,867)
Tax income (expense)	6,094	7,311	885	7,641
	(14,096)	**(17,337)**	**(1,494)**	**(13,226)**
Total income and expense recognised directly in equity				
Gains (losses) recognised directly in equity	290,680	195,616	13,468	650,500
Transferred to the consolidated statement of income	(36,493)	(69,095)	(69,560)	(134,547)
Tax income (expense)	(40,003)	(42,688)	(2,939)	(89,705)
	214,184	**83,833**	**(59,031)**	**426,248**
Changes in consolidated group	14	14	(16)	(16)
Total recognised income and expense	**388,842**	**509,735**	**259,066**	**1,080,613**
thereof:				
Attributable to non-controlling interests	14,713	42,313	41,661	84,139
Attributable to shareholders of Hannover Re	374,129	467,422	217,405	996,474

Consolidated statement of changes in shareholders' equity

Figures in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)			Retained earnings	Non-controlling interests	Share-holders' equity
			Currency translation	Unrealised gains/losses	Other			
Balance as at 1.1.2010	**120,597**	**724,562**	**(224,084)**	**241,569**	**(4,728)**	**2,856,529**	**542,112**	**4,256,557**
Changes in ownership interest with no change of control status	–	–	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**
Balance as at 1.1.2011	**120,597**	**724,562**	**(52,954)**	**372,094**	**(6,450)**	**3,351,116**	**608,903**	**5,117,868**
Changes in ownership interest with no change of control status	–	–	–	–	–	128	183	311
Capital increases/additions	–	–	–	–	–	–	29	29
Capital repayments	–	–	–	–	–	–	(8)	(8)
Acquisition/disposal of treasury shares	–	–	–	–	–	(380)	–	(380)
Total income and expense recognised after tax	–	–	(28,655)	131,746	(17,337)	381,668	42,313	509,735
Dividends paid	–	–	–	–	–	(277,373)	(37,697)	(315,070)
Balance as at 30.9.2011	**120,597**	**724,562**	**(81,609)**	**503,840**	**(23,787)**	**3,455,159**	**613,723**	**5,312,485**

Consolidated cash flow statement

as at 30 September 2011

Figures in EUR thousand	1.1.–30.9.2011	1.1.–30.9.2010
I. Cash flow from operating activities		
Net income	425,888	654,381
Appreciation/depreciation	14,042	(37,440)
Net realised gains and losses on investments	(113,359)	(135,224)
Amortisation of investments	39,412	5,172
Changes in funds withheld	(1,554,656)	(548,948)
Net changes in contract deposits	645,922	405,943
Changes in prepaid reinsurance premium (net)	338,533	308,981
Changes in tax assets/provisions for taxes	(137,340)	(24,510)
Changes in benefit reserve (net)	944,892	170,220
Changes in claims reserves (net)	1,456,189	887,672
Changes in deferred acquisition costs	(105,550)	70,735
Changes in other technical provisions	17,828	46,678
Changes in clearing balances	(77,619)	(338,867)
Changes in other assets and liabilities (net)	106,091	(50,741)
Cash flow from operating activities	**2,000,273**	**1,414,052**

Figures in EUR thousand	**1.1.–30.9.2011**	1.1.–30.9.2010
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	265,628	21,870
Fixed-income securities – loans and receivables		
Maturities, sales	478,863	677,036
Purchases	(1,639,580)	(497,891)
Fixed-income securities – available for sale		
Maturities, sales	6,234,632	6,615,742
Purchases	(7,788,083)	(7,725,676)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	41,533	42,963
Purchases	(300)	(8,444)
Equity securities – available for sale		
Sales	727,100	976
Purchases	(280,383)	(158,383)
Equity securities – at fair value through profit or loss		
Sales	281	1,737
Purchases	(51)	–
Other invested assets		
Sales	43,223	45,235
Purchases	(93,589)	(96,360)
Affiliated companies and participating interests		
Sales	140,370	76
Purchases	(18,164)	(4,837)
Real estate and real estate funds		
Sales	6,063	2,868
Purchases	(109,501)	(139,200)
Short-term investments		
Changes	505,150	(473,463)
Other changes (net)	(9,251)	(7,653)
Cash flow from investing activities	**(1,496,059)**	**(1,703,404)**

Figures in EUR thousand	1.1.–30.9.2011	1.1.–30.9.2010
III. Cash flow from financing activities		
Contribution from capital measures	–	97
Payment on capital measures	(3,336)	–
Structural change without loss of control	312	7,005
Dividends paid	(315,070)	(283,903)
Proceeds from long-term debts	30,711	548,612
Repayment of long-term debts	(148,076)	(4,196)
Acquisition/disposal of treasury shares	(381)	(293)
Cash flow from financing activities	**(435,840)**	**267,322**
IV. Exchange rate differences on cash	**(8,264)**	**36,632**
Cash and cash equivalents at the beginning of the period	**475,227**	**457,412**
thereof cash and cash equivalents of disposal groups: 27,474		
Change in cash and cash equivalents (I.+II.+III.+IV.)	**60,110**	**14,602**
Cash and cash equivalents at the end of the period	**535,337**	**472,014**
thereof cash and cash equivalents of disposal groups	**–**	**–**
Cash and cash equivalents at the end of the period excluding disposal groups	**535,337**	**472,014**
Income taxes	(107,144)	(104,173)
Interest paid	(125,393)	(99,976)

Consolidated segmental report

Segmentation of assets in EUR thousand	Non-life reinsurance	
	30.9.2011	31.12.2010
Assets		
Held to maturity	2,474,378	2,724,546
Loans and receivables	3,446,564	2,259,375
Available for sale	12,037,096	11,725,861
At fair value through profit or loss	108,283	152,028
Other invested assets	1,542,511	1,330,693
Short-term investments	737,267	1,259,804
Cash	399,497	325,518
Total investments and cash under own management	**20,745,596**	**19,777,825**
Funds withheld	791,211	695,709
Contract deposits	–	–
Total investments	**21,536,807**	**20,473,534**
Reinsurance recoverables on unpaid claims	1,380,717	859,533
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	138,036	81,256
Reinsurance recoverables on other reserves	3,435	422
Deferred acquisition costs	445,010	362,080
Accounts receivable	2,048,789	1,805,883
Other assets in the segment	1,431,331	1,262,674
Assets held for sale	–	1,529,355
Total assets	**26,984,125**	**26,374,737**

Segmentation of technical and other liabilities in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	17,298,791	15,634,491
Benefit reserve	–	–
Unearned premium reserve	2,158,580	1,812,861
Provisions for contingent commissions	140,984	130,726
Funds withheld	289,458	218,084
Contract deposits	91,567	102,109
Reinsurance payable	525,990	456,496
Long-term liabilities	207,221	187,690
Other liabilities in the segment	1,517,449	1,564,020
Liabilities related to assets held for sale	–	1,381,120
Total	**22,230,040**	**21,487,597**

Life/health reinsurance		Consolidation		Total	
30.9.2011	31.12.2010	30.9.2011	31.12.2010	30.9.2011	31.12.2010
2,394	3,528	265,511	299,944	2,742,283	3,028,018
28,908	44,735	10,193	10,319	3,485,665	2,314,429
5,155,473	4,409,009	299,144	279,519	17,491,713	16,414,389
38,750	91,888	23,068	28,437	170,101	272,353
25,104	32,813	2,405	121	1,570,020	1,363,627
324,019	273,051	6,392	37,647	1,067,678	1,570,502
123,697	120,176	12,143	2,059	535,337	447,753
5,698,345	**4,975,200**	**618,856**	**658,046**	**27,062,797**	**25,411,071**
12,032,162	11,225,065	–	(49)	12,823,373	11,920,725
104,391	715,353	–	–	104,391	715,353
17,834,898	**16,915,618**	**618,856**	**657,997**	**39,990,561**	**38,047,149**
147,400	165,938	(1,035)	(139)	1,527,082	1,025,332
335,307	347,069	–	–	335,307	347,069
5,478	3,755	(111)	(1,787)	143,403	83,224
3,050	1,409	–	–	6,485	1,831
1,461,417	1,472,416	4	–	1,906,431	1,834,496
961,552	1,035,542	(44)	(122)	3,010,297	2,841,303
544,932	507,199	(871,054)	(754,339)	1,105,209	1,015,534
–	–	–	–	–	1,529,355
21,294,034	**20,448,946**	**(253,384)**	**(98,390)**	**48,024,775**	**46,725,293**
2,586,463	2,431,045	(1,033)	(141)	19,884,221	18,065,395
9,821,736	8,941,021	(81)	(1,831)	9,821,655	8,939,190
110,594	97,561	–	–	2,269,174	1,910,422
59,283	53,802	–	–	200,267	184,528
335,881	969,639	–	–	625,339	1,187,723
4,607,741	4,602,158	–	–	4,699,308	4,704,267
324,843	277,817	(467)	(840)	850,366	733,473
–	–	1,733,984	1,869,107	1,941,205	2,056,797
1,767,642	1,579,525	(864,336)	(699,035)	2,420,755	2,444,510
–	–	–	–	–	1,381,120
19,614,183	**18,952,568**	**868,067**	**1,167,260**	**42,712,290**	**41,607,425**

Consolidated segmental report

Segmental statement of income in EUR thousand	Non-life reinsurance	
	1.1.–30.9.2011	1.1.–30.9.2010
Gross written premium	5,220,497	4,824,900
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	5,220,497	4,824,900
Net premium earned	4,391,186	4,066,773
Net investment income	581,061	477,420
thereof		
Deposit interest and expenses	10,289	7,136
Claims and claims expenses	3,505,014	2,999,167
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	993,506	916,677
Administrative expenses	121,834	118,528
Other income and expenses	(18,949)	123,576
Operating profit/loss (EBIT)	**332,944**	**633,397**
Interest on hybrid capital	–	–
Net income before taxes	**332,944**	**633,397**
Taxes	(1,851)	127,103
Net income	**334,795**	**506,294**
thereof		
Non-controlling interest in profit or loss	39,792	68,639
Group net income	**295,003**	**437,655**

Life/health reinsurance		Consolidation		Total	
1.1.–30.9.2011	1.1.–30.9.2010	1.1.–30.9.2011	1.1.–30.9.2010	1.1.–30.9.2011	1.1.–30.9.2010
3,843,631	3,730,367	583	(680)	9,064,711	8,554,587
(583)	680	583	(680)	–	–
3,844,214	3,729,687	–	–	9,064,711	8,554,587
3,486,922	3,404,896	1,824	(478)	7,879,932	7,471,191
350,076	369,743	19,645	24,988	950,782	872,151
236,884	216,526	–	–	247,173	223,662
2,436,676	2,312,881	(666)	(511)	5,941,024	5,311,537
439,314	430,154	1,750	(492)	441,064	429,662
705,127	767,178	(4,388)	(4,666)	1,694,245	1,679,189
96,294	86,931	(1,194)	(1,668)	216,934	203,791
(20,941)	36,113	(9,771)	(16,888)	(49,661)	142,801
138,646	**213,608**	**16,196**	**14,959**	**487,786**	**861,964**
–	–	74,158	58,672	74,158	58,672
138,646	**213,608**	**(57,962)**	**(43,713)**	**413,628**	**803,292**
21,106	39,659	(31,515)	(17,851)	(12,260)	148,911
117,540	**173,949**	**(26,447)**	**(25,862)**	**425,888**	**654,381**
4,428	3,735	–	–	44,220	72,374
113,112	**170,214**	**(26,447)**	**(25,862)**	**381,668**	**582,007**

Notes

1. General reporting principles

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

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

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

The present consolidated quarterly financial statement was prepared by the Executive Board on 21 October 2011 and released for publication.

2. Accounting principles including major accounting policies

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

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

New accounting standards or accounting standards applied for the first time

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

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

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

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

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

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

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

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

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

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

The requirements of IFRS 10, 11 and 12 as well as the revised IAS 27 and 28 are to be applied to financial years beginning on or after 1 January 2013. All of these standards have still to be ratified by the EU.

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

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

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

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

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

Standard / Interpretation	Applicable to financial years beginning on or after	Adoption by European Commission
Amendments to IFRS 7 Financial Instruments: Disclosures	1 July 2011	Pending
Deferred tax: Recovery of Underlying Assets (Amendments to IAS 12)	1 January 2012	Pending

Key exchange rates

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

Key exchange rates				1 EUR corresponds to:
	30.9.2011	31.12.2010	1.1.–30.9.2011	1.1.–30.9.2010
	Mean rate of exchange on the balance sheet date		Average rate of exchange	
AUD	1.3890	1.3068	1.3525	1.4776
BHD	0.5087	0.4997	0.5312	0.4999
CAD	1.4110	1.3259	1.3813	1.3815
CNY	8.6117	8.7511	9.1514	9.0193
GBP	0.8657	0.8585	0.8752	0.8603
HKD	10.5129	10.3146	10.9713	10.3031
KRW	1,593.6819	1,501.6346	1,547.4153	1,547.0884
MYR	4.3077	4.0869	4.2747	4.3269
SEK	9.2583	9.0119	9.0061	9.6719
USD	1.3493	1.3254	1.4091	1.3261
ZAR	10.9499	8.7907	9.8247	9.8600

Changes in accounting policies

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

In accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the balance sheet items "funds withheld" (assets side) and "contract deposits" (liabilities side) are each reduced by EUR 1,429.2 million relative to the figures shown in the opening balance sheet as at 1 January 2010.

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

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

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

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

Retention of the parameters and methods used until 31 December 2010 would have reduced the impairments in the period under review by EUR 3.1 million and increased the write-ups by EUR 0.7 million. The amount recognised for the fair values of the specified instruments would have been EUR 1.4 million higher. The effect of this adjustment of the calculation logic in future reporting periods could only have been determined with a disproportionately high effort.

Segmentation

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

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

3. Consolidated companies and consolidation principles

Acquisitions and new formations

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

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

Funis GmbH & Co. KG, a wholly owned subsidiary of Hannover Re, acquired roughly 75% of the shares in Integra Insurance Solutions Ltd. for a purchase price of GBP 7.5 million effective 18 August 2011. Incidental acquisition costs of EUR 0.1 million were recognised as other expenses in the statement of income. As an agency, Integra mediates insurance business to International Insurance Company of Hannover Ltd., which is also a company belonging to the Hannover Re Group. In addition, a contingent purchase price payment of at most GBP 11.3 million was agreed; this is conditional principally on the volume and profitability of the business acquired by Integra until 2014. Based on the probable business experience, the fair value of the contingent purchase price payments at the time of acquisition was around GBP 5.1 million, thereby increasing the difference arising in the context of initial consolidation.

The shareholders' equity of Integra at the time of acquisition amounted to GBP 0.1 million. The company's assets are comprised largely of accounts receivable and payable. In the context of allocation of the purchase price, no effects arose out of the measurement of the assumed assets, nor was it possible to identify any intangible assets or liabilities that had hitherto not been brought to account. For this reason, the difference of GBP 12.6 million arising in the context of initial consolidation was recognised in full as goodwill. In the period of its affiliation with the Group Integra generated a positive result after tax of GBP 0.1 million.

Major disposals

On 21 December 2010 Hannover Re reached agreement on the sale of the operational companies of its US subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton, Bermuda, a company specialising in the run-off of insurance business. The transaction received the customary regulatory approvals on 8 July 2011; closing and deconsolidation subsequently took place on 12 July 2011. Hannover Re holds all shares of CIGI indirectly through the intermediate holding company Hannover Finance, Inc. (HFI), Wilmington, which is also included in full in the consolidated financial statement. The agreed purchase price is USD 219.1 million.

Pursuant to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" the subsidiaries of CIGI constituted a disposal group, which was to be measured at the lower of the carrying amount and fair value less costs to sell. The measurement of the disposal group gave rise to income of EUR 7.9 million in the current financial year. The income was recognised in other income and expenses.

The cumulative other comprehensive income of –EUR 23.1 million (31 December 2010: –EUR 28.8 million) arising out of the currency translation of the assets and liabilities belonging to the disposal group was realised in the context of deconsolidation. Profits from the measurement of available-for-sale financial assets were realised in an amount of EUR 5.2 million (31 December 2010: EUR 2.5 million) upon deconsolidation.

In compliance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" we recognised the assets and liabilities of the disposal group in corresponding balance sheet items that were distinct from continuing operations. Transactions between the disposal group and the Group's continuing operations were entirely eliminated in conformity with IAS 27 "Consolidated and Separate Financial Statements".

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

Assets and liabilities of the disposal group in EUR thousand	12.7.2011	31.12.2010
Assets		
Total investments	577,503	643,060
Cash	15,679	27,474
Reinsurance recoverables on unpaid claims	782,520	831,093
Accounts receivable	4,515	16,916
Other assets	15,722	10,812
Assets held for sale	**1,395,939**	**1,529,355**
Liabilities		
Technical provisions	1,205,679	1,309,860
Funds withheld	18,350	26,713
Reinsurance payable	10,794	17,612
Other liabilities	21,281	26,935
Liabilities related to assets held for sale	**1,256,104**	**1,381,120**

Capital consolidation

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

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

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

Non-controlling interests in shareholders' equity are reported separately within Group shareholders' equity in accordance with IAS 1 "Presentation of Financial Statements". The non-controlling interest in profit or loss, which forms part of net income and is shown separately after net income as a "thereof" note, amounted to EUR 44,2 million (EUR 72.4 million) as at 30 September 2011.

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

Consolidation of business transactions within the Group

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

Consolidation of special purpose entities

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

Retrocessions and Insurance-Linked Securities (ILS)

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

A major transaction is "FacPool Re", under which Hannover Re transferred a portfolio of facultative reinsurance risks to the capital market from September 2009 to January 2011. The contracts, which are now in run-off, were mediated by an external reinsurance intermediary, written by Hannover Re and placed on the capital market in conjunction with a service provider. The "FacPool Re" transaction consists of a quota share reinsurance arrangement and two non-proportional cessions. 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.

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

Securitisation of reinsurance risks

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

Effective 30 March 2011 a structured transaction was entered into in order to finance the statutory reserves (so-called XXX reserves) of a US cedant. The structure necessitates the involvement of a special purpose entity, namely the Delaware-based Maricopa LLC. The special purpose entity carries extreme mortality risks securitised by the cedant above a contractually defined retention and transfers these risks by way of a fixed/floating swap with a ten-year term to a Group company of the Hannover Re Group. The maximum capacity of the transaction is USD 500.0 million; an amount of USD 250.0 million was initially taken up upon contract closing. The variable payments to the special purpose entity guaranteed by Hannover Re cover its payment obligations. By way of a compensation agreement Hannover Re is reimbursed by the cedant's parent company for all payments resulting from the swap in the event of a claim. Since Hannover Re does not bear the majority of the economic risks or benefits arising out of its business relations with the special purpose entity and does not exercise a controlling influence over it, there is no consolidation requirement for Hannover Re. Under IAS 39 this transaction is to be recognised at fair value as a financial guarantee. To this end Hannover Re uses the net method, according to which the present value of the agreed fixed swap premiums is netted with the present value of the guarantee commitment. The fair value on initial recognition therefore amounted to zero. The higher of the fair value and the amount carried as a provision on the liabilities side pursuant to IAS 37 is recognized at the point in time when utilization is considered probable. In this case the reimbursement claims from the compensation agreement are to be capitalized separately from and up to the amount of the provision.

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

Effective 1 January 2009 Hannover Re raised further underwriting capacity for catastrophe risks on the capital market by way of the "K6" transaction. This securitisation, which was placed with institutional investors in North America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. The volume of "K6", which was increased on multiple occasions, was equivalent to EUR 248.3 million (EUR 248.5 million) as at the balance sheet date. The planned term of the transaction runs until 31 December 2011 or in the case of the new shares placed in 2010/2011 until 31 December 2012/2013. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is being used for the securitisation.

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

Investments

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

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

4. Notes on the individual items of the balance sheet

4.1 Investments under own management

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

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

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

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

Investments[1] in EUR thousand	30.9.2011	31.12.2010
Regional origin		
Germany	6,294,770	6,402,667
United Kingdom	2,150,637	1,731,362
France	1,859,498	2,188,048
Other	5,347,519	4,856,718
Europe	**15,652,424**	**15,178,795**
USA	6,754,347	6,145,130
Other	1,052,376	1,057,850
North America	**7,806,723**	**7,202,980**
Asia	922,981	673,879
Australia	1,783,319	1,577,157
Australasia	**2,706,300**	**2,251,036**
Africa	388,522	409,767
Other	508,828	368,493
Total	**27,062,797**	**25,411,071**

1 After elimination of internal transactions within the Group across segments

Maturities of the fixed-income and variable-yield securities				in EUR thousand
	30.9.2011		31.12.2010	
	Amortised cost[1]	Fair value	Amortised cost[1]	Fair value
Held to maturity				
due in one year	379,661	383,384	293,247	296,019
due after one through two years	629,831	653,396	481,951	497,863
due after two through three years	313,159	332,090	530,917	556,296
due after three through four years	776,391	839,484	402,290	435,132
due after four through five years	505,264	553,640	842,291	896,024
due after five through ten years	126,158	132,755	458,201	489,910
due after ten years	11,819	12,755	19,121	18,143
Total	**2,742,283**	**2,907,504**	**3,028,018**	**3,189,387**
Loans and receivables				
due in one year	65,598	65,331	61,280	61,845
due after one through two years	102,241	103,628	129,327	129,184
due after two through three years	465,676	481,655	348,915	356,739
due after three through four years	422,041	439,898	576,421	592,242
due after four through five years	375,257	403,591	330,110	342,088
due after five through ten years	1,196,341	1,272,911	806,953	840,900
due after ten years	858,511	931,390	61,423	58,741
Total	**3,485,665**	**3,698,404**	**2,314,429**	**2,381,739**
Available for sale				
due in one year[2]	3,231,637	3,238,370	4,127,663	4,146,256
due after one through two years	1,882,440	1,918,850	1,856,401	1,892,437
due after two through three years	2,356,489	2,401,636	1,841,265	1,892,893
due after three through four years	2,223,080	2,266,470	2,184,191	2,238,279
due after four through five years	1,988,538	2,028,034	2,277,464	2,294,991
due after five through ten years	4,939,261	5,038,804	3,710,502	3,727,430
due after ten years	1,998,941	2,162,107	1,629,312	1,703,603
Total	**18,620,386**	**19,054,271**	**17,626,798**	**17,895,889**
Financial assets at fair value through profit or loss				
due in one year	36,091	36,091	76,542	76,542
due after one through two years	28,622	28,622	28,498	28,498
due after two through three years	48,960	48,960	60,257	60,257
due after three through four years	2,047	2,047	4,876	4,876
due after four through five years	2,564	2,564	–	–
due after five through ten years	6,248	6,248	–	–
due after ten years	35,722	35,722	47,424	47,424
Total	**160,254**	**160,254**	**217,597**	**217,597**

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

Notes

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

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

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

Figures in EUR thousand

	30.9.2011				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	323,400	21,867	377	5,258	350,148
US treasury notes	377,882	43,569	–	4,759	426,210
Other foreign government debt securities	7,144	783	–	105	8,032
Debt securities issued by semi-governmental entities	550,887	39,215	–	9,198	599,300
Corporate securities	486,005	17,576	3,123	8,028	508,486
Covered bonds/asset-backed securities	950,663	47,536	1,825	18,954	1,015,328
Total	**2,695,981**	**170,546**	**5,325**	**46,302**	**2,907,504**

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

Figures in EUR thousand

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

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value					Figures in EUR thousand
	30.9.2011				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	10,400	386	–	104	10,890
Debt securities issued by semi-governmental entities	2,011,545	139,254	376	23,317	2,173,740
Corporate securities	306,857	16,705	453	5,902	329,011
Covered bonds/asset-backed securities	1,112,258	59,406	2,183	15,282	1,184,763
Total	**3,441,060**	**215,751**	**3,012**	**44,605**	**3,698,404**

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

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as available for sale as well as their fair value					Figures in EUR thousand
	30.9.2011				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,474,066	53,480	11,591	22,276	1,538,231
US treasury notes	1,832,938	77,661	901	6,979	1,916,677
Other foreign government debt securities	977,635	27,172	519	9,648	1,013,936
Debt securities issued by semi-governmental entities	3,400,555	176,211	4,721	51,884	3,623,929
Corporate securities	6,737,852	182,640	132,679	111,601	6,899,414
Covered bonds/asset-backed securities	2,229,217	86,321	29,231	33,788	2,320,095
Investment funds	128,995	12,915	2,936	–	138,974
	16,781,258	**616,400**	**182,578**	**236,176**	**17,451,256**
Equity securities					
Shares	13,533	2,911	1	–	16,443
Investment funds	26,170	809	2,965	–	24,014
	39,703	**3,720**	**2,966**	**–**	**40,457**
Short-term investments	1,062,602	70	7	5,013	1,067,678
Total	**17,883,563**	**620,190**	**185,551**	**241,189**	**18,559,391**

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

Fair value of financial assets at fair value through profit or loss before and after accrued interest as well as accrued interest on such financial assets						Figures in EUR thousand
	30.9.2011	31.12.2010	30.9.2011	31.12.2010	30.9.2011	31.12.2010
	Fair value before accrued interest		Accrued interest		Fair value	
Financial assets at fair value through profit or loss						
Fixed-income securities						
Debt securities of semi-governmental entities	9,970	9,995	80	80	10,050	10,075
Corporate securities	81,647	97,770	379	542	82,026	98,312
Covered bonds/asset-backed securities	68,178	108,598		612	68,178	109,210
	159,795	**216,363**	**459**	**1,234**	**160,254**	**217,597**
Other financial assets						
Derivatives	9,847	54,756	–	–	9,847	54,756
	9,847	**54,756**	**–**	**–**	**9,847**	**54,756**
Total	**169,642**	**271,119**	**459**	**1,234**	**170,101**	**272,353**

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

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

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

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

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

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

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

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

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

5.1 Gross written premium

Gross written premium[1] in EUR thousand	1.1.–30.9.2011	1.1.–30.9.2010
Regional origin		
Germany	951,101	974,642
United Kingdom	1,800,617	1,703,163
France	417,162	390,570
Other	1,229,433	1,029,247
Europe	**4,398,313**	**4,097,622**
USA	1,992,332	2,227,119
Other	326,561	304,185
North America	**2,318,893**	**2,531,304**
Asia	940,125	707,432
Australia	458,796	365,327
Australasia	**1,398,921**	**1,072,759**
Africa	352,888	326,456
Other	595,696	526,446
Total	**9,064,711**	**8,554,587**

1 After elimination of internal transactions within the Group across segments

5.2 Investment income

Investment income in EUR thousand	1.1.–30.9.2011	1.1.–30.9.2010
Income from real estate	27,406	22,064
Dividends	4,611	2,369
Interest income	671,744	612,800
Other investment income	8,256	17,852
Ordinary investment income	**712,017**	**655,085**
Profit or loss on shares in associated companies	5,106	3,470
Appreciation	16,945	14,447
Realised gains on investments	194,375	204,816
Realised losses on investments	81,016	69,592
Unrealised gains and losses on investments	(70,003)	(93,647)
Impairments on real estate	7,330	6,515
Impairments on equity securities	876	569
Impairments on fixed-income securities	4,656	7,723
Impairments on participating interests and other financial assets	8,003	5,175
Other investment expenses	52,950	46,108
Net income from assets under own management	**703,609**	**648,489**
Interest income on funds withheld and contract deposits	341,372	286,048
Interest expense on funds withheld and contract deposits	94,199	62,386
Total investment income	**950,782**	**872,151**

Of the impairments totalling EUR 14.4 million, an amount of EUR 12.7 million was attributable to alternative investments. This includes impairments on private equity of EUR 8.0 million and impairments on structured fixed-income products of EUR 4.7 million. No impairments had to be recognised on other fixed-income securities. The write-downs contrasted with write-ups of EUR 16.9 million attributable exclusively to structured fixed-income securities. Impairments of EUR 0.9 million were recognised in the period under review 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.

Interest income on investments in EUR thousand	1.1.–30.9.2011	1.1.–30.9.2010
Fixed-income securities – held to maturity	86,490	93,819
Fixed-income securities – loans and receivables	70,590	79,436
Fixed-income securities – available for sale	487,103	417,864
Financial assets – at fair value through profit or loss	4,203	9,396
Other	23,358	12,285
Total	**671,744**	**612,800**

6. Other notes

6.1 Derivative financial instruments

Hannover Re's portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange contracts predominantly taken out to hedge cash flows from reinsurance contracts. The resulting liabilities of EUR 19.2 million (31 December 2010: EUR 34.9 million) were recognised under other liabilities.

Hannover Re holds derivative financial instruments to hedge interest rate risks from loans connected with the financing of real estate; these gave rise to recognition of other liabilities in an amount of EUR 3.7 million (31 December 2010: EUR 2.3 million).

Hannover Re holds derivative financial instruments to hedge inflation risks associated with the loss reserves. These transactions resulted in the recognition of other financial assets at fair value through profit or loss in an amount of EUR 1.0 million (31 December 2010: EUR 0.2 million) as well as other liabilities amounting to EUR 43.0 million (31 December 2010: EUR 31.4 million).

The net changes in the fair value of these instruments improved the result of the period under review by EUR 3.1 million (30 September 2010: charge of EUR 100.2 million to the result of the period under review).

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

On this basis Hannover Re reported as financial assets at fair value through profit or loss technical derivatives in an amount of EUR 8.9 million as at 30 September 2011 (31 December 2010: EUR 54.5 million) that were separated from the underlying transaction and measured at fair value.

In addition, liabilities from derivatives in connection with the technical account totalling EUR 29.6 million (31 December 2010: EUR 8.5 million) were recognised under other liabilities as at the balance sheet date.

Of the derivatives carried on the assets side fair values of EUR 0.0 million (31 December 2010: EUR 45.2 million) and of the derivatives carried on the liabilities side fair values of EUR 26.4 million (31 December 2010: –) were attributable as at the balance sheet date to derivatives embedded in "modified coinsurance" and "coinsurance funds withheld" (ModCo) reinsurance treaties.

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

Owing to a widening of credit spreads in the course of the year, the ModCo derivatives gave rise to a charge against investment income of EUR 69.9 million before tax as at 30 September 2011 (30 September 2010: improvement in investment income of EUR 4.8 million).

6.2 Related party disclosures

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

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

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

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

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

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

Business assumed and ceded in Germany and abroad		Figures in EUR thousand
	30.9.2011	
	Premium	Underwriting result
Business assumed		
Non-life reinsurance	307,600	49,379
Life and health reinsurance	187,340	17,162
	494,940	**66,541**
Business ceded		
Non-life reinsurance	(11,336)	13,788
Life and health reinsurance	(34,620)	(7,524)
	(45,956)	**6,264**
Total	**448,984**	**72,805**

6.3 Staff

The average number of staff employed at the companies included in the consolidated financial statement of the Hannover Re Group was 2,208 during the period under review (2010 financial year: 2,130).

As at the balance sheet date altogether 2,200 (2,159) staff were employed by the Hannover Re Group, with 1,106 (1,074) employed in Germany and 1,094 (1,085) working for the consolidated Group companies abroad.

6.4 Taxes on income

On the basis of a decision of the Federal Fiscal Court (BFH) in October 2010 regarding the taxation of investment income generated by the Group's reinsurance subsidiaries domiciled in Ireland as foreign-sourced income pursuant to the Foreign Transactions Tax Act, taxes already paid for earlier years were in large measure refunded in the first quarter. Assessments regarding the taxation of foreign-sourced income for the companies Hannover Reinsurance (Ireland) Ltd. and Hannover Life Reassurance (Ireland) Ltd. were rendered immaterial by cancellation notices dated 8 February 2011 and 31 March 2011 respectively. Subsequent assessment notices regarding corporation tax were issued for Hannover Re and E+S Rück in the period under review. The trade tax effects were also offset in the third quarter of 2011 by the controlling company HDI Haftpflichtverband der Deutschen Industrie V.a.G. In total, the refund of taxes and interest resulted in an improvement of EUR 128.0 million in Group net income in the period under review.

6.5 Earnings per share

Calculation of the earnings per share	**1.1.–30.9.2011**	1.1.–30.9.2010
Group net income in EUR thousand	381,668	582,007
Weighted average of issued shares	120,596,954	120,596,791
Basic earnings per share in EUR	3.16	4.83
Diluted earnings per share in EUR	3.16	4.83

Notes

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

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

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

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

6.6 Contingent liabilities and commitments

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

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

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

As security for technical liabilities to our US clients, we have established two trust accounts (master trust and supplemental trust) in the United States. They amounted to EUR 2,636.8 million (31 December 2010: EUR 2,576.3 million) and EUR 9.4 million (EUR 9.5 million) respectively as at the balance sheet date. In addition, we extended further collateral to our cedants in an amount of EUR 286.2 million (31 December 2010: EUR 298.6 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 2,040.2 million (31 December 2010: EUR 1,851.4 million) as at the balance sheet date.

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

As security for our technical liabilities, various financial institutions have furnished guarantees for our company in the form of letters of credit. The total amount as at the balance sheet date was EUR 3,021.0 million (31 December 2010: EUR 2,766.6 million).

For liabilities in connection with participating interests in real estate companies and real estate transactions Hannover Re Real Estate Holdings has furnished the usual collateral under such transactions to various banks, the amount of which totalled EUR 330.3 million as at the balance sheet date (31 December 2010: EUR 257.5 million).

Outstanding capital commitments with respect to alternative investments exist on the part of the Group in the amount of EUR 374.0 million (31 December 2010: EUR 272.6 million). These primarily involve as yet unfulfilled payment obligations from participations entered into in private equity funds and venture capital firms.

6.7 Events after the end of the quarter

Hannover Re anticipates a notable major loss as a consequence of the severe flooding in Thailand in October 2011.

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