somewhat different

Interim Report 1/2013

hannover re®

Key figures

in EUR million	2013		2012[1]	
	1.1.–31.3.	+/– previous year	1.1.–31.3.	31.12.
Results				
Gross written premium	3,757.9	+7.0%	3,510.6	
Net premium earned	3,080.9	+9.4%	2,816.2	
Net underwriting result	17.4		0.3	
Net investment income	354.7	-19.5%	440.6	
Operating profit (EBIT)	352.5	-10.3%	393.2	
Group net income (loss)	221.4	-15.3%	261.3	
Balance sheet				
Policyholders' surplus	9,165.1	+2.4%		8,947.2
Equity attributable to shareholders of Hannover Re	6,293.1	+4.3%		6,032.5
Non-controlling interests	637.6	-6.5%		681.7
Hybrid capital	2,234.4	+0.1%		2,233.0
Investments (excl. funds withheld by ceding companies)	32,531.7	+2.1%		31,874.4
Total assets	56,381.0	+2.9%		54,811.7
Share				
Earnings per share (basic and diluted) in EUR	1.84	-15.3%	2.17	
Book value per share in EUR	52.18	+4.3%	44.38	50.02
Share price at the end of the period in EUR	61.19	+3.8%	44.54	58.96
Market capitalisation at the end of the period	7,379.3	+3.8%	5,371.4	7,110.4
Ratios				
Combined ratio (non-life reinsurance)[2]	94.0%		96.8%	
Major losses as percentage of net premium earned (non-life reinsurance)[3]	0.8%		3.9%	
Retention	89.9%		91.0%	
Return on investment (excl. funds withheld by ceding companies)	3.2%		5.0%	
EBIT margin[4]	11.4%		14.0%	
Return on equity	14.4%		20.3%	

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

Ulrich Wallin
Chairman of the
Executive Board

Dear shareholders, ladies and gentlemen,

In the first quarter of 2013 your company generated another good result with a net profit of EUR 221 million. As already announced in the fourth quarter of last year, we anticipate Group net income after tax in the region of EUR 800 million for the 2013 financial year. The result for the first three months of the year can therefore be seen as a first successful step towards accomplishment of this goal. The key factors in this pleasing performance are a very good underwriting profit in non-life reinsurance and a solid result in our life and health reinsurance business. Investment income, on the other hand, came in lower, although it is well within our expectations for the full year. Furthermore, while the result benefited from the low incidence of major losses in the reporting period, it does not contain any significant non-recurring or special effects.

I would like now to fill in some details for you about the development of our business in the year to date:

In non-life reinsurance, our largest business group, the generally good results posted by reinsurers in 2012 led to a more competitive market environment. The supply of reinsurance protection exceeds demand in many areas. The situation has been exacerbated by the fact that some large insurance groups have raised their retentions and hence ceded fewer risks to the reinsurance market. With this in mind, it is remarkable that the rate level of 2012 was largely preserved – on a risk-adjusted basis – in the treaty renewals to date as at 1 January and 1 April. This is another testament to the broadly disciplined approach taken by market players, which can be attributed not least to the declining investment income associated with the protracted period of low interest rates. The losses from Hurricane Sandy in the fourth quarter of the previous year, which caused significant strains for insurers and reinsurers alike, also had a stabilising effect on prices. All in all, then, it may be asserted that the rate level in 2013 should at least match up to the good level of 2012.

In marine business, in particular, we were able to push through substantial rate increases in non-proportional business due to the losses incurred in 2012. In North America, too, the renewals have so far passed off satisfactorily, with price increases observed in both the property and casualty sectors for commercial and industrial risks. Not only that, we also achieved significant price increases in non-proportional motor business in the United Kingdom. Overall, then, we were able to generate further growth in the first quarter of 2013, especially in higher-margin non-proportional reinsurance.

Against this backdrop, we grew our gross premium by 4 percent. Net premium rose by as much as 9 percent. The underwriting result was more than doubled relative to the first quarter of 2012, closing with a profit of some EUR 100 million. This was assisted by the fact that major losses in the first quarter totalled just EUR 13 million and hence stayed well below the expected loss expenditure. It should, however, be borne in mind that in segments with major loss exposure we have set aside IBNR reserves that are geared to the loss expectancy. Although the investment income came in 27 percent lower than in the first quarter of the previous year, the good underwriting result – with a combined ratio of 94 percent – enabled us to boost net income by 1 percent to EUR 175 million.

We are also satisfied with the development of our second business group, life and health reinsurance. In our assessment, life and health business continues to offer attractive growth prospects, especially in the United States, Australia and parts of Europe. As a further factor, especially in emerging markets of Asia and South America, we are seeing rising demand for life and health reinsurance solutions. We have enjoyed a particularly successful start to the current financial year in the area of longevity risks in the United Kingdom: in the first three months we have already closed three transactions to assume pension commitments totalling some GBP 3 billion at attractive conditions. This business alone is expected to deliver gross premium of around GBP 150 million for the current financial year. This also shows that our move last year to concentrate longevity risks in a dedicated business centre is already bearing fruit. From the risk management perspective, too, we consider the assumption of longevity risks attractive because they are negatively correlated with mortality risks and hence improve the diversification of the portfolio.

Based on our successful business activities, especially those described above, we again booked double-digit organic growth in the first quarter of 2013, boosting our gross premium volume by around 12 percent. With an EBIT margin of 6.4 percent and net income of EUR 65 million, profitability is again highly satisfactory and hence supports our profit guidance for the full year.

We can also be satisfied with the development of our investments. Although investment income came in lower, the return on investment from our assets under own management is on a par with our expectations for the full year. The moderate decline in ordinary income is largely due to the protracted low interest rates, which have sharply reduced returns on new investments. Unlike in the corresponding quarter of the previous year, extraordinary investment income was not driven by any significant special effects associated with the fair value changes in the inflation swaps that we have taken out or in the ModCo derivatives, and it consequently declined. The continued low volume of write-downs on investments is gratifying and an affirmation of our prudent, safety-first investment strategy.

The shareholders' equity of your company also continued to grow in the first quarter, rising by 4.3 percent to its current level of EUR 6.3 billion. Based on the sustained positive cash flow, the portfolio of assets under own management increased by EUR 660 million to EUR 32.5 billion. Hannover Re's financial strength was thus further reinforced in the first quarter of 2013.

For our investors

The results of the first quarter support in every respect our forecast for the full year. We therefore continue to expect gross premium growth in the region of 5 percent for the full 2013 financial year and net income after tax in the order of EUR 800 million. As always, this forecast assumes that there are no unforeseen downturns on capital markets and that major loss expenditure does not significantly exceed the expected level. For 2013 this stands at EUR 625 million.

I would also not wish to omit mention of the fact that on 19 March 2013 your company completed the transformation into a European Company, Societas Europaea (SE). In so doing, we have not only given external expression to our self-image as a European group with worldwide business operations, we have also put in place the necessary conditions for being able to respond flexibly to future legal or regulatory requirements. As we have already reported, your rights as valued shareholders of our company remain unaffected by the conversion to an SE.

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

Interim management report

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Business development

We are satisfied with the development of the first quarter of 2013. Our business groups, namely non-life and life and health reinsurance, delivered a very healthy performance and thereby put in place a good platform for accomplishment of our full-year targets. Major loss expenditure – as in the previous year – stayed below the anticipated level.

Gross written premium in total business increased by 7.0% as at 31 March 2013 to reach EUR 3.8 billion (EUR 3.5 billion). At constant exchange rates growth would have amounted to 7.4%. The level of retained premium retreated slightly compared to the corresponding quarter of the previous year to stand at 89.9% (91.0%). Net premium climbed 9.4% to EUR 3.1 billion (EUR 2.8 billion). Growth of 9.8% would have been booked for net premium at constant exchange rates.

The development of our investments was also satisfactory. The portfolio of assets under own management grew to EUR 32.5 billion (31 December 2012: EUR 31.9 billion). Despite the sustained low interest rate level, ordinary investment income excluding interest on deposits was only slightly lower than in the comparable period at EUR 246.1 million (EUR 258.2 million); the resulting annualised return stood at 3.1%; including extraordinary income the figure rises to 3.2%. Interest on deposits was slightly above the level of the comparable period at EUR 93.8 million (EUR 83.7 million).

Our income from investments under own management consequently fell short of the corresponding period of the previous year: it amounted to EUR 260.9 million (EUR 356.9 million) as at 31 March 2013. The decline can be attributed principally to the exceptionally high unrealised gains recorded in the previous year from the derivative recognised for securities deposits held for our account by US clients as well as from our inflation swaps. The write-downs taken in the period under review were again only very minimal in volume.

With unrealised gains reverting to a normal level, the operating profit (EBIT) decreased to EUR 352.5 million (EUR 393.2 million) as at 31 March 2013. Group net income was thoroughly pleasing at EUR 221.4 million. The figure for the comparable quarter was EUR 261.3 million; earnings per share came in at EUR 1.84 (EUR 2.17).

Hannover Re's equity base showed a very pleasing increase to EUR 6.3 billion as at 31 March 2013 (31 December 2012: EUR 6.0 billion). The book value per share amounted to EUR 52.18 (31 December 2012: EUR 50.02). The annualised return on equity reached 14.4% (20.3%).

Non-life reinsurance

Our largest business group, non-life reinsurance, fared well in the first quarter. The outcome of the treaty renewals as at 1 January 2013 – the time of the year when the vast majority of our treaties in traditional reinsurance are renegotiated – was satisfactory. Although the climate was more competitive this year, we achieved a premium level comparable with that of the previous year. Hurricane Sandy, which caused sizeable losses for the (re)insurance industry in 2012, had a stabilising effect on prices in non-life reinsurance. Rate increases were attainable in areas where programmes had been affected by losses. They were particularly marked in marine business. In view of the historically high major loss expenditure caused by the wreck of the "Costa Concordia" cruise ship and Hurricane Sandy, rates climbed by between 25% and 40% under loss-impacted treaties. Even under programmes that had been spared losses premium increases averaging 10% were obtained. Motor business in the United Kingdom similarly saw appreciable price rises for non-proportional reinsurance covers, prompting us to step up our involvement here too. The development of our portfolio in the United States was also highly gratifying: we posted growth of some 14% here. Premium income in global catastrophe business increased by 11%. The pressure on prices eased significantly in this segment, in part due to the losses caused by Hurricane Sandy.

Along with the increased competition, a trend could be observed in this year's round of renewals towards large primary insurance groups carrying more risks in their retention. This is one of the reasons why the growth in renewed non-life reinsurance business came in at a moderate 1%, contrasting with 6% in the previous year. In higher-margin non-proportional business, however, sizeable growth of around 6% was generated. Proportional business contracted slightly.

The gross premium for our non-life reinsurance business group increased by 3.8% relative to the corresponding period of the previous year to reach EUR 2.2 billion (EUR 2.1 billion). At constant exchange rates, especially against the US dollar, growth would have been 4.0%. The level of retained premium retreated slightly to 89.8% (91.2%). Net premium earned climbed 8.8% to EUR 1.7 billion (EUR 1.6 billion), or 8.9% adjusted for exchange rate effects.

Key figures for non-life reinsurance

in EUR million	2013		2012
	1.1.–31.3.	+/- previous year	1.1.–31.3.
Gross written premium	2,197.6	+3.8%	2,116.6
Net premium earned	1,691.9	+8.8%	1,554.7
Underwriting result	98.1	+109.8%	46.8
Net investment income	186.8	-26.6%	254.5
Operating result (EBIT)	258.7	-1.7%	263.0
Group net income	174.9	+1.0%	173.2
Earnings per share in EUR	1.45	+1.0%	1.44
Combined ratio [1]	94.0%		96.8%
Retention	89.8%		91.2%

[1] Including expenses on funds withheld and contract deposits

The major loss situation in the first quarter of 2013 was exceptionally calm. We only incurred a satellite loss at a cost of EUR 13.4 million for net account. This contrasted with expenditure of EUR 60.6 million in the comparable quarter. Against this backdrop, the underwriting result for total non-life reinsurance closed at a very pleasing EUR 98.1 million (EUR 46.8 million). The combined ratio improved to a very good 94.0% (96.8%), hence beating the 96% mark targeted for the full year.

The operating profit (EBIT) in non-life reinsurance closed at EUR 258.7 million (EUR 263.0 million) as at 31 March 2013. Group net income was on a par with the very good level of the corresponding quarter at EUR 174.9 million (EUR 173.2 million). Earnings per share came in at EUR 1.45 (EUR 1.44).

Life and health reinsurance

The market environment in international life and health reinsurance continued to be favourable in the first quarter of 2013 and hence built seamlessly on the year just ended. We got off to a thoroughly successful start in the new financial year with the assumption of three longevity portfolios in the United Kingdom. When it comes to our clients in mature insurance markets such as the United States, Germany, the United Kingdom, France and Scandinavia, our primary focus – along with covering longevity risks – is on optimising liquidity, capital and risk management through the assumption of underwriting risks. Demand for life insurance products in emerging Asian markets, including China, remains strong. In this context, we concentrate particularly on the conceptual design and implementation of innovative reinsurance solutions that cater to the individual needs and circumstances of our clients and ultimately those of policyholders. Along with key emerging markets in Asia, parts of Latin America and Eastern Europe are becoming increasingly attractive owing to rising prosperity in society and the resulting growth in demand for risk protection and retirement provision.

Gross written premium in life and health reinsurance climbed to EUR 1.6 billion (EUR 1.4 billion) as at 31 March 2013, a pleasing increase of 11.9%. At constant exchange rates growth would have come in at 12.6%. Net premium earned was boosted by 10.1% to EUR 1.4 billion (EUR 1.3 billion). This is equivalent to a retention of 90.0% (90.8%). Adjusted for exchange rate effects, net premium would have grown by 10.8%.

Our portfolio developed broadly in line with our expectations. The investments held for our account by US clients developed favourably in the period just ended. We generated unrealised gains here in the mid-single-digit million euros. All valuation gains and losses are, however, completely offset if the securities perform as planned until maturity, which means that this item is considered to have no expense implications over the entire duration – provided there are no defaults due to insolvency.

The operating profit (EBIT) totalled EUR 88.3 million (EUR 122.3 million) as at 31 March 2013. The EBIT margin of 4.8% in the areas of Longevity and Financial Solutions and 7.6% in Mortality and Morbidity business beat the targets of 2% and 6% respectively. Group net income came in at EUR 65.3 million (EUR 100.2 million) and earnings per share amounted to EUR 0.54 (EUR 0.83).

Key figures for life and health reinsurance

in EUR million	2013		2012[1]
	1.1.–31.3.	+/- previous year	1.1.–31.3.
Gross written premium	1,560.3	+11.9%	1,394.0
Net premium earned	1,388.9	+10.1%	1,261.5
Investment income	162.4	-8.5%	177.4
Operating result (EBIT)	88.3	-27.8%	122.3
Net income after tax	65.3	-34.9%	100.2
Earnings per share in EUR	0.54	-34.9%	0.83
Retention	90.0%		90.8%
EBIT margin[2]	6.4%		9.7%

[1] Adjusted on the basis of IAS 8
[2] Operating result (EBIT)/net premium earned

We normally also report on the Market Consistent Embedded Value (MCEV) of the financial year just ended in the context of our interim report on the first quarter. The MCEV captures our entire life and health reinsurance portfolio, since it recognises the corresponding cost of capital in addition to the expected future profits. The MCEV therefore serves as a very good means of assessing the profitability of long-duration life and health reinsurance business. Bearing in mind the protracted strain on capital markets, the MCEV developed favourably as at 31 December 2012 and stood at EUR 3,133.9 million (EUR 3,065.8 million). This corresponds to growth of 2.2%. Including non-controlling interests, the MCEV amounted to EUR 3,238.6 million (EUR 3,180.7 million). The value of new business excluding non-controlling interests showed an increase of 30.3%; this is equivalent to an amount of EUR 313.6 million (EUR 240.6 million) and is the highest value of new business recorded to date. Further details of this topic are provided in the MCEV 2012 report published on our website.

Investments

Yields on US treasury securities and on German, French and UK government bonds remained broadly unchanged in the first quarter of the year. The picture as regards countries with higher risk premiums – presently the focus of so much attention – was a mixed one: while Spanish, Irish and Portuguese bonds recovered slightly, the same was only true of shorter durations in the case of Italian sovereign bonds; increases in yields were recorded here in the medium duration segment. Credit spreads in the area of European and US corporate bonds, on the other hand, largely remained stable across most rating classes. In total, the unrealised gains on our fixed-income securities decreased to EUR 1,658.6 million (EUR 1,714.6 million). Our portfolio of assets under own management continued to grow to EUR 32.5 billion (EUR 31.9 billion) thanks to the pleasing inflow of cash from the technical account and from investing activities.

Despite the sustained low level of interest rates, ordinary investment income excluding interest on deposits was only slightly lower than in the corresponding period of the previous year at EUR 246.1 million (EUR 258.2 million); this can be attributed principally to the enlarged investment portfolio, although the appreciable expansion of the corporate bonds asset class over the past two years is also a factor here. Interest on deposits increased from EUR 83.7 million to EUR 93.8 million.

Impairments of altogether just EUR 3.2 million (EUR 7.2 million) were taken. This includes impairments of EUR 0.3 million (EUR 3.3 million) on alternative investments. Scheduled depreciation on directly held real estate rose to EUR 2.9 million (EUR 2.6 million), a reflection of our greater involvement in this area. The write-downs contrasted with write-ups of EUR 0.2 million (EUR 0.2 million).

Net investment income

in EUR million	2013		2012
	1.1.–31.3.	+/- previous year	1.1.–31.3.
Ordinary investment income	246.1	-4.7%	258.2
Result from participations in associated companies	1.1	-39.6%	1.8
Realised gains/losses	34.8	-8.0%	37.8
Appreciation	0.2	-13.7%	0.2
Impairments on investments [1]	3.2	-55.1%	7.2
Unrealised gains/losses [2]	3.3	-96.1%	84.6
Investment expenses	21.3	+15.6%	18.4
Net investment income from assets under own management	**260.9**	**-26.9%**	**356.9**
Net investment income from funds withheld	93.8	+12.1%	83.7
Total investment income	**354.7**	**-19.5%**	**440.6**

[1] Including depreciation/impairments on real estate
[2] Portfolio at fair value through profit or loss

We recognise a derivative for the credit risk associated with special life reinsurance treaties (ModCo) under which securities deposits are held by cedants for our account; the performance of this derivative in the period under review gave rise to unrealised gains of EUR 5.6 million (EUR 36.8 million) recognised in investment income. The inflation swaps taken out in 2010 to hedge part of the inflation risks associated with the loss reserves in our technical account have produced unrealised losses in the year to date of EUR 1.7 million recognised in investment income, as against unrealised gains of EUR 42.6 million in the corresponding quarter of the previous year. The changes in the fair values of the inflation swaps are recognised in income as a derivative pursuant to IAS 39. In economic terms we assume a neutral development for these two items over time, and hence the volatility that can occur in specific quarters has scarcely any bearing on the actual business performance. Altogether, the unrealised gains on our assets recognised at fair value through profit or loss amounted to EUR 3.3 million (EUR 84.6 million).

The net balance of gains realised from the sale of securities stood at EUR 34.8 million (EUR 37.8 million); it can be attributed primarily to regrouping in our fixed-income holdings as part of regular portfolio management.

While our net investment income fell short of the level in the comparable period, which was boosted by exceptionally high unrealised gains, it was still highly gratifying in the face of a capital market climate that remains challenging. It amounted to EUR 260.9 million (EUR 356.9 million) in the period under review, equivalent to an annualised average return (including effects from derivatives) of 3.2% for our portfolio of assets under own management.

Risk report

Principles for the handling of opportunities and risks

Our objective is to consolidate and further extend our position as one of the world's leading globally operating reinsurance groups of above-average profitability. With a view to accomplishing this aim we enter into a broad variety of risks which, on the one hand, open up opportunities for profit but, on the other hand, can also have adverse implications for our company. Our goal is to make optimal use of opportunities while at the same time adequately controlling and managing the risks associated with our commercial activities. Through our global orientation and our operations in all lines of reinsurance we achieve extensive risk equalisation. In particular, diversification between our non-life and life and health reinsurance business groups enables us to effectively deploy our capital. As a reinsurance specialist, we also transact primary insurance business in selected niche markets on a complementary basis to our traditional reinsurance activities. Of material significance to all segments are the underwriting results and the investment of the premium payments. The parameters and decisions of the Executive Board with respect to the risk appetite of Hannover Re are fundamental to the acceptance of risks. The risk strategy derived from the corporate strategy constitutes the basis for our handling of opportunities and risks. We act on opportunities only by weighing up the associated risks. The risk strategy and the guidelines derived from it, such as the Framework Guideline on Risk Management and the central system of limits and thresholds, are subject to regular review. In this way, we ensure that our assumptions and hence also our risk

management system are kept up-to-date. Operationalisation of our corporate strategy takes place on multiple levels and ultimately leads into guidelines, including for example the underwriting guidelines used by our treaty and regional departments.

Opportunities for Hannover Re are to be anticipated inter alia as a consequence of the impending adoption of risk-based solvency systems, such as Solvency II in Europe. Irrespective of the date of implementation of Solvency II on the European level, risk-based national regulations are already in force and others will likely follow. We have long practised a risk-based and value-based management approach of the type which regulators will call for under Solvency II and we began to make our preparations for the requirements of Solvency II at an early stage. We see Solvency II as an opportunity for the convergence of international regulatory and internal corporate approaches and consider ourselves well-equipped to provide the markets with tailored products. Stronger demand for reinsurance covers can also be expected as a consequence of content-based adjustments to the natural catastrophe simulation models used by our company as well as the vigorous growth recorded in a number of markets. For Hannover Re itself, the minimum capital requirements imposed under Solvency II are unlikely to present an obstacle, since our internal capitalisation targets (confidence level of 99.97%) go well beyond the regulatory requirements (confidence level of 99.5%). Business ideas and opportunities are systematically analysed by our Business Opportunity Management unit with the aim of generating new business and thereby enabling Hannover Re to enjoy continued sustainable growth going forward. This is complemented by initiatives such as our "future radar", a systematic analysis of relevant factors that will drive future success. All activities and decisions are guided not only by profit targets but also increasingly by sustainability considerations. We have defined what we consider to be the most important issues in the context of our sustainability strategy.

Functions within the risk management system

There is an interplay between the individual bodies and functions in our risk management system. Their roles and responsibilities are clearly defined.

Central elements of the risk management system

Body/function	Key risk management tasks
Supervisory Board	• Advising and supervising the Executive Board in its management of the company, inter alia with respect to risk management, on the basis of the Supervisory Board's Rules of Procedure
Executive Board	• Overall responsibility for Group-wide risk management • Responsibility for the proper functioning of risk management • Definition of the risk strategy
Risk Committee	• Operational risk management, monitoring and coordinating body • Implementation and safeguarding of a consistent Group-wide risk management culture
Chief Risk Officer	• Responsibility for holistic risk monitoring across the Group as a whole and the business groups (systematic identification and assessment, control/monitoring and reporting) of all material risks from the Group perspective (technical risks in life/health and non-life reinsurance, market risks, credit risks, operational risks and other risks)
Group Risk Management	• Risk monitoring across the Group as a whole and the business groups of all material risks from the company perspective • Methodological expertise in the development of processes and methods for risk analysis, assessment and management as well as for risk limitation and reporting
Business units [1]	• Risk steering: primary responsibility for risk identification and assessment on the departmental level based on the guidelines of Group Risk Management • Setting up and monitoring of the department's internal control system (ICS)
Internal Auditing	• Process-independent and Group-wide supervision on behalf of the Executive Board

[1] Treaty/regional departments and service departments in the non-life and life and health reinsurance business groups as well as the investments sector

Quantitative and qualitative risk management methods

The qualitative and quantitative elements of our risk management are of crucial importance overall. In the interests of our shareholders and clients we strive to ensure that our risks remain commensurate with our capital resources.

Our quantitative risk management provides a uniform framework for the evaluation and steering of all risks affecting the company as well as of our capital position. In this context, the internal capital model is our central tool. The internal capital model of Hannover Re is a stochastic enterprise model. Based on predefined probability distributions, a large number of scenarios are generated for technical risks, counterparty defaults, capital market conditions and other business events and their effect on the company's financial situation is determined. The central variable in risk and enterprise management is the economic capital, which is calculated according to market-consistent measurement principles and in many respects corresponds to the business valuation likely to be adopted in future under Solvency II. The internal capital model encompasses all quantifiable risks and splits them into technical risks, market risks, credit risks and operational risks. These risks are carried over to Hannover Re's risk map and further broken down, e. g. into interest rate risks, catastrophe risks and reserving risks. Dependencies exist between these risks, which Hannover Re takes into account in order to adequately establish its target capitalisation. The model enables us to consistently measure and aggregate the individual risks and to analyse the interactions between risks. Last but not least, we are able to verify whether the level of available economic capital exceeds the capital required to operate the business.

Qualitative methods and practices are a fundamental element of our internal risk management and control system as well as of potential future requirements for the Own Risk and Solvency Assessment (ORSA). Systematic risk identification, analysis, measurement, steering and monitoring as well as risk reporting are crucial to the effectiveness of risk management as a whole. Only by giving prompt consideration to risks can the continued existence of Hannover Re be assured. The system that is in place – in common with the corporate and risk strategy – is subject to a constant cycle of planning, action, control and improvement. The Framework Guideline on Risk Management describes the existing elements of the risk management system that has been put in place. It is intended to establish homogeneous standards for risk management. The Framework Guideline defines, among other things, the major tasks, rights and responsibilities, the organisational framework conditions and the risk control process. Principles are also set out governing the evaluation of new products in light of risk considerations as well as risk reporting. Internal risk reporting safeguards systematic and timely communication within the company about all material risks. Risk reporting covers inter alia the defined limits and thresholds, key ratios, expert assessments and a summary presentation of the risk situation. The regular quarterly reporting is supplemented as necessary by immediate internal reporting on material risks and limit oversteps that emerge suddenly. The criteria for this reporting are also specified in the Framework Guideline on Risk Management. Within the central system of limits and thresholds for the material risks, key ratios have been specified for steering and monitoring. Risk steering and monitoring is operationalised through the specification of suitable limits and thresholds for quantitatively measurable material risks. Material risks that cannot be quantified or are difficult to quantify (such as reputational risks) are primarily steered using appropriate processes and practices and are monitored with the aid of qualitative measurement methods, such as expert assessments.

Internal control system

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 systematically steer and monitor the execution of our corporate strategy. We therefore always organise our business activities in such a way that they are in conformity with all legal requirements. In accordance with these principles, the Framework Guideline puts in place a consistent understanding of controls as well as a uniform procedure and standards for implementation of the ICS across all organisational units. The Framework Guideline defines concepts, stipulates responsibilities and provides a guide for the description of controls. In addition, it forms the basis for the accomplishment of internal objectives and the fulfilment of external requirements imposed on Hannover Re. The ICS consists of systematically structured organisational and technical measures and controls within the enterprise. It serves, inter alia, to safeguard compliance with guidelines and to reduce risks in the interests of secure execution of corporate strategy. This includes, among other things:

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

In the area of accounting and financial reporting, processes with integrated controls ensure the completeness and accuracy of the financial statement. This ensures that we can identify and minimise the risk of material errors in the financial statement at an early stage. Given that our financial reporting is heavily dependent on IT systems, these systems also need to be subject to controls, e. g. by way of authorisation concepts regulating system access.

Risk landscape of Hannover Re

The risk landscape of Hannover Re encompasses:

- technical risks in non-life and life and health reinsurance,
- market risks,
- credit risks,
- operational risks and
- other risks.

The specific risk characteristics and the principal monitoring and management mechanisms are described in the following sections.

Technical risks in non-life reinsurance

Risk management in non-life reinsurance is geared to the following strategic objectives:

- We maximise our risk capacities in accordance with the parameters of the risk management system and make limited use of retrocessions to reduce volatility and conserve capital.
- We steer the acceptance of risks systematically through our underwriting guidelines. We have confidence in the entrepreneurial abilities of our underwriters and grant them the most extensive possible powers.
- We impose the highest requirements on the processing of product-related data. Excellent data quality, security and integrity are the key hallmarks of our service processes.
- Given that the establishment of inadequate reserves constitutes our greatest risk, we take care to maintain a conservative reserving level.

We make a fundamental distinction between risks that result from business operations of past years (reserving risk) and those stemming from activities in the current or future years (price / premium risk). In the latter case, special importance attaches to the catastrophe risk.

As mentioned above, a significant technical risk is the reserving risk, i. e. the risk of under-reserving losses and the associated strain on the underwriting result. In order to counter this risk we calculate our loss reserves based on our own actuarial estimations and establish, where necessary, additional reserves supplementary to those posted by our cedants as well as the IBNR reserve for losses that have already occurred but have not yet been reported to us. Liability claims have a major influence on this reserve. The IBNR reserve is calculated on a differentiated basis according to risk categories and regions.

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

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

Development of combined and catastrophe loss ratio

in %	Q1 2013	2012	2011	2010	2009	2008	2007	2006	2005[1]	2004[1]	2003[1,2]
Combined ratio (non-life reinsurance)	94.0	95.8	104.3	98.2	96.6	95.4	99.7	100.8	112.8	97.2	96.0
Thereof catastrophe losses[3]	0.8	7.0	16.5	12.3	4.6	10.7	6.3	2.3	26.3	8.3	1.5

1 Including financial reinsurance and specialty insurance
2 Based on US GAAP figures
3 Net share of the Hannover Re Group for natural catastrophes and other major claims in excess of EUR 10 million gross as a percentage of net premium earned

Technical risks in life and health reinsurance

Risk management in life and health reinsurance is geared to the following strategic objectives:

- In order to be able to reliably meet future expectations arising out of our long-term customer relationships, we strive for a balanced mix of risks. Our risk management is concentrated on material risks, although we give consideration to all risks according to their significance.
- We have confidence in the entrepreneurial abilities of our underwriters and grant them the most extensive possible powers. In our decentralised organisation we manage risks where they arise using a consistent approach in order to obtain an overall view of the risks in life and health reinsurance. Our underwriting guidelines provide underwriters with an appropriate framework for this purpose.

All risks directly connected with the life of an insured person are referred to as biometric risks (especially the miscalculation of mortality, life expectancy, morbidity and occupational disability); they constitute material risks for our company in the area of life and health reinsurance. Counterparty, lapse and catastrophe risks are also material since we additionally prefinance our cedants' new business acquisition costs.

As in non-life reinsurance, the reserves are essentially calculated according to information provided by our clients and are also determined on the basis of secure biometric actuarial bases. Through our quality assurance measures we ensure that the reserves established by ceding companies in accordance with local accounting principles satisfy all requirements with respect to the calculation methods used and assumptions made (e.g. use of mortality and morbidity tables, assumptions regarding the lapse rate). New business is written in all regions in compliance with underwriting guidelines applicable worldwide, which set out detailed rules governing the type, quality, level and origin of risks. These global guidelines are revised annually and approved by the Executive Board. Special underwriting guidelines give due consideration to the particular features of individual markets. By monitoring compliance with these underwriting guidelines we minimise the risk of an inability to pay or deterioration in the financial status of cedants. Regular reviews and holistic analyses (e.g. with an eye to lapse risks) are carried out with respect to new business activities and the assumption of portfolios.

The interest rate risk, which in the primary sector is important in life business owing to the guarantees that are given, is of only minimal relevance to our company thanks to the structure of our contracts. The actuarial reports and documentation required by local regulators ensure that regular scrutiny also takes place on the level of the subsidiaries. The Market Consistent Embedded Value (MCEV) is a ratio used for the valuation of life insurance and reinsurance business; it is calculated as the present value of the future shareholders' earnings from the worldwide life and health reinsurance portfolio plus the allocated capital. The calculation makes allowance as far as possible for all risks included in this business. The Market Consistent Embedded Value is established on the basis of the principles of the CFO Forum published in October 2009. We shall publish the MCEV for the 2012 financial year on our Internet website at the same time as the report on the first quarter of 2013.

Market risks

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

The short-term loss probability measured as the "Value at Risk" (VaR) is another vital tool used for monitoring and managing market price risks. It is calculated on the basis of historical data, e.g. the volatility of the securities positions under own management and the correlation between these risks. As part of these calculations the decline in the fair value of our portfolio is simulated with a certain probability and within a certain period. The VaR determined in accordance with these principles specifies the decrease in the fair value of our securities portfolio under own management that with a probability of 95% will not be exceeded within ten trading days. A multi-factor model is used to calculate the VaR indicators. It is based on time series of selected representative market parameters (equity prices, yield curves, spread curves, exchange rates, commodity prices and macro-economic variables). All asset positions are mapped on the level of individual positions within the multi-factor model; residual risks (e.g. market price risks that are not directly explained by the multi-factor model) can be determined through back-calculation and are incorporated

into the overall calculation. 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.

Scenarios for changes in the fair value of material asset classes

in EUR million	Scenario	Portfolio change on a fair value basis	Change in equity before tax
Equity securities	Share prices -10%	-2.9	-2.9
	Share prices -20%	-5.9	-5.9
	Share prices +10%	2.9	2.9
	Share prices +20%	5.9	5.9
Fixed-income securities	Yield increase +50 basis points	-684.3	-536.6
	Yield increase +100 basis points	-1,336.2	-1,047.4
	Yield decrease -50 basis points	708.9	555.6
	Yield decrease -100 basis points	1,448.7	1,135.9

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).

Share price risks derive from the possibility of unfavourable changes in the value of equities, equity derivatives or equity index derivatives held in the portfolio. We have made such new investments only on a very modest scale as part of strategic participations. The scenarios for changes in equity prices consequently have only extremely slight implications for our portfolio. We spread the risks through systematic diversification.

The portfolio of fixed-income securities is exposed to the interest rate risk. Declining market yields lead to increases and rising market yields to decreases in the fair value of the fixed-income securities portfolio.

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

Currency risks are especially relevant if there is a currency imbalance between the technical liabilities and the assets. We reduce this risk through extensive matching of currency distributions on the assets and liabilities side. The short-term Value at Risk therefore does not include quantification of the currency risk. We regularly compare the liabilities per currency with the covering assets and optimise the currency coverage in light of relevant collateral conditions – such as different accounting requirements – by regrouping assets. Remaining currency surpluses are systematically quantified and monitored.

Real estate risks result from the possibility of unfavourable changes in the value of real estate held either directly or through fund units. They may be caused by a deterioration in particular qualities of a property or by a general downslide in market values (such as the US real estate crash). Real estate risks continued to grow in importance for our portfolio owing to our continuous involvement in this sector. We spread these risks through broadly diversified investments in high-quality markets of Germany, Europe as a whole and the United States. We use derivative financial instruments only to a very limited extent. The primary purpose of such financial instruments is to hedge against potentially adverse situations on capital markets. In 2012 we took out inflation swaps to hedge part of the inflation risks associated with the loss reserves in our technical account. In addition, as in the previous year, a modest portion of our cash flows from the insurance business was hedged using forward exchange transactions. Currency risks were also hedged using FX forwards in cases where currency matching could not be efficiently established. The contracts are concluded with reliable counterparties and for the most part collateralised on a daily basis so as to avoid credit risks associated with the use of such transactions. The remaining exposures are controlled according to the restrictive parameters set out in the investment guidelines.

Credit risks

The credit risk consists primarily of the risk of complete or partial failure of the counterparty and the associated default on payment.

Since the business that we accept is not always fully retained, but instead portions are retroceded as necessary, the credit risk is also material for our company in reinsurance transactions. Our retrocession partners are carefully selected and monitored in light of credit considerations in order to keep the risk as small as possible. This is also true of our broker relationships, which entail a risk inter alia through the potential loss of the premium paid by the cedant to the broker. We minimise these risks, inter alia, by reviewing all broker relationships with an eye to criteria such as the existence of professional indemnity insurance, payment performance and proper contract implementation. The credit status of retrocessionaires is continuously monitored. On the basis of this ongoing monitoring a Security Committee decides on measures where necessary to secure receivables that appear to be at risk of default. This process is supported by a Web-based risk management application, which specifies cession limits for the individual retrocessionaires participating in protection cover programmes and determines the capacities still available for short-, medium- and long-term business. Depending on the type and expected run-off duration of the reinsured business, the selection of reinsurers takes into account not only the minimum ratings of the rating agencies Standard & Poor's and A. M. Best but also internal and external expert assessments (e. g. market information from brokers). Overall, retrocessions conserve our capital, stabilise and optimise our results and enable us to act on opportunities across a broader front, e. g. following a catastrophe loss event. Regular visits to our retrocessionaires give us a reliable overview of the market and put us in a position to respond quickly to capacity changes. Alongside traditional retrocessions in non-life reinsurance we also transfer risks to the capital market.

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

In terms of the Hannover Re Group's major companies, EUR 288.2 million (7.6%) of our accounts receivable from reinsurance business totalling EUR 3,783.3 million were older than 90 days as at the balance sheet date. The average default rate over the past three years was 0.09%.

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. We measure credit risks in the first place using the standard market credit risk components, especially the probability of default and the potential amount of loss – making allowance for any collateral and the ranking of the individual instruments depending on their effect in each case. We then assess the credit risk first on the level of individual securities (issues) and in subsequent steps on a combined basis on the issuer level. In order to limit the risk of counterparty default we define various limits on the issuer and issue level as well as in the form of dedicated rating quotas. A comprehensive system of risk reporting ensures timely reporting to the functions entrusted with risk management.

Rating structure of our fixed-income securities[1]

Rating classes	Government bonds		Securities issued by semi-governmental entities[2]		Corporate bonds		Covered bonds/asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	21.0	1,277.9	56.4	4,116.6	1.7	179.9	62.3	3,268.2
AA	63.5	3,859.9	40.4	2,944.7	14.0	1.487.9	17.1	897.3
A	9.7	587.6	2.7	197.6	49.1	5,224.5	10.4	544.5
BBB	4.7	287.2	0.5	38.9	29.3	3,116.3	6.2	323.1
< BBB	1.0	62.0	0.0	0.0	6.0	640.0	4.0	208.7
Total	**100.0**	**6,074.7**	**100.0**	**7,297.7**	**100.0**	**10,648.7**	**100.0**	**5,241.8**

[1] Securities held through investment funds are recognised pro rata with their corresponding individual ratings
[2] Including government-guaranteed corporate bonds

The measurement and monitoring mechanisms that have been put in place safeguard a prudent, broadly diversified investment strategy. This is reflected inter alia in the fact that within our portfolio of assets under own management the exposures to government bonds or instruments backed by sovereign guarantees issued by the so-called GIIPS states (Greece, Ireland, Italy, Portugal, Spain) amount to altogether just EUR 70.0 million on a fair value basis. This corresponds to a proportion of 0.2%. The individual countries account for the following shares: Spain EUR 31.0 million, Portugal 20.0 million and Italy 19.0 million. No impairments had to be taken on these holdings. Our portfolio does not contain any Irish government bonds; nor do we hold any bonds of Greek or Cypriot issuers. The breakdown into individual countries and specific exposures is shown in the following table.

Fair values

in EUR million	Government bonds[1]	Securities issued by semi-governmental entities	Corporate bonds		Covered bonds/asset-backed securities	Total
			Financial bonds	Industrial bonds		
Greece	–	–	–	–	–	–
Ireland	0.0	–	0.9	20.5	89.0	110.4
Italy	19.0	–	61.0	84.7	171.3	336.0
Portugal	20.0	–	–	0.8	8.1	28.9
Spain	26.2	4.8	46.2	96.2	179.6	353.1
Total	**65.2**	**4.8**	**108.1**	**202.2**	**448.1**	**828.4**

[1] Including government-guaranteed corporate bonds (risk-oriented approach)

On a fair value basis EUR 3,443.7 million of the corporate bonds held by our company were issued by entities in the financial sector. Of this amount, EUR 2,860.1 million was attributable to banks. The vast majority of these bank bonds (69.8%) are rated "A" or better. Our investment portfolio under own management does not contain any written or issued credit default swaps.

Operational risks

Operational risks refer to the risk of losses occurring because of the inadequacy or failure of internal processes or as a result of events triggered by employee-related, system-induced or external factors. Operational risks are monitored primarily by way of appropriate process management. These risk potentials are evaluated inter alia on the basis of expert assessments and by means of scenario analyses. Such evaluations enable us to prioritise operational risks. When it comes to the monitoring of these risks, we attach special emphasis to the following individual risks.

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

process management, overarching and company-wide processes are continuously optimised and standardised.
Compliance risks are associated with the risk of breaches of standards and requirements, non-compliance with which may entail lawsuits or official proceedings with not inconsiderable detrimental implications for business activities (e. g. tax, antitrust, embargo, data privacy or regulatory law). Upon suspicion of breaches of the law, our employees and business partners are able to report such suspicions anonymously using our electronic whistleblower system, which can be accessed through our website. These tips are brought to the attention of the Compliance Office, which is thus able to investigate the grounds for suspicion. Responsibilities within the compliance organisation are regulated and documented in a manual. The process is documented in regular compliance reports and complemented by training activities.

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

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

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

Information technology risks and information security risks arise, inter alia, out of the risk of the inadequate integrity, confidentiality or availability of systems and information. Losses and damage caused by unauthorised access to IT systems or by computer viruses, for example, pose a serious threat to Hannover Re. Given the broad spectrum of such risks, a diverse range of steering and monitoring measures and organisational standards have been put in place. Among other things, our employees are made more conscious of such security risks through practically oriented tools and training opportunities, e. g. with regard to the handling of personal data.

When it comes to reducing business interruption risks, the paramount objective is the quickest possible return to normal operations after a crisis, for example through implementation of existing contingency plans. Guided by internationally accepted standards, we have defined the basic framework conditions and – among other measures – we have assembled a crisis team to serve as a temporary body in the event of an emergency. The system is complemented by regular exercises and tests.

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

Other risks

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

The hallmark of emerging risks is that the content of such risks cannot as yet be reliably assessed – especially on the underwriting side with respect to our treaty portfolio. Such risks evolve gradually from weak signals to unmistakable tendencies. It is therefore vital to detect these risks at an early stage and then determine their relevance. For the purpose of early detection we have developed an efficient process that spans divisions and lines of business and we have ensured its linkage to risk management. Operational implementation is handled by an expert working group assembled specially for this task. The analyses performed by this working group are used in order to pinpoint any necessary measures (e. g. the implementation of contractual exclusions or the development of new reinsurance products). By way of example, the risks arising out of the emergence of large cities and urban conurbations – so-called megacities – are analysed by this working group. The growth of such urban centres goes hand-in-hand with a host of different problems, including a growing demand for food, drinking water, energy and living space. These challenges may also have implications for our treaty portfolio – in the form not only of risks but also opportunities, e. g. through increased demand for reinsurance products. Climate change, nanotechnology, political unrest, amendments to laws and changes in regulatory requirements as well as pandemics may be cited as examples of other emerging risks.

Strategic risks derive from a possible imbalance between the corporate strategy and the constantly changing general business environment. Such an imbalance might be caused, for example, by incorrect strategic policy decisions, a failure to consistently implement the defined strategies and business plans or an incorrect allocation of resources. We therefore regularly review our corporate strategy in a multi-step procedure and adjust our processes and the resulting guidelines as and when required. We have defined performance criteria and indicators for the operational implementation of the strategic guidelines; these are authoritative when it comes to determining fulfilment of the various targets. With the "Strategy Cockpit" the Executive Board and responsible managers have at their disposal a strategy tool that assists them with the planning, elaboration and management of strategic objectives and measures and safeguards their overall perspective on the company and its strategic risks.

Reputational risks refer to the risk that the trust put in our company by clients, shareholders, employees or the public at large may be damaged. This risk has the potential to jeopardise the business foundation of the company. A good corporate reputation is therefore an indispensable prerequisite for our core business as a reinsurer. Loss of reputation may occur, for example, as a consequence of a data mishap or a case of fraud. We use a number of different practices to minimise this risk, including for example our set communication channels, a professional approach to corporate communications, tried and tested processes for defined crisis scenarios as well as our established Code of Conduct. Our rules governing the use of social networks (social media) as well as the principles defined in our sustainability strategy for conducting business in a responsible and sustainable manner round off this set of tools.

The liquidity risk refers to the risk of being unable to meet our financial obligations when they become due. The liquidity risk consists of the refinancing risk, i. e. the necessary cash cannot be obtained or can only be raised at increased costs, and the market liquidity risk, meaning that financial market transactions can only be completed at a poorer price than expected due to a lack of market liquidity. Core elements of the liquidity management of our investments are, in the first place, management of the maturity structure of our investments on the basis of the planned payment profiles arising out of our technical liabilities and, secondly, regular liquidity planning as well as the asset structure of the investments. Above and beyond the foreseeable payments, unexpected and exceptionally large payments may pose a threat to liquidity. Yet in reinsurance business significant events (major losses) are normally paid out after a lead time that can be reliably planned. As part of our liquidity management we have nevertheless defined asset holdings that have proven to be highly liquid – even in times of financial stress. In addition, we manage the liquidity of the portfolio through ongoing monitoring of the liquidity of the instruments contained therein; liquidity is verified on a monthly and ad hoc basis. These measures serve to effectively reduce the liquidity risk.

Assessment of the risk situation

The above remarks describe the diverse risk universe within which Hannover Re operates as well as the steps taken to manage and monitor these risks. Individual and especially accumulation risks can potentially have a significant impact on our assets, financial position and net income. Yet consideration solely of the risk aspect does not fit our conception of risk, since it is always the case that we only enter into those risks that go hand-in-hand with opportunities. Our management and monitoring tools as well as our organisational and operational structures ensure that we are able to identify risks in a timely manner and maximise our opportunities. The pivotal element in this regard is our effective system of qualitative and quantitative risk management. We are of the opinion that our risk management system affords us a transparent overview of the current risk situation at all times and that our overall risk profile is appropriate. Based on our currently available insights arrived at from a holistic analysis of the risk situation, the Executive Board of Hannover Re cannot discern any risks that could jeopardise the continued existence of our company in the short or medium term or have a material and lasting effect on our assets, financial position or net income. For additional information on the opportunities and risks associated with our business please see the Group Annual Report 2012.

Outlook

For the current financial year we believe that both non-life reinsurance and life and health reinsurance offer sufficient growth potential to be able to achieve our goals. Based on constant exchange rates we expect gross premium for the Hannover Re Group to increase by around 5%.

Although the business environment in non-life reinsurance is more competitive than it was in the previous year, we still see attractive growth opportunities in a number of areas, including for example emerging markets.

We are satisfied with the outcome of the treaty renewals as at 1 April 2013. Following the significant rate increases of the past two years in Japan, market conditions here are very pleasing. Rates remain on a comparatively high level. The company therefore enlarged its shares under existing treaties and booked premium gains of around 6% in the original currency. In Korea, on the other hand, the market climate is more challenging. We therefore scaled back our involvement in proportional business while at the same time expanding our higher-margin non-proportional acceptances. In US property catastrophe business only a small number of treaties are renewed on 1 April 2013. Additional capacities from the non-traditional market meant that the further price increases which had been anticipated on the back of last year's losses from Hurricane Sandy failed to materialise.

For 2013 we are looking to generate growth in total non-life reinsurance in the range of 3% to 5% at constant exchange rates. The EBIT margin should be at least 10%. A combined ratio of ≤ 96% is anticipated.

For our overall life and health reinsurance portfolio we expect to see promising business potential as the year progresses. Most notably, the demographic trend in mature insurance markets such as the United States, Germany, Japan and the United Kingdom is helping to boost demand for protection, especially in the area of retirement provision, pension and annuity insurance. Similarly, increasingly exacting regulatory requirements (including for example the implementation of Solvency II) are prompting stronger demand for reinsurance solutions designed to optimise solvency and liquidity management and ease the strain on primary insurers' capital resources. In dynamically growing emerging markets such as China, India, Brazil and key Eastern European countries, greater affluence has created a middle class with purchasing power that is more keenly interested in safeguarding the financial security of the family and providing for retirement. These regions are seeing widespread demand for capital-oriented reinsurance solutions. We are therefore looking at organic growth in gross premium of between 5% and 7% for the current financial year. For the areas of Financial Solutions and Longevity we are aiming for an EBIT margin of 2%, while for Mortality and Morbidity business the target is 6%.

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 3.4% for 2013.

In view of the good overall business conditions in non-life and life and health reinsurance and bearing in mind our strategic orientation, we anticipate Group net income in the order of EUR 800 million. This is subject to the premise that major losses do not significantly exceed the expected level of EUR 625 million for the full year and also assumes that there are no drastic downturns on capital markets. In accordance with our strategic orientation we are again aiming for a dividend payout in the range of 35% to 40% of IFRS Group net income.

Quarterly consolidated accounts

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Consolidated balance sheet as at 31 March 2013

Assets in EUR thousand	31.3.2013	31.12.2012[1]
Fixed-income securities – held to maturity	3,350,612	3,605,956
Fixed-income securities – loans and receivables	3,431,859	3,415,187
Fixed-income securities – available for sale	22,388,225	21,782,072
Fixed-income securities – at fair value through profit or loss	92,228	147,413
Equity securities – available for sale	29,359	29,246
Other financial assets – at fair value through profit or loss	64,855	60,835
Real estate and real estate funds	839,888	647,961
Investments in associated companies	131,910	133,017
Other invested assets	1,029,359	970,798
Short-term investments	558,137	509,718
Cash	615,307	572,188
Total investments and cash under own management	**32,531,739**	**31,874,391**
Funds withheld	14,701,897	14,627,847
Contract deposits	105,584	123,258
Total investments	**47,339,220**	**46,625,496**
Reinsurance recoverables on unpaid claims	1,507,868	1,538,215
Reinsurance recoverables on benefit reserve	511,859	507,257
Prepaid reinsurance premium	183,254	138,373
Reinsurance recoverables on other technical reserves	1,906	2,611
Deferred acquisition costs	1,867,630	1,841,279
Accounts receivable	3,783,345	3,065,664
Goodwill	58,213	59,099
Deferred tax assets	616,986	620,456
Other assets	506,191	402,655
Accrued interest and rent	4,559	4,238
Assets held for sale	–	6,333
Total assets	**56,381,031**	**54,811,676**

[1] Adjusted on the basis of IAS 8 (cf. Section 2 of the Notes)

Liabilities in EUR thousand	31.3.2013	31.12.2012[1]
Loss and loss adjustment expense reserve	22,520,231	21,610,698
Benefit reserve	10,972,770	10,974,570
Unearned premium reserve	2,698,363	2,339,809
Other technical provisions	227,547	214,219
Funds withheld	815,517	821,060
Contract deposits	5,919,158	5,797,884
Reinsurance payable	902,640	1,121,409
Provisions for pensions	127,481	126,156
Taxes	243,054	237,552
Deferred tax liabilities	2,005,457	1,960,073
Other liabilities	611,232	493,311
Long-term debt and subordinated capital	2,406,868	2,400,791
Total liabilities	**49,450,318**	**48,097,532**
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	972,449	987,918
Cumulative foreign currency translation adjustment	29,246	(16,225)
Changes from hedging instruments	(9,455)	(9,455)
Other changes in cumulative other comprehensive income	(42,374)	(51,628)
Total other comprehensive income	**949,866**	**910,610**
Retained earnings	4,498,084	4,276,703
Equity attributable to shareholders of Hannover Rück SE	**6,293,109**	**6,032,472**
Non-controlling interests	637,604	681,672
Total shareholders' equity	**6,930,713**	**6,714,144**
Total liabilities	**56,381,031**	**54,811,676**

Consolidated accounts

Consolidated statement of income as at 31 March 2013

in EUR thousand	1.1.–31.3.2013	1.1.–31.3.2012[1]
Gross written premium	3,757,875	3,510,567
Ceded written premium	380,921	314,209
Change in gross unearned premium	(338,481)	(423,141)
Change in ceded unearned premium	42,388	42,948
Net premium earned	**3,080,861**	**2,816,165**
Ordinary investment income	246,107	258,159
Profit/loss from investments in associated companies	1,090	1,803
Realised gains and losses on investments	34,772	37,807
Unrealised gains and losses on investments	3,311	84,562
Total depreciation, impairments and appreciation of investments	3,093	7,052
Other investment expenses	21,267	18,393
Net income from investments under own management	**260,920**	**356,886**
Income/expense on funds withheld and contract deposits	93,823	83,730
Net investment income	**354,743**	**440,616**
Other technical income	705	385
Total revenues	**3,436,309**	**3,257,166**
Claims and claims expenses	2,270,013	2,046,111
Change in benefit reserves	79,143	109,036
Commission and brokerage, change in deferred acquisition costs	624,477	582,693
Other acquisition costs	848	3,274
Other technical expenses	1,367	1,016
Administrative expenses	88,359	74,091
Total technical expenses	**3,064,207**	**2,816,221**
Other income and expenses	(19,593)	(47,775)
Operating profit (EBIT)	**352,509**	**393,170**
Interest on hybrid capital	31,379	25,371
Net income before taxes	**321,130**	**367,799**
Taxes	82,327	92,507
Net income	**238,803**	**275,292**
thereof		
Non-controlling interest in profit and loss	17,399	13,991
Group net income	**221,404**	**261,301**
Earnings per share (in EUR)		
Basic earnings per share	1.84	2.17
Diluted earnings per share	1.84	2.17

[1] Adjusted on the basis of IAS 8 (cf. Section 2 of the Notes)

Consolidated statement of comprehensive income as at 31 March 2013

in EUR thousand	1.1.–31.3.2013	1.1.–31.3.2012[1]
Net income	238,803	275,292
Not reclassifiable to the consolidated statement of income		
Actuarial gains and losses		
Gains/losses recognised directly in equity	(19)	(8,303)
Tax income/expense	5	2,654
	(14)	**(5,649)**
Income and expense recognised directly in equity that cannot be reclassified		
Gains/losses recognised directly in equity	(19)	(8,303)
Tax income/expense	5	2,654
	(14)	**(5,649)**
Reclassifiable to the consolidated statement of income		
Unrealised gains and losses on investments		
Gains/losses recognised directly in equity	9.115	248,539
Transferred to the consolidated statement of income	(29.824)	(9,682)
Tax income/expense	5,810	(69,262)
	(14,899)	**169,595**
Currency translation		
Gains/losses recognised directly in equity	63,023	(51,563)
Transferred to the consolidated statement of income	(5,507)	–
Tax income/expense	(10,454)	6,675
	47,062	**(44,888)**
Changes from hedging instruments		
Gains/losses recognised directly in equity	–	12,453
Tax income/expense	–	(3,976)
	–	**8,477**
Other changes		
Gains/losses recognised directly in equity	13,252	8,524
Tax income/expense	(3,984)	(2,510)
	9,268	**6,014**
Reclassifiable income and expense recognised directly in equity		
Gains/losses recognised directly in equity	85,390	217,953
Transferred to the consolidated statement of income	(35,331)	(9,682)
Tax income/expense	(8,628)	(69,073)
	41,431	**139,198**
Total income and expense recognised directly in equity		
Gains/losses recognised directly in equity	85,371	209,650
Transferred to the consolidated statement of income	(35,331)	(9,682)
Tax income/expense	(8,623)	(66,419)
	41,417	**133,549**
Total recognised income and expense	**280,220**	**408,841**
thereof:		
Attributable to non-controlling interests	19,560	23,933
Attributable to shareholders of Hannover Re	260,660	384,908

[1] Adjusted on the basis of IAS 8 (cf. Section 2 of the Notes)

Consolidated statement of changes in shareholders' equity as at 31 March 2013

in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)	
			Unrealised gains/losses	Currency translation
Balance as at 1.1.2012	120,597	724,562	453,115	11,559
Changes in ownership interest with no change of control status	–	–	–	(12)
Capital increases/additions	–	–	–	–
Capital repayments	–	–	–	–
Total income and expense recognised directly in equity	–	–	156,774	(42,610)
Net income	–	–	–	–
Dividends paid	–	–	–	–
Balance as at 31.3.2012	**120,597**	**724,562**	**609,889**	**(31,063)**
Balance as at 1.1.2013	**120,597**	**724,562**	**987,918**	**(16,225)**
Changes in ownership interest with no change of control status	–	–	–	–
Changes in the consolidated group	–	–	–	–
Capital increases/additions	–	–	–	–
Capital repayments	–	–	–	–
Total income and expense recognised in equity	–	–	(15,469)	45,471
Net income	–	–	–	–
Dividends paid	–	–	–	–
Balance as at 31.3.2013	**120,597**	**724,562**	**972,449**	**29,246**

The consolidated statement of changes in shareholders' equity for the previous year was adjusted retrospectively on the basis of IAS 8 due to effects resulting from the application of IAS 19R (cf. explanatory remarks on changes in accounting policies in Section 2 of the Notes).

Continuation: Other reserves (cumulative other comprehensive income)		Retained earnings	Equity attributable to shareholders of Hannover Re	Non-controlling interests	Total shareholders' equity
Hedging instruments	Other				
–	(22,712)	3,680,397	4,967,518	635,642	5,603,160
–	–	(183)	(195)	195	–
–	–	–	–	94	94
–	–	–	–	(3,407)	(3,407)
8,477	966	–	123,607	9,942	133,549
–	–	261,301	261,301	13,991	275,292
–	–	–	–	(45,408)	(45,408)
8,477	**(21,746)**	**3,941,515**	**5,352,231**	**611,049**	**5,963,280**
(9,455)	(51,628)	**4,276,703**	**6,032,472**	**681,672**	**6,714,144**
–	–	(23)	(23)	1	(22)
–	–	–	–	(14,271)	(14,271)
–	–	–	–	7	7
–	–	–	–	(1,861)	(1,861)
–	9,254	–	39,256	2,161	41,417
–	–	221,404	221,404	17,399	238,803
–	–	–	–	(47,504)	(47,504)
(9,455)	**(42,374)**	**4,498,084**	**6,293,109**	**637,604**	**6,930,713**

Consolidated cash flow statement as at 31 March 2013

in EUR thousand	1.1.–31.3.2013	1.1.–31.3.2012[1]
I. Cash flow from operating activities		
Net income	238,803	275,292
Appreciation/depreciation	5,557	10,005
Net realised gains and losses on investments	(34,772)	(37,807)
Net unrealised gains and losses on investments	(3,311)	(84,562)
Effect on net income from deconsolidation	(6.661)	–
Income from the recognition of negative goodwill	(175)	–
Amortisation of investments	33,037	18,879
Changes in funds withheld	(137,259)	(164,405)
Net changes in contract deposits	119,966	129,892
Changes in prepaid reinsurance premium (net)	296,171	379,974
Changes in tax assets/provisions for taxes	24,899	25,819
Changes in benefit reserve (net)	63,952	60,625
Changes in claims reserves (net)	719,543	531,229
Changes in deferred acquisition costs	(17,742)	(40,485)
Changes in other technical provisions	11,058	14,897
Changes in clearing balances	(931,567)	(425,852)
Changes in other assets and liabilities (net)	33,886	43,124
Cash flow from operating activities	**415,385**	**736,625**

[1] Adjusted on the basis of IAS 8 (cf. Section 2 of the Notes)

in EUR thousand	1.1.–31.3.2013	1.1.–31.3.2012
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	330,017	146,191
Purchases	(46,980)	–
Fixed-income securities – loans and receivables		
Maturities, sales	89,969	166,857
Purchases	(75,192)	(39,418)
Fixed-income securities – available for sale		
Maturities, sales	2,340,604	2,434,153
Purchases	(2,763,155)	(3,285,477)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	21,205	11,918
Purchases	(6,525)	(31,599)
Equity securities – available for sale		
Sales	3,907	–
Purchases	(2,398)	(1,568)
Other financial assets – at fair value through profit or loss		
Sales	–	185
Other invested assets		
Sales	27,091	11,239
Purchases	(25,624)	(32,637)
Affiliated companies and participating interests		
Sales	–	23
Purchases	–	(8,202)
Real estate and real estate funds		
Sales	13,351	28,954
Purchases	(180,098)	(33,901)
Short-term investments		
Changes	(44,517)	(32,666)
Other changes (net)	(4,641)	(3,770)
Cash flow from investing activities	**(322,986)**	**(669,718)**

in EUR thousand	1.1.–31.3.2013	1.1.–31.3.2012
III. Cash flow from financing activities		
Contribution from capital measures	309	94
Payment on capital measures	(2,555)	(3,982)
Structural change without loss of control	(22)	–
Dividends paid	(47,504)	(45,408)
Proceeds from long-term debts	4,551	–
Repayment of long-term debts	(9,947)	(9,046)
Cash flow from financing activities	**(55,168)**	**(58,342)**
IV. Exchange rate differences on cash	**9,721**	**(12,688)**
Cash and cash equivalents at the beginning of the period	572,188	506,963
Change in cash and cash equivalents (I.+II.+III.+IV.)	**46,952**	**(4,123)**
Changes in the consolidated Group	**(3,833)**	–
Cash and cash equivalents at the end of the period	**615,307**	**502,840**
Supplementary information on the cash flow statement[1]		
Income taxes paid (on balance)	(59,914)	(38,608)
Dividend receipts[2]	10,384	5,760
Interest received	347,307	347.177
Interest paid	(66,109)	(63,757)

[1] Since the 2012 annual financial statements the supplementary information on the cash flow statement has been expanded to include dividend receipts as well as a breakdown of interest received and paid. The figures for the previous year were recalculated in this context. The income taxes as well as dividend receipts and interest received are included entirely in the cash flow from operating activities. The interest paid is attributable in an amount of EUR 45,126 thousand (EUR 47,777 thousand) to the cash flow from financing activities and in an amount of EUR 20,983 thousand (EUR 15,980 thousand) to the cash flow from operating activities.

[2] Including dividend-like profit participations from investment funds

Notes to the Interim Report 1/2013

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Notes

1. General reporting principles

With the entry in the commercial register of Hannover County Court the conversion of Hannover Rückversicherung AG to the legal form of a European Company, Societas Europaea (SE), came into effect on 19 March 2013. The company thus bears the name Hannover Rück SE and has its registered office at Karl-Wiechert-Allee 50, 30625 Hannover, Germany.

The parent company Hannover Rück SE ("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 majority-owned by HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI). Hannover Re is obliged to prepare a consolidated financial statement and group management report in accordance with § 290 German Commercial Code (HGB). Furthermore, HDI is required by §§ 341 i et seq. German Commercial Code (HGB) to prepare consolidated annual accounts that include the annual financial statements of Hannover Re and its subsidiaries.

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

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

The present consolidated quarterly financial statement was prepared by the Executive Board on 19 April 2013 and released for publication.

2. Accounting principles including major accounting policies

The quarterly accounts of the consolidated companies included in the consolidated financial statement were drawn up as at 31 March 2013.

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

All standards adopted by the IASB as at 31 March 2013 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

IFRS 13 „Fair Value Measurement", a standard published in May 2011, must be applied prospectively to financial years beginning on or after 1 January 2013. The standard establishes 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. Hannover Re applied IFRS 13 for the first time in the first quarter of 2013. Initial application did not result in any significant change in the carrying values in the consolidated financial statement. With regard to the new disclosures we would refer overall to our remarks in the subsection „Information on fair values and fair value hierarchy" at the end of Section 5.1 „Investments under own management".

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

In November 2009 the IASB issued IFRS 9 „Financial Instruments" on the classification and measurement of financial instruments. IFRS 9 is the first step in a three-phase project intended to replace IAS 39 „Financial Instruments: Recognition and Measurement" with a new standard. IFRS 9 introduces new requirements for classifying and measuring financial assets. The provisions of IFRS 9 were expanded in October 2010 with an eye to financial liabilities for which the fair value option is chosen. In December 2011 the IASB issued „Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)", delaying the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015. In addition, it modified the relief from restating comparable periods and the associated disclosures in IFRS 7. Neither IFRS 9 nor the specified subsequent amendments have yet been ratified by the EU.

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

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

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

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

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

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

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

In June 2012 the IASB issued „Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12". These amendments clarify that the effective date of IFRS 10 is 1 January 2013, if the financial year coincides with the calendar year. The requirement to provide adjusted comparative information is limited upon initial application to only the immediately preceding period; retrospective adjustments for subsidiaries sold in the comparative period are not required. Furthermore, it is not necessary to provide comparative information on unconsolidated structured entities upon initial application of IFRS 12. These amendments were adopted by the EU on 4 April 2013.

In October 2012 the IASB issued „Investment Entities (Changes to IFRS 10, IFRS 12 and IAS 27)". Insofar as the parent company meets the definition of an investment entity, an exception is provided in relation to the consolidation of subsidiaries required under IFRS 10. Rather than consolidate them, such parent companies are required to measure their investments in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 „Financial Instruments" or IAS 39 „Financial Instruments: Recognition and Measurement". These amendments have still to be adopted by the EU.

The requirements of IFRS 10, 11 and 12 as well as the revised IAS 27 and 28 are to be applied to financial years beginning on or after 1 January 2013. The Accounting Regulatory Committee (ARC) decided in June 2012 that application of the aforementioned standards within the EU shall not be mandatory until one year later, with an effective date of 1 January 2014. The new IFRS 10, 11, 12 and the revised IAS 27 and 28 were adopted by the EU in December 2012.

In December 2011 the IASB issued „Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)“. While the offsetting rules for financial instruments remain unchanged, the application guidance of the standard clarifies the meaning of „currently has a legally enforceable right to set-off“ and „simultaneous“. The amendments have a mandatory effective date for annual periods beginning on or after 1 January 2014 and were adopted by the EU in December 2012.

Key exchange rates

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

Key exchange rates

1 EUR corresponds to:	31.3.2013	31.12.2012	1.1.–31.3.2013	1.1.–31.3.2012
	Mean rate of exchange on the balance sheet date		Average rate of exchange	
AUD	1.2297	1.2690	1.2695	1.2585
BHD	0.4828	0.4970	0.4963	0.4988
CAD	1.3010	1.3119	1.3285	1.3234
CNY	7.9582	8.2148	8.1902	8.3337
GBP	0.8462	0.8180	0.8463	0.8369
HKD	9.9432	10.2186	10.2117	10.2679
KRW	1,425.3735	1,407.2395	1,431.9372	1,497.8491
MYR	3.9679	4.0364	4.0676	4.0576
SEK	8.3487	8.5742	8.5006	8.8613
USD	1.2806	1.3182	1.3164	1.3231
ZAR	11.7805	11.2069	11.7136	10.2426

Changes in accounting policies

In June 2011 the IASB published amendments to IAS 1 „Presentation of Financial Statements“. The revised IAS 1 requires entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently, i.e. those that might be reclassified and those that will not be reclassified. Subtotals are to be shown accordingly for the two groups. Tax associated with items presented before tax is to be shown separately for each of the groups of OCI items. The amendments were adopted by the EU in June 2012 and are applicable retrospectively to annual periods beginning on or after 1 July 2012. Hannover Re applied the amended IAS 1 for the first time in the first quarter of 2013 and adjusted accordingly the disclosure for the comparable period in accordance with IAS 8 „Accounting Policies, Changes in Accounting Estimates and Errors“. The changes did not have any implications for the carrying values in the consolidated financial statement or for Group net income.

In the first quarter of 2013 Hannover Re applied for the first time the revised IAS 19 „Employee Benefits“ (IAS 19R), which was issued by the IASB in June 2011. The standard has a mandatory effective date for annual periods beginning on or after 1 January 2013. The change was adopted in European law by the EU in June 2012. In accordance with the transitional requirements the standard was applied retrospectively in conformity with IAS 8 „Accounting Policies, Changes in Accounting Estimates and Errors“.

The previous application of the corridor approach in the accounting of defined benefit pension plans resulted in actuarial gains and losses only being recognised to the extent that they exceeded certain size criteria. In addition, the portion to be recognised was spread over several years. An off-balance-sheet recognition of partial amounts of the pension commitment also arose out of the previously applicable rules governing retrospective plan changes, which resulted in an increase in the existing commitment and hence in a past service cost.

This past service cost was to be recognised immediately only to the extent that the additional benefits had already vested. Amounts above and beyond this were recognised pro rata until the resulting benefits vested.

In accordance with the revised IAS 19R all actuarial gains and losses („remeasurements“) are to be recognised immediately and entirely in OCI and past service costs in profit or loss for the period. In addition, the expected return on plan assets must in future be determined by applying the discount rate used to measure the defined benefit obligation. Given that pension commitments in the Hannover Re Group are funded only to a small extent through plan assets, there are no significant implications for Group net income. Furthermore, application of the revised IAS 19 resulted in a minimal adjustment of the accounting in connection with German partial retirement pension commitments.

The effects of the retrospective application of IAS 19R to the opening balance sheet as at 1 January 2012 and to the comparable period of the previous 2012 financial year are as follows.

Consolidated balance sheet as at 1 January 2012

in EUR thousand	1.1.2012 as stated	Adjustments	1.1.2012
Assets			
Deferred tax assets	682,888	306	683,194
Liabilities			
Provisions for pensions	88,299	6,951	95,250
Deferred tax liabilities	1,723,265	(1,304)	1,721,961
Other liabilities	443,671	(1,846)	441,825
Total liabilities	44,260,297	3,802	44,264,099
Reserve as per IAS 19R	–	(4,159)	(4,159)
Total OCI	446,121	(4,159)	441,962
Retained earnings	3,679,351	1,046	3,680,397
Equity attributable to shareholders of Hannover Re	4,970,631	(3,113)	4,967,518
Non-controlling interests	636,024	(382)	635,642
Total shareholders' equity	**5,606,655**	**(3,495)**	**5,603,160**

Consolidated balance sheet as at 31 December 2012

in EUR thousand	31.12.2012 as stated	Adjustments	31.12.2012
Assets			
Deferred tax assets	620,493	(37)	620,456
Liabilities			
Provisions for pensions	86,464	39,692	126,156
Deferred tax liabilities	1,972,373	(12,300)	1,960,073
Other liabilities	494,604	(1,293)	493,311
Total liabilities	48,071,433	26,099	48,097,532
Cumulative foreign currency translation adjustment	(16,216)	(9)	(16,225)
Reserve as per IAS 19R	–	(24,417)	(24,417)
Total OCI	935,036	(24,426)	910,610
Retained earnings	4,275,613	1,090	4,276,703
Equity attributable to shareholders of Hannover Re	6,055,808	(23,336)	6,032,472
Non-controlling interests	684,472	(2,800)	681,672
Total shareholders' equity	**6,740,280**	**(26,136)**	**6,714,144**

The following adjustments were to be made in the consolidated statement of income for the comparable period of the previous year due to retrospective application of IAS 19R:

Consolidated statement of income

in EUR thousand	1.1.–31.3.2012 as stated	Adjustments	1.1.–31.3.2012
Other income and expenses	(47,779)	4	(47,775)
Operating profit/loss (EBIT)	393,166	4	393,170
Net income before taxes	367,795	4	367,799
Taxes	92,509	(2)	92,507
Net income	275,286	6	275,292
thereof			
Non-controlling interest in profit and loss	13,995	(4)	13,991
Group net income	**261,291**	**10**	**261,301**
Earnings per share (in EUR)			
Basic earnings per share	2,17	–	2,17
Diluted earnings per share	2,17	–	2,17

3. Consolidated companies and consolidation principles

Capital consolidation

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

The capital consolidation is based on the acquisition method. In the context of the acquisition method the acquisition costs, measured at the fair value of the consideration rendered by the parent company on the acquisition date, 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 17.4 million (EUR 14.0 million) as at 31 March 2013.

For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2012.

Consolidation of business transactions within the Group

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

Consolidation of special purpose entities

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

Retrocessions and Insurance-Linked Securities (ILS)

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

In 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. The term of the retrocession arrangement runs until the underlying obligations have been finally settled. Since Hannover Re is not the major beneficiary of the special purpose entity and does not exercise either indirect or direct control over it, there is no requirement to consolidate this special purpose entity.

Securitisation of reinsurance risks

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

In the previous year Hannover Re issued a catastrophe ("CAT") bond for the purpose 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 100.0 million, runs until 31 March 2016; it was placed with institutional investors from Europe, North America and Asia by Eurus III Ltd. Eurus III Ltd. is a special purpose entity domiciled in Hamilton/Bermuda that was registered in August 2012 as a „special purpose insurer" under the Bermuda Insurance Act 1978. The retrocessions concluded with the special purpose entity under the transaction afford Hannover Re, E+S Rück and Hannover Re (Bermuda) Ltd. protection against the aforementioned catastrophe risks. Since Hannover Re does not exercise a controlling influence over Eurus III Ltd., there is no consolidation requirement for the special purpose entity.

By way of its „K" transactions Hannover Re has raised further underwriting capacity for catastrophe risks on the capital market. The „K Cession", which was placed with investors in North America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. The volume of this securitisation was equivalent to EUR 256.2 million (EUR 268.0 million) as at the balance sheet date. The transaction has an indefinite term and can be cancelled annually by the investors. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is being used for the securitisation.

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

Life and health reinsurance assumed

Some transactions in the life and health reinsurance segment necessitate the involvement of ceding special purpose entities as contracting parties that are established by parties outside the Group and from which member companies of the Hannover Re Group assume certain underwriting and/or financial risks. The transactions largely serve the purpose of financing statutory reserves (so-called Triple-X or AXXX reserves) and transferring extreme mortality risks above a contractually defined retention. Since Hannover Re does not bear the majority of the economic risks or benefits arising out of its business relations with these special purpose entities and cannot exercise a controlling influence over them, there is no consolidation requirement for Hannover Re.

Depending upon the classification of the contracts pursuant to IFRS 4 or IAS 39, the transactions are recognised either in the technical account or as derivative financial instruments or as financial guarantees. Please see also our remarks in Section 7.1 „Derivative financial instruments and financial guarantees".

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 Hannover Insurance-Linked Securities GmbH & Co. KG (HILS) and Leine Investment SICAV-SIF – in a number of special purpose entities for the securitisation of catastrophe risks by investing in "disaster bonds" (or "CAT bonds"). While HILS will continue to manage its portfolio, future new business in this area will be written by the Luxembourg-based Leine Investment companies, which were established in the previous year. Leine Investment General Partner S.à.r.l. is the managing partner of the asset management company Leine Investment SICAV-SIF, the business object of which is to build, hold and manage a portfolio of insurance-linked securities and catastrophe bonds – including for third-party investors outside the Group. Since Hannover Re does not exercise a controlling influence in any of these transactions either there is no requirement to consolidate the special purpose entities concerned.

Acquisitions and new formations

The Munich-based HR GLL Central Europe Holding GmbH was established in January 2013 and included in the consolidated financial statement for the first time with effect from the first quarter of 2013. All shares of the company are held by HR GLL Central Europe GmbH & KG, Munich. The business object of the company is to purchase, manage, rent, lease and sell commercial real estate or equivalent rights in Europe as well as to establish and acquire subsidiaries in the form of real estate companies that acquire and hold such real estate.

With effect from 1 January 2013 Glencar Underwriting Managers, Inc., based in Chicago, United States (Glencar), was consolidated for the first time in view of the expansion recorded in the business volume. The business object of the company is to write specialty lines as well as property and casualty program business in the US market with a focus on small to mid-sized programs. In the second quarter of 2011 Funis GmbH & Co. KG, a wholly owned subsidiary of Hannover Re, participated in Glencar with a capital contribution of USD 98,000 (corresponding to 49.0% of the share capital). Preference shares in an amount of roughly USD 2.3 million were purchased in the course of the third quarter of 2011; of these, preference shares amounting to USD 1.6 million constitute voting, puttable equity instruments and were therefore recognised as debt pursuant to IAS 32. The remaining preference shares in an amount of roughly USD 0.7 million have the features of non-voting, non-puttable equity instruments and are classified as equity pursuant to IAS 32. Given that Hannover Re holds a majority of the voting rights in Glencar, it has the possibility of exercising control over the company. For reasons of materiality Glencar was carried as a participating interest until the fourth quarter of 2012. At the time of initial consolidation and as at the balance sheet date, Funis held an interest of 49.0% in the share capital. The liabilities-side difference arising out of initial consolidation in an amount of EUR 0.2 million was recognised in income.

Disposals and retirements

By way of the contractually agreed transfer of its management share in Secquaero ILS Fund Ltd., Georgetown, Grand Cayman back to the investment manager outside the Group, Hannover Re relinquished control over the company and its participations with effect from 1 January 2013. Since that date the company has therefore no longer been included in the consolidated financial statement, but is instead carried as a participating interest at net asset value and recognised under other invested assets. Income of EUR 1.2 million was carried under other income and expenses from derecognition of the assets and liabilities as well as initial recognition of the participating interest at net asset value. In addition, cumulative other comprehensive income of EUR 5.5 million was realised from currency translation.

Further corporate changes

Hannover Re transferred all the business of its subsidiary Hannover Life Reassurance (UK) Ltd., Virginia Water, to a newly established branch of the parent company Hannover Re with the same registered office effective 1 January 2013 by way of a so-called „Part VII transfer“. The branch trades under the name Hannover Re UK Life Branch and was registered on 3 December 2012 under the Companies Act 2006. Hannover Life Reassurance (UK) Ltd. was deleted from the Commercial Register on 8 January 2013 and liquidated with effect from the first quarter of 2013. Since this internal restructuring within the Group involves a transaction between companies under common control, the transaction does not give rise to goodwill nor does it have any implications for Group net income.

4. Group segment report

The segment information shown here is based on the same principles as those applied in the consolidated financial statement as at 31 December 2012. It follows the system used for internal reporting purposes, on the basis of which the full Executive Board regularly evaluates the performance of segments and decides on the allocation of resources to them. The „Consolidation“ column includes not only the elimination of cross-segment transactions but also, more significantly, companies whose business operations cannot be unambiguously allocated to non-life reinsurance or life/health reinsurance. These are principally the service and financing companies belonging to the Group. Since the performance indicators used to steer the segments correspond to the system according to which the consolidated financial statement is prepared, a separate reconciliation of the segment results with the Group result is not provided. Both the companies that were consolidated for the first time in the reporting period – namely Glencar Underwriting Managers, Inc., Chicago and HR GLL Central Europe Holding GmbH, Munich – and Secquaero ILS Fund Ltd., which was no longer included in the consolidated financial statement, are allocable to the non-life reinsurance segment. We would also refer to the relevant information in the consolidated financial statement as at 31 December 2012.

Segmentation of assets

in EUR thousand	Non-life reinsurance 31.3.2013	Non-life reinsurance 31.12.2012[1]
Assets		
Held to maturity	3,029,771	3,213,397
Loans and receivables	3,323,618	3,313,608
Available for sale	15,802,778	15,572,034
At fair value through profit or loss	56,351	113,030
Other invested assets	1,919,397	1,679,251
Short-term investments	365,295	325,302
Cash	441,207	407,336
Total investments and cash under own management	**24,938,417**	**24,623,958**
Funds withheld	892,845	925,312
Contract deposits	1,161	25,803
Total investments	**25,832,423**	**25,575,073**
Reinsurance recoverables on unpaid claims	1,227,906	1,288,664
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	181,978	135,999
Reinsurance recoverables on other reserves	711	1,103
Deferred acquisition costs	516,418	476,592
Accounts receivable	2,416,582	1,691,435
Other assets in the segment	1,339,983	1,288,719
Assets held for sale	–	6,333
Total assets	**31,516,001**	**30,463,918**

Segmentation of liabilities

in EUR thousand

Liabilities	31.3.2013	31.12.2012[1]
Loss and loss adjustment expense reserve	19,320,618	18,595,088
Benefit reserve	–	–
Unearned premium reserve	2,596,168	2,253,544
Provisions for contingent commissions	138,548	141,114
Funds withheld	424,328	432,884
Contract deposits	89,541	84,523
Reinsurance payable	667,437	702,224
Long-term liabilities	172,505	167,774
Other liabilities in the segment	2,003,838	1,868,048
Total liabilities	**25,412,983**	**24,245,199**

[1] Adjusted on the basis of IAS 8

Life and health reinsurance		Consolidation		Total	
31.3.2013	31.12.2012[1]	31.3.2013	31.12.2012	31.3.2013	31.12.2012[1]
198,399	199,319	122,442	193,240	3,350,612	3,605,956
76,979	75,424	31,262	26,155	3,431,859	3,415,187
6,181,162	5,805,682	433,644	433,602	22,417,584	21,811,318
81,229	75,731	19,503	19,487	157,083	208,248
79,833	75,055	1,927	(2,530)	2,001,157	1,751,776
161,310	183,866	31,532	550	558,137	509,718
171,440	161,258	2,660	3,594	615,307	572,188
6,950,352	**6,576,335**	**642,970**	**674,098**	**32,531,739**	**31,874,391**
13,809,052	13,702,535	–	–	14,701,897	14,627,847
104,423	97,455	–	–	105,584	123,258
20,863,827	**20,376,325**	**642,970**	**674,098**	**47,339,220**	**46,625,496**
281,671	251,161	(1,709)	(1,610)	1,507,868	1,538,215
511,859	507,257	–	–	511,859	507,257
1,457	2,620	(181)	(246)	183,254	138,373
1,195	1,508	–	–	1,906	2,611
1,351,202	1,364,675	10	12	1,867,630	1,841,279
1,367,328	1,375,992	(565)	(1,763)	3,783,345	3,065,664
521,864	503,325	(675,898)	(705,596)	1,185,949	1,086,448
–	–	–	–	–	6,333
24,900,403	24,382,863	(35,373)	(35,105)	56,381,031	54,811,676

Life and health reinsurance		Consolidation		Total	
3,201,322	3,017,220	(1,709)	(1,610)	22,520,231	21,610,698
10,972,942	10,974,804	(172)	(234)	10,972,770	10,974,570
102,195	86,265	–	–	2,698,363	2,339,809
88,999	73,105	–	–	227,547	214,219
391,189	388,176	–	–	815,517	821,060
5,829,617	5,713,361	–	–	5,919,158	5,797,884
235,717	421,214	(514)	(2,029)	902,640	1,121,409
–	4,552	2,234,363	2,228,465	2,406,868	2,400,791
1,627,498	1,626,756	(644,112)	(677,712)	2,987,224	2,817,092
22,449,479	22,305,453	1,587,856	1,546,880	49,450,318	48,097,532

Notes

Segment statement of income

in EUR thousand	Non-life reinsurance 1.1.–31.3.2013	Non-life reinsurance 1.1.–31.3.2012[1]
Gross written premium	2,197,623	2,116,636
Thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	2,197,623	2,116,636
Net premium earned	1,691,927	1,554,703
Net investment income	186,823	254,519
Thereof		
Unrealised gains and losses on investments	(3,955)	45,630
Total depreciation, impairments and appreciation of investments	3,085	5,666
Income/expense on funds withheld and contract deposits	3,632	3,308
Claims and claims expenses	1,158,564	1,115,144
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	386,521	351,939
Administrative expenses	48,761	40,862
Other income and expenses	(26,245)	(38,235)
Operating profit/loss (EBIT)	**258,659**	**263,042**
Interest on hybrid capital	–	–
Net income before taxes	**258,659**	**263,042**
Taxes	66,839	77,053
Net income	**191,820**	**185,989**
Thereof		
Non-controlling interest in profit or loss	16,932	12,835
Group net income	**174,888**	**173,154**

[1] Adjusted on the basis of IAS 8

Life and health reinsurance		Consolidation		Total	
1.1.–31.3.2013	1.1.–31.3.2012 [1]	1.1.–31.3.2013	1.1.–31.3.2012	1.1.–31.3.2013	1.1.–31.3.2012 [1]
1,560,301	1,393,977	(49)	(46)	3,757,875	3,510,567
49	46	(49)	(46)	–	–
1,560,252	1,393,931	–	–	3,757,875	3,510,567
1,388,856	1,261,464	78	(2)	3,080,861	2,816,165
162,373	177,398	5,547	8,699	354,743	440,616
7,141	35,374	125	3,558	3,311	84,562
8	1,386	–	–	3,093	7,052
90,191	80,422	–	–	93,823	83,730
1,111,371	931,164	78	(197)	2,270,013	2,046,111
79,081	109,037	62	(1)	79,143	109,036
239,463	236,408	3	(1,749)	625,987	586,598
39,511	34,105	87	(876)	88,359	74,091
6,545	(5,853)	107	(3,687)	(19,593)	(47,775)
88,348	**122,295**	**5,502**	**7,833**	**352,509**	**393,170**
–	–	31,379	25,371	31,379	25,371
88,348	**122,295**	**(25,877)**	**(17,538)**	**321,130**	**367,799**
22,617	20,949	(7,129)	(5,495)	82,327	92,507
65,731	**101,346**	**(18,748)**	**(12,043)**	**238,803**	**275,292**
467	1,156	–	–	17,399	13,991
65,264	**100,190**	**(18,748)**	**(12,043)**	**221,404**	**261,301**

5. Notes on the individual items of the balance sheet

5.1 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 2012.

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

Investments

in EUR thousand	31.3.2013	31.12.2012
Regional origin		
Germany	6,803,777	6,779,027
United Kingdom	2,391,189	2,955,807
France	1,865,251	1,819,918
Other	6,984,540	6,348,984
Europe	**18,044,757**	**17,903,736**
USA	8,490,878	8,065,355
Other	1,152,301	1,162,038
North America	**9,643,179**	**9,227,393**
Asia	1,271,175	1,301,702
Australia	2,316,130	2,245,320
Australasia	**3,587,305**	**3,547,022**
Africa	400,394	417,557
Other	856,104	778,683
Total	**32,531,739**	**31,874,391**

Maturities of the fixed-income and variable-yield securities

in EUR thousand	31.3.2013		31.12.2012	
	Amortised cost[1]	Fair value	Amortised cost[1]	Fair value
Held to maturity				
due in one year	830,889	840,603	908,601	916,267
due after one through two years	527,761	547,238	606,525	629,138
due after two through three years	1,183,848	1,271,883	1,089,354	1,171,603
due after three through four years	411,743	447,659	532,996	577,930
due after four through five years	58,969	62,370	150,735	162,378
due after five through ten years	334,732	368,026	315,208	350,218
due after more than ten years	2,670	3,296	2,537	3,198
Total	**3,350,612**	**3,541,075**	**3,605,956**	**3,810,732**
Loans and receivables				
due in one year	205,098	207,863	207,861	216,965
due after one through two years	367,307	380,402	408,386	423,503
due after two through three years	290,683	307,187	311,764	330,670
due after three through four years	590,549	643,481	382,075	417,721
due after four through five years	94,716	103,842	285,438	312,267
due after five through ten years	1,093,130	1,208,017	1,033,273	1,156,510
due after more than ten years	790,376	921,036	786,390	922,804
Total	**3,431,859**	**3,771,828**	**3,415,187**	**3,780,440**
Available for sale				
due in one year[2]	2,819,665	2,831,766	2,379,998	2,387,173
due after one through two years	2,350,621	2,389,419	2,758,881	2,797,560
due after two through three years	2,396,856	2,487,475	2,525,881	2,616,092
due after three through four years	1,889,815	1,987,496	1,775,135	1,862,419
due after four through five years	2,322,824	2,428,414	2,436,644	2,549,947
due after five through ten years	7,846,921	8,337,707	7,132,799	7,617,225
due after more than ten years	2,806,754	3,099,392	2,709,969	3,033,562
Total	**22,433,456**	**23,561,669**	**21,719,307**	**22,863,978**
Financial assets at fair value through profit or loss				
due in one year	57,986	57,986	69,544	69,544
due after one through two years	7,838	7,838	15,626	15,626
due after two through three years	3,724	3,724	17,619	17,619
due after three through four years	3,177	3,177	14,823	14,823
due after four through five years	1,983	1,983	4,936	4,936
due after five through ten years	–	–	7,276	7,276
due after more than ten years	17,520	17,520	17,589	17,589
Total	**92,228**	**92,228**	**147,413**	**147,413**

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

Notes

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

in EUR thousand	31.3.2013				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	389,795	26,699	–	5,554	422,048
US treasury notes	840,640	25,062	–	8,762	874,464
Other foreign government debt securities	56,266	699	7	644	57,602
Debt securities issued by semi-governmental entities	659,439	37,900	–	9,187	706,526
Corporate securities	266,415	14,620	1,203	4,466	284,298
Covered bonds / asset-backed securities	1,090,520	86,693	–	18,924	1,196,137
Total	**3,303,075**	**191,673**	**1,210**	**47,537**	**3,541,075**

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

in EUR thousand	31.12.2012				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	393,836	28,425	–	7,097	429,358
US treasury notes	819,013	27,592	–	6,208	852,813
Other foreign government debt securities	56,054	611	42	160	56,783
Debt securities issued by semi-governmental entities	650,493	39,766	–	9,744	700,003
Corporate securities	449,024	18,863	872	9,172	476,187
Covered bonds / asset-backed securities	1,181,346	90,836	403	23,809	1,295,588
Total	**3,549,766**	**206,093**	**1,317**	**56,190**	**3,810,732**

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

in EUR thousand	31.3.2013				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	–	–	–	273	273
Debt securities issued by semi-governmental entities	2,016,433	217,780	388	32,820	2,266,645
Corporate securities	330,493	22,482	24	6,477	359,428
Covered bonds/asset-backed securities	1,026,619	100,556	437	18,744	1,145,482
Total	**3,373,545**	**340,818**	**849**	**58,314**	**3,771,828**

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

in EUR thousand	31.12.2012				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	10,271	590	–	204	11,065
Debt securities issued by semi-governmental entities	2,005,258	238,045	58	30,095	2,273,340
Corporate securities	330,248	23,476	15	4,981	358,690
Covered bonds/asset-backed securities	1,018,651	103,215	–	15,479	1,137,345
Total	**3,364,428**	**365,326**	**73**	**50,759**	**3,780,440**

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

in EUR thousand	31.3.2013				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,768,342	82,192	2,116	19,270	1,867,688
US treasury notes	1,150,465	39,888	3,872	3,688	1,190,169
Other foreign government debt securities	1,577,762	25,965	1,056	13,488	1,616,159
Debt securities issued by semi-governmental entities	4,310,133	220,250	4,309	53,779	4,579,853
Corporate securities	9,219,299	539,434	16,302	137,214	9,879,645
Covered bonds / asset-backed securities	2,812,324	223,648	5,570	27,370	3,057,772
Investment funds	166,894	30,045	–	–	196,939
	21,005,219	**1,161,422**	**33,225**	**254,809**	**22,388,225**
Equity securities					
Shares	13,023	4,297	1	–	17,319
Investment funds	9,095	2,945	–	–	12,040
	22,118	**7,242**	**1**	**–**	**29,359**
Short-term investments	555,467	16	–	2,654	558,137
Total	**21,582,804**	**1,168,680**	**33,226**	**257,463**	**22,975,721**

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

in EUR thousand	31.12.2012				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,837,251	80,205	2,625	17,715	1,932,546
US treasury notes	1,220,030	41,560	2,463	4,164	1,263,291
Other foreign government debt securities	1,634,844	22,801	1,933	16,842	1,672,554
Debt securities issued by semi-governmental entities	4,199,653	245,014	2,779	53,405	4,495,293
Corporate securities	8,568,646	559,256	11,301	133,424	9,250,025
Covered bonds / asset-backed securities	2,733,081	197,507	9,499	35,536	2,956,625
Investment funds	182,864	28,874	–	–	211,738
	20,376,369	**1,175,217**	**30,600**	**261,086**	**21,782,072**
Equity securities					
Shares	12,206	3,945	1	–	16,150
Investment funds	10,931	2,165	–	–	13,096
	23,137	**6,110**	**1**	**–**	**29,246**
Short-term investments	505,151	54	–	4,513	509,718
Total	**20,904,657**	**1,181,381**	**30,601**	**265,599**	**22,321,036**

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

in EUR thousand	31.3.2013	31.12.2012	31.3.2013	31.12.2012	31.3.2013	31.12.2012
	Fair value before accrued interest		Accrued interest		Fair value	
Financial assets at fair value through profit or loss						
Fixed-income securities						
Corporate securities	66,321	54,474	898	13,305	67,219	67,779
Covered bonds / asset-backed securities	24,993	79,634	16	–	25,009	79,634
	91,314	**134,108**	**914**	**13,305**	**92,228**	**147,413**
Other financial assets						
Derivatives	64,855	60,835	–	–	64,855	60,835
	64,855	**60,835**	**–**	**–**	**64,855**	**60,835**
Total	**156,169**	**194,943**	**914**	**13,305**	**157,083**	**208,248**

Information on fair values and fair value hierarchy

The methods and models set out below are used to establish the fair value of financial instruments on the assets and liabilities side of the balance sheet. The fair value of a financial instrument corresponds in principle to the amount that Hannover Re would receive or pay if it were to sell or settle the said financial instrument on the balance sheet date. Insofar as market prices are listed on markets for financial instruments, their bid price is used. In other cases the fair values are established on the basis of the market conditions prevailing on the balance sheet date for financial assets with similar credit rating, duration and return characteristics or using recognised models of mathematical finance. Hannover Re uses a number of different valuation models for this purpose. The details are set out in the following table.

The operating units responsible for the coordination and documentation of measurement are organisationally separate from the operating units that enter into investment risks. All relevant measurement processes and measurement methods are documented. Decisions on measurement-related policy issues are taken by a Measurement Committee that meets on a monthly basis.

Valuation models

Financial instrument	Pricing method	Parameter	Pricing model
Fixed-income securities			
Unlisted plain vanilla bonds, interest rate swaps	Theoretical price	Interest rate curve	Present-value method
Unlisted structured bonds	Theoretical price	Interest rate curve Volatility surfaces	Hull-White, Black-Karasinski, LIBOR market model etc.
Unlisted bond funds	Theoretical price	Audited net asset values (NAV)	Net asset value method
ABS/MBS for which no market prices are available	Theoretical price	Prepayment speed, incurred losses, default probabilities, recovery rates	Future cash flow method, liquidation method
CDOs/CLOs Profit participation certificates	Theoretical price	Risk premiums, default rates, recovery rates, redemptions	Present-value method
Equities			
Unlisted equities	Theoretical price	Acquisition cost, cash flows, EBIT multiples, as applicable book value	Net asset value method
Other invested assets			
Private equity	Theoretical price	Acquisition cost, cash flows, EBIT multiples, market prices	Net asset value method
Other financial assets – at fair value through profit or loss			
Currency forwards	Theoretical price	Interest-rate curves, spot and forward rates	Interest parity model
OTC stock options, OTC stock index options	Theoretical price	Listing of the underlying share, implicit volatilities, money-market interest rate, dividend yield	Black-Scholes
Insurance derivatives	Theoretical price	Market values, actuarial parameters, interest rate curve	Present-value method

Fair value hierarchy

For the purposes of the disclosure requirements pursuant to IFRS 7 „Financial Instruments: Disclosures“, the financial instruments recognised at fair value in the balance sheet are to be assigned to a three-level fair value hierarchy. This hierarchy, which reflects characteristics of the price data and inputs used for measurement purposes, is structured as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: Inputs used for measurement that are based on observable market data and are not included within level 1. This level includes, in particular, prices for comparable assets and liabilities, prices on markets that are not considered active as well as inputs derived from such prices or market data.
- Level 3: Inputs used for measurement that are not based on observable market data (unobservable inputs).

The following table shows the breakdown of the financial instruments recognised at fair value into the three-level fair value hierarchy.

Fair value hierarchy of financial instruments recognised at fair value

in EUR thousand	31.3.2013			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	7,169,937	15,289,965	20,551	22,480,453
Equity securities	29,351	–	8	29,359
Other financial assets – at fair value through profit or loss	43,351	21,504	–	64,855
Other invested assets	3,552	42,032	1,109,719	1,155,303
Short-term investments	543,374	14,763	–	558,137
Total financial assets measured at fair value	**7,789,565**	**15,368,264**	**1,130,278**	**24,288,107**
Other liabilities	–	60,159	56,666	116,825
Total financial liabilities measured at fair value	–	**60,159**	**56,666**	**116,825**

The classification of financial instruments according to the fair value hierarchy is regularly reviewed. In the period under review financial instruments with a fair value of EUR 361.0 million were no longer allocable to level 1 but rather to level 2. The reclassification was necessary owing to the reduced liquidity of the instruments. Financial instruments with a fair value of EUR 1.7 million, which in the previous year were recognised as level 2 instruments, were allocated to level 1 in the current reporting period. The reclassifications affected solely fixed-income securities carried as available for sale. The reallocation amounts stated refer to the carrying value of the investments recognised at the beginning of the period.

The following table provides a reconciliation of the fair values of financial instruments included in level 3 at the beginning of the period with the fair values as at the balance sheet date.

Development of level 3 financial instruments

in EUR thousand	1.1.–31.3.2013			
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets	Other liabilities
Net book value at 1 January of the year under review	**27,329**	**8**	**1,061,953**	54,812
Currency translation at 1 January	803	–	19,994	–
Net book value after currency translation	**28,132**	**8**	**1,081,947**	54,812
Changes in consolidated group	(7,286)	–	(8,986)	–
Income and expenses				
recognised in the statement of income	(92)	–	(82)	244
recognised directly in shareholders' equity	–	–	13,228	–
Additions	–	–	42,931	–
Disposals	–	–	(20,676)	–
Transfers to level 3	–	–	–	–
Transfers from level 3	–	–	–	–
Currency translation at 31 March of the year under review	(203)	–	1,357	1,610
Net book value at 31 March of the year under review	**20,551**	**8**	**1,109,719**	**56,666**

The breakdown of income and expenses recognised in the statement of income in the reporting period in connection with financial instruments assigned to level 3 is as follows.

Income and expenses from level 3 financial instruments

in EUR thousand	1.1.–31.3.2013		
	Fixed-income securities	Other invested assets	Other liabilities
Total in the financial year			
Unrealised gains and losses	(92)	265	(244)
Total depreciation, impairments and appreciation of investments	–	(347)	–
Thereof attributable to financial instruments included in the portfolio at 31 March of the year under review			
Unrealised gains and losses	(92)	265	(238)
Total depreciation, impairments and appreciation of investments	–	(347)	–

If models are used to measure financial instruments included in level 3 under which the adoption of reasonable alternative inputs leads to a material change in fair value, IFRS 7 „Financial Instruments: Disclosures" requires disclosure of the effects of these alternative assumptions. Of the assets-side financial instruments included in level 3 with fair values of altogether EUR 1,130.3 million (EUR 1,089.3 million) as at the balance sheet date, Hannover Re measures financial instruments with a volume of EUR 1,045.3 million (EUR 990.4 million) using the net asset value method, in respect of which alternative inputs within the meaning of the standard cannot reasonably be established. For the remaining financial instruments included in level 3 with a volume of EUR 85.0 million (EUR 98.9 million), the effects of alternative inputs and assumptions are immaterial.

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

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

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

Non-controlling interests in the shareholders' equity of the subsidiaries amounted to EUR 637.6 million (EUR 681.7 million) as at the balance sheet date. They were principally attributable to non-controlling interests in the shareholders' equity of E+S Rück in an amount of EUR 618.8 million (EUR 648.2 million).

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

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

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

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

The change in the other reserves arising out of currency translation, which is recognised in equity, was attributable in an amount of EUR 11.6 million to the translation of long-term debt or loans with no maturity date extended to Group companies and branches abroad.

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

6.1 Gross written premium

Gross written premium

in EUR thousand	1.1.–31.3.2013	1.1.–31.3.2012
Regional origin		
Germany	414,493	413,847
United Kingdom	653,631	596,604
France	171,887	163,094
Other	541,420	529,107
Europe	**1,781,431**	**1,702,652**
USA	875,440	800,857
Other	151,444	134,143
North America	**1,026,884**	**935,000**
Asia	380,940	346,167
Australia	208,387	190,605
Australasia	**589,327**	**536,772**
Africa	127,330	122,397
Other	232,903	213,746
Total	3,757,875	3,510,567

6.2 Investment income

Investment income

in EUR thousand	1.1.–31.3.2013	1.1.–31.3.2012
Income from real estate	14,195	11,490
Dividends	513	218
Interest income	247,482	256,086
Other income	(16,083)	(9,635)
Ordinary investment income	**246,107**	**258,159**
Profit or loss on shares in associated companies	1,090	1,803
Appreciation	152	176
Realised gains on investments	38,614	45,716
Realised losses on investments	3,842	7,909
Unrealised gains and losses on investments	3,311	84,562
Impairments on real estate	2,895	2,570
Impairments on equity securities	3	1,379
Impairments on participating interests and other financial assets	347	3,279
Other investment expenses	21,267	18,393
Net income from assets under own management	**260,920**	**356,886**
Interest income on funds withheld and contract deposits	122,002	100,018
Interest expense on funds withheld and contract deposits	28,179	16,288
Total investment income	354,743	440,616

The impairments totalling EUR 0.3 million (EUR 4.7 million) were attributable in the current year entirely (EUR 3.3 million) to the area of alternative investments – specifically, exclusively to private equity investments. No impairments (EUR 1.4 million) were recognised on equities or equity funds whose fair value had fallen significantly – i. e. by at least 20% – or for a prolonged period – i. e. for at least nine months – below acquisition cost. Nor were any impairments recognised on structured fixed-income securities or other fixed-income securities. These write-downs contrasted with write-ups of EUR 0.2 million (EUR 0.2 million) on investments written down in previous periods. 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.–31.3.2013	1.1.–31.3.2012
Fixed-income securities – held to maturity	31,086	38,100
Fixed-income securities – loans and receivables	30,273	30,361
Fixed-income securities – available for sale	179,611	176,750
Financial assets – at fair value through profit or loss	292	1,790
Other	6,220	9,085
Total	**247,482**	**256,086**

7. Other notes

7.1 Derivative financial instruments and financial guarantees

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 16.0 million (31 December 2012: EUR 16.8 million) were recognised under other liabilities.

Hannover Re holds derivative financial instruments to hedge interest rate risks from loans connected with the financing of real estate; these gave rise to recognition of other liabilities in an amount of EUR 3.4 million (31 December 2012: EUR 3.9 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 10.8 million (31 December 2012: EUR 13.1 million) as well as other liabilities in an amount of EUR 4.3 million (31 December 2012: EUR 4.9 million).

The net changes in the fair value of the aforementioned instruments resulted in an improvement of EUR 0.8 million in the result of the period under review (31 March 2012: improvement in the result of EUR 40.4 million).

Derivative financial instruments in connection with reinsurance

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 54.1 million as at 31 March 2013 (31 December 2012: EUR 47.7 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 65.9 million (31 December 2012: EUR 60.9 million) were recognised under other liabilities as at the balance sheet date.

Of this amount, EUR 56.7 million (31 December 2012: EUR 54.8 million) is attributable to a number of transactions in the life and health reinsurance business group that are to be classified as derivative financial instruments. Under these transactions Hannover Re companies offer their contracting parties coverage for risks from possible future payment obligations arising out of hedging instruments. The payment obligations result from contractually defined events and relate to the development of an underlying group of primary insurance contracts with statutory reserving requirements. The contracts are to be classified and recognised as stand-alone credit derivatives pursuant to IAS 39. These instruments gave rise to a charge against investment income in an amount of EUR 0.2 million (31 March 2012: none).

Of the derivatives carried on the assets side, fair values of EUR 46.6 million (31 December 2012: EUR 39.8 million) were attributable as at the balance sheet date to derivatives embedded in "modified coinsurance" and "coinsurance funds withheld" (ModCo) reinsurance treaties.

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

The ModCo derivatives gave rise to an improvement in investment income of EUR 5.6 million before tax as at 31 March 2013 (31 March 2012: EUR 36.8 million).

Financial guarantees

Structured transactions were entered into in the life and health reinsurance business group in order to finance statutory reserves (so-called Triple-X or AXXX reserves) of US ceding companies. In each case such structures necessitate the involvement of a special purpose entity. The special purpose entities carry extreme mortality risks securitised by the cedant above a contractually defined retention and transfer these risks by way of a fixed/floating swap to a member company of the Hannover Re Group. The total amount of the contractually agreed capacities of the transactions is equivalent to EUR 1,171.3 million (EUR 1,137.9 million); an amount equivalent to EUR 884.0 million (EUR 848.1 million) had been taken up as at the balance sheet date. The variable payments to the special purpose entities that are guaranteed by Hannover Re cover their payment obligations. By way of compensation agreements Hannover Re is reimbursed by the parent companies of the cedants for payments resulting from the swaps in the event of a claim.

Under IAS 39 these transactions are to be recognised at fair value as financial guarantees. To this end Hannover Re uses the net method, according to which the present value of the agreed fixed swap premiums is netted with the present value of the guarantee commitment. The fair value on initial recognition therefore amounted to zero. The higher of the fair value and the amount carried as a provision on the liabilities side pursuant to IAS 37 is recognised at the point in time when utilisation is considered probable. This was not the case as at the balance sheet date. In this case the reimbursement claims from the compensation agreements are to be capitalised separately from and up to the amount of the provision.

7.2 Related party disclosures

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

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

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

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

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

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

Talanx Reinsurance Broker 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. In certain circumstances Hannover Re and E+S Rück are obliged to assume unplaced shares of the reinsurance of Group cedants from Talanx Reinsurance Broker AG.

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

Business assumed and ceded in Germany and abroad

in EUR thousand	1.1.–31.3.2013		1.1.–31.3.2012	
	Premium	Underwriting result	Premium	Underwriting result
Business assumed				
Non-life reinsurance	132,622	52,516	110,460	14,938
Life and health reinsurance	46,028	3,094	51,845	5,468
	178,650	55,610	162,305	20,406
Business ceded				
Non-life reinsurance	(2,256)	(1,946)	(3,068)	9,102
Life and health reinsurance	(13,844)	(2,311)	(12,194)	(2,161)
	(16,100)	(4,257)	(15,262)	6,941
Total	**162,550**	**51,353**	**147,043**	**27,347**

The Group companies E+S Rück, Hannover Finance (Luxembourg) S.A., Hannover Re (Ireland) Plc and Hannover Re (Bermuda) Ltd. invested in previous years in a nominal amount of altogether EUR 150.0 million in a bearer debenture of Talanx AG with a maturity date of 8 July 2013 and a coupon of 5.43 %. Talanx AG redeemed this bearer debenture in the first quarter of 2013. The redemption gave rise to realised gains on investments of EUR 2.8 million before tax for Hannover Re. In the context of a new bond issue by Talanx AG the Group companies Hannover Rück SE and E+S Rück invested in a nominal amount of EUR 47.0 million in the issued bearer debt, which has a coupon of 3.125%. The carrying amount of the instrument, which is recognised under fixed-income securities held to maturity, was EUR 47.2 million including accrued interest of EUR 0.2 million.

7.3 Staff

The average number of staff employed at the companies included in the consolidated financial statement of the Hannover Re Group was 2,336 (2,263) during the period under review.

As at the balance sheet date altogether 2,359 (2,312) staff were employed by the Hannover Re Group, with 1,171 (1,164) employed in Germany and 1,188 (1,148) working for the consolidated Group companies abroad.

7.4 Earnings per share

Calculation of the earnings per share

	1.1.–31.3.2013	1.1.–31.3.2012 [1]
Group net income in EUR thousand	221,404	261,301
Weighted average of issued shares	120,597,134	120,597,134
Basic earnings per share in EUR	1.84	2.17
Diluted earnings per share in EUR	1.84	2.17

[1] Adjusted on the basis of IAS 8

The earnings per share is calculated by dividing the net income attributable to the shareholders of Hannover Re by the weighted average number of shares outstanding within the period under review.

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

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

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

7.5 Contingent liabilities and commitments

Hannover Re has placed four 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, 2010 and 2012 financial years in amounts of EUR 500.0 million each.

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

As security for technical liabilities to our US clients, we have established two trust accounts (master trust and supplemental trust) in the United States. They amounted to EUR 2,943.1 million (EUR 2,855.7 million) and EUR 12.3 million (EUR 11.9 million) respectively as at the balance sheet date. The securities held in the trust accounts are shown as available-for-sale investments. In addition, we furnished further collateral to ceding companies in an amount of EUR 550.1 million (EUR 549.3 million) in the form of 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 2,364.6 million (EUR 2,314.4 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 sureties for our company in the form of letters of credit. The total amount as at the balance sheet date was EUR 3,390.9 million (EUR 3,343.0 million).

In addition, we keep own investments with a book value of EUR 51.6 million (EUR 67.3 million) in blocked custody accounts as collateral provided under existing derivative transactions. We received collateral with a fair value of EUR 7.5 million (EUR 9.5 million) for existing derivative transactions.

For liabilities in connection with participating interests in real estate companies and real estate transactions Hannover Re Real Estate Holdings, Orlando has furnished the usual collateral under such transactions to various banks, the amount of which totalled EUR 295.3 million (EUR 288.3 million) as at the balance sheet date.

Outstanding capital commitments with respect to alternative investments exist on the part of the Group in an amount of EUR 593.5 million (EUR 575.9 million). These primarily involve as yet unfulfilled payment obligations from investment commitments given to private equity funds and venture capital firms.

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

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

Contact information

Corporate Communications

Karl Steinle

Tel. +49 511 5604-1500
Fax +49 511 5604-1648

karl.steinle@hannover-re.com

Media Relations

Gabriele Handrick

Tel. +49 511 5604-1502
Fax +49 511 5604-1648

gabriele.handrick@hannover-re.com

Investor Relations

Julia Hartmann

Tel. +49 511 5604-1529
Fax +49 511 5604-1648

julia.hartmann@hannover-re.com

Published by

Hannover Rück SE

Karl-Wiechert-Allee 50
30625 Hannover, Germany

Tel. +49 511 5604-0
Fax +49 511 5604-1188

Concept, design and realisation

Whitepark GmbH & Co., Hamburg
www.whitepark.de

Print

LD Medien und Druckgesellschaft mbH, Hamburg
Printed on paper from environmentally responsible, socially compatible and economically viable forest management