

somewhat
different

Annual Report | 2008

+++ Financial year overshadowed by the financial market crisis +++ Net investment income: EUR 278.5 million (EUR 1,121.7 million) due to write-downs and losses realised on equities of EUR 640.9 million +++ Combined ratio in non-life reinsurance: 95.4% (99.7%) +++ Operating profit (EBIT): EUR 148.1 million (EUR 928.0 million) +++ Group net loss: EUR -127.0 million (Group net income: EUR 721.7 million) owing to negative tax effect +++ Very good earnings prospects for 2009 +++

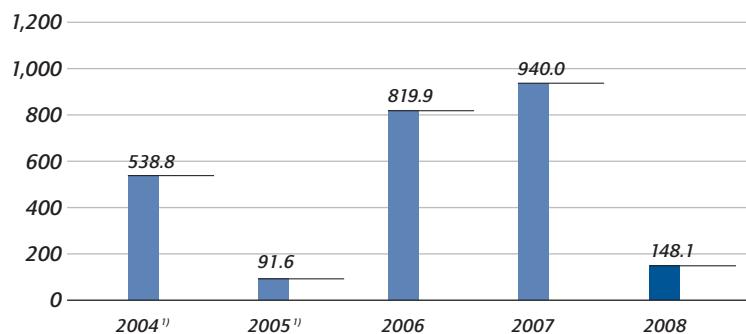
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AN OVERVIEW

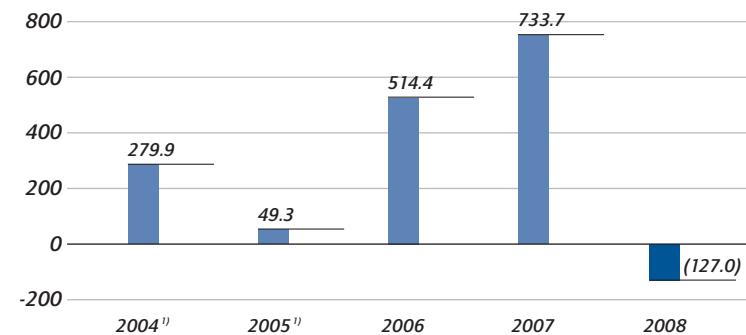
Operating profit (EBIT)

Figures in EUR million



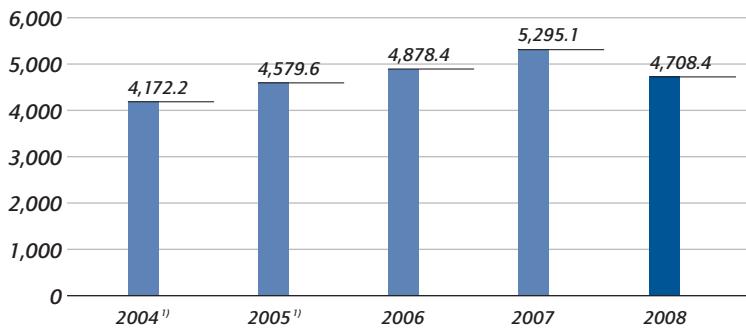
Group net income (loss)

Figures in EUR million



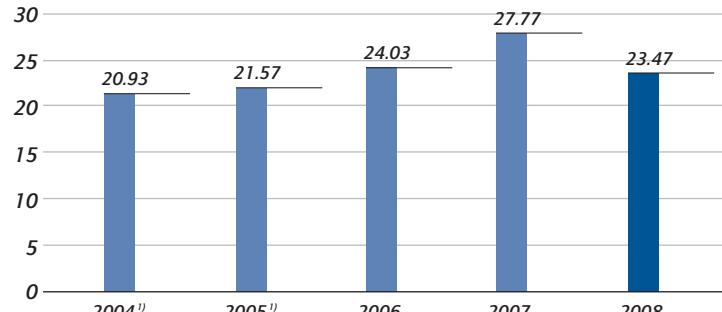
Policyholders' surplus

Figures in EUR million



Book value per share

Figures in EUR



¹⁾ Figures for 2005 and 2004 before new segmentation

KEY FIGURES

Figures in EUR million	2008	+/- previous year	2007	2006	2005 ¹⁾	2004 ¹⁾	More on page
Results							
Gross written premium	8,120.9	-1.7%	8,258.9	9,289.3	9,317.4	9,566.6	18/78
Net premium earned	7,061.6	-3.2%	7,292.9	7,092.1	7,494.9	7,575.4	18/78
Net underwriting result	69.6	-153.2%	(131.0)	(254.7)	(868.7)	(410.4)	
Net investment income	278.5	-75.2%	1,121.7	1,188.9	1,115.8	1,079.9	47/78
Operating profit (EBIT)	148.1	-84.0%	928.0	819.9	91.6	538.8	19/78
Group net income (loss)	(127.0)	-117.6%	721.7	514.4	49.3	279.9	19/78
Balance sheet							
Policyholders' surplus	4,708.4	-11.1%	5,295.1	4,878.4	4,579.6	4,172.2	
Total shareholders' equity	2,830.1	-15.5%	3,349.1	2,897.8	2,601.0	2,525.2	17/79
Minority interests	501.4	-12.5%	572.7	608.6	540.5	531.3	19/77
Hybrid capital	1,376.9	+0.3%	1,373.3	1,372.0	1,438.1	1,115.7	19
Investments (excl. funds held by ceding companies)	20,137.2	+1.6%	19,815.3	19,494.0	19,079.1	15,984.3	76
Total assets	38,001.7	+2.5%	37,068.4	41,386.4	39,789.2	36,177.5	76
Share							
Earnings per share (diluted) in EUR	(1.05)	-117.6%	5.98	4.27	0.41	2.32	11/157
Book value per share in EUR	23.47	-15.5%	27.77	24.03	21.57	20.93	9
Dividend	–		277.4	193.0	–	120.6	158
Dividend per share in EUR	–		1.80+0.50 ²⁾	1.60	–	1.00	158
Share price at year-end in EUR	22.50	-28.7%	31.55	35.08	29.93	28.75	8
Market capitalisation at year-end	2,713.4	-28.7%	3,804.8	4,230.5	3,609.5	3,467.2	11
Ratios							
Combined ratio (non-life reinsurance) ³⁾	95.4%		99.7%	100.8%	112.8%	97.2%	22/109
Large losses as percentage of net premium earned (non-life reinsurance) ⁴⁾	10.7%		6.3%	2.3%	26.3%	8.3%	21/109
Retention	89.1%		87.4%	76.3%	79.2%	77.6%	18
Return on investment (excl. funds held by ceding companies)	0.4%		4.6%	5.0%	4.4%	4.6%	51
EBIT margin ⁵⁾	2.1%		12.7%	11.6%	1.2%	7.1%	51
Return on equity (after tax)	-4.1%		23.1%	18.7%	1.9%	11.5%	13

¹⁾ Figures for 2005 and 2004 before new segmentation

²⁾ Bonus

³⁾ Incl. funds held

⁴⁾ Natural catastrophes and other major losses in excess of EUR 5 million gross for the Hannover Re Group's share

⁵⁾ Operating profit (EBIT)/net premium earned



Wilhelm Zeller

Chairman of the
Executive Board

*Dear shareholders,
Ladies and gentlemen,*

In the year just-ended the global financial system was shaken to its core with a severity that could not have been foreseen. Doubts about its stability triggered a collapse in equity prices around the world. Your company's balance sheet was also not left unscathed by all this turmoil. I therefore have no hesitation in describing 2008 as a lost year.

Having presented a record profit for 2007, Hannover Re is now reporting a loss for the first time in its history. This is indeed painful. As a large investor with an asset volume of some EUR 20 billion, we were unfortunately unable to escape the effects of the crisis on financial markets: despite our prudent and diversified investment strategy, the third quarter, in particular, compelled us to take significant write-downs – first and foremost on equity holdings. The 2008 stock market crash – the German Dax index alone, as you know, shed around 40 percent of its value – took a corresponding toll on our investment income. As a further factor, write-downs taken on equities are not tax-deductible in Germany, with the result that the financial market crisis had a doubly negative impact, as it were, on our figures. This obscured what was, in fact, the gratifying development recorded by your company in its core business, with only very minimal losses.

Looking at things from a rather different perspective, however, I would also like to highlight another aspect for you, our valued shareholders. If we leave aside the strains that had to be absorbed on the investment side, the crisis on financial markets will have a number of thoroughly positive consequences for our business: the loss of capital incurred by primary insurers is leading to a greater need for reinsurance, prompting prices on reinsurance markets to begin rising again! In the case of the United States, alone, it is anticipated that the insurance industry has lost around USD 80 billion in capital.

Your company is well equipped to make the most of these opportunities. For in spite of its negative result Hannover Re has no solvency issues. Our financial resources are strong and solid. This was reinforced by the rating agency Standard & Poor's, which confirmed our very good rating of "AA-" with a stable outlook following the profit warning that we issued in October. Similarly, the rating agency A.M. Best – which is of particular importance for the US market – confirmed our "A" rating with a positive outlook. We thus continue to be a preferred partner for our clients. For a reinsurer, a top rating is a prerequisite for being offered and awarded the full spectrum of business to

underwrite, while at the same time it is also the key to being able to select those treaties that promise the strongest profitability.

In view of our stable financial standing, our business prospects for 2009 are therefore exceptionally bright.

Firstly, however, I would like to return to the year under review: I am satisfied with the technical development of our *non-life reinsurance* business group, even though the burden of major claims and catastrophe losses – principally due to the severe hurricane "Ike" – was somewhat higher than our expectations. Although prices in the year under review were notable for softening tendencies in some major markets, conditions were very largely acceptable. All in all, the prices that we obtained in 2008 were commensurate with the risks.

We remained true to our maxim of "profit before growth" in the year under review; in areas where we did not consider rates to be adequate, such as US casualty business, we reduced our involvement – while at the same time tapping into new market and product niches. In Brazil, the largest insurance market on the South American continent, we established a representative office following the abolition of that country's reinsurance monopoly. As an "admitted reinsurer", we thus enjoy an optimal platform for participating in this up-and-coming market.

As you, our valued shareholders, are aware, your company has long made a name for itself with the innovative transfer of (re)insurance risks to the capital market – both in non-life and life/health reinsurance. In the year under review we went one step further and are now enabling our clients to access the capital market by appropriately packaging and structuring risks that do not lend themselves to such transactions on a stand-alone basis. We successfully completed the first project of this type in June 2008 through "Globe Re". As far as our own risk management is concerned, we again transferred catastrophe risks to the capital market in the year under review so as to better protect our equity base against exceptional major losses.

In *life and health reinsurance*, too, we were able to place a portfolio on the international capital markets in 2008. By way of this transaction – designated "L7" – we continued to diversify our risk and secured for our company greater financial flexibility with an eye to the further expansion of our life and health portfolio.

I am similarly satisfied with the development of our life and health reinsurance business: premium growth was by no means as vigorous as in previous years, reflecting the restraining effects of exchange rate movements – especially in the pound sterling and US dollar. Nor was the result entirely convincing in comparison with the outstanding previous year, which had been influenced by a number of special effects. Nevertheless,

what is important here is that we clearly strengthened our international market position in the year under review. In this context we have our sights set firmly on the Asian growth markets. We have been a locally licensed reinsurer in China since May 2008 and were able to acquire several new accounts through our branch in Shanghai. In Korea, too, Asia's largest life reinsurance market, we optimised our business opportunities by opening a new branch office. Last but not least, we have taken the first steps towards tapping into the Indian market by entering into a multi-year exclusive cooperation agreement with the leading local reinsurer. In a parallel move we opened a representative office in Mumbai to support our client relationships in life and facultative non-life business.

As I reported at the outset, our *investment income* in the year under review was overshadowed by the upheavals on international capital markets. We were able to sidestep the collapse on equity markets only with limited success. Particularly in the second half of the year, substantially lower share prices necessitated significant write-downs – although losses on fixed-income securities remained within manageable bounds. This was due not least to the broad diversification and high quality of the portfolio. We closed the year under review with a marginally positive return on investment.

Having stood its ground superbly in the first half of the year, the *Hannover Re share* then fell sharply in value – especially at the peak of the financial market crisis in September. In October, too, after massive liquidity problems came to light at a German bank, all financials – hence including the Hannover Re share – suffered extremely heavily, even though our share was able to make good some ground by year-end.

The next point that I would like to discuss is, understandably, a particularly disappointing one for you, our valued shareholders: the *dividend*. Given the negative result in the year under review, the Executive Board and Supervisory Board will propose to the Annual General Meeting that no dividend should be paid. Why is this? It has been pointed out to me on several occasions that in view of our retained earnings we would be in a position to make a distribution. That is true. Such a step would, however, reduce our capital base and hence restrict our opportunities to write profitable business in an increasingly attractive market. For your company it has always proven worthwhile to grow when rates are rising. In order to expand in this way we need capital that we can put to profitable use. With this in mind, therefore, I hope that you will endorse our dividend proposal.

Let us now look to the future. What can you expect from the current financial year? Our goals are ambitious, and we are seeking to generate a return on equity of more than 15% in 2009. The situation on international reinsurance markets is very favourable; the soft market has come to an end earlier than expected. This was clearly reflected in the treaty renewals as at 1 January 2009: in certain segments price increases sometimes ex-

tending into double-digit percentages were obtained, including for example in US catastrophe business but also more strikingly in credit and surety reinsurance. Our domestic market, especially in the area of non-proportional motor business, remains attractive. For our total portfolio we expect growth in premium income – and very healthy profitability – in the original currencies.

The business environment in life and health reinsurance is similarly favourable: here, too, the financial market crisis will raise awareness among the urban middle classes of the need for private provision, hence generating significant growth stimuli worldwide. What is more, with the acquisition of a US individual life reinsurance portfolio we have taken a major step towards accomplishment of our global objectives in life and health reinsurance. This acquisition will not only boost our premium volume to a level in excess of USD 1 billion, it will also enhance the diversification of our earnings streams. Following this transaction, life reinsurance business – which is notable for its greater stability – will account for a considerably larger share of the total portfolio going forward.

On behalf of all my colleagues on the Executive Board I would like to thank you, our valued shareholders, for your trust. Rest assured: we shall do everything in our power to equip Hannover Re to handle the opportunities and risks that lie ahead. Our goal, as always, is to consistently improve the value of your company. With this in mind I look forward to the challenges of 2009.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Wilhelm Zeller".

Wilhelm Zeller
Chairman of the Executive Board

SUPERVISORY BOARD of Hannover Re

Wolf-Dieter Baumgart¹⁾²⁾³⁾

Berg
Chairman

Chairman of the Supervisory Board

Talanx AG
HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Dr. Klaus Sturany¹⁾

Dortmund
Deputy Chairman

Former Member of the Executive Board

RWE Aktiengesellschaft

Herbert K. Haas¹⁾²⁾³⁾

Burgwedel

Chairman of the Executive Board

Talanx AG
HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Uwe Kramp⁴⁾

Hannover

Karl Heinz Midunsky³⁾

Gauting

Former Corporate Vice President and Treasurer

Siemens AG

Ass. jur. Otto Müller⁴⁾

Hannover

Dr. Immo Querner

Ehlershausen

Member of the Executive Board

Talanx AG
HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Dr. Erhard Schipporeit²⁾

Hannover

Former Member of the Executive Board

E.ON Aktiengesellschaft

Gert Waechtler⁴⁾

Burgwedel

¹⁾ Member of the Standing Committee

²⁾ Member of the Balance Sheet Committee

³⁾ Member of the Nomination Committee

⁴⁾ Staff representative

Details of memberships of legally required supervisory boards and comparable control boards at other domestic and foreign business enterprises are contained in the individual report of Hannover Rückversicherung AG.

EXECUTIVE BOARD of Hannover Re



Dr. Wolf Becke

Life and Health
markets worldwide

Dr. Michael Pickel

Non-Life Treaty
Reinsurance Germany,
Austria, Switzerland and
Italy; Credit, Surety &
Political Risk worldwide;
Group Legal Services;
Compliance;
Run Off Solutions

Ulrich Wallin

Specialty Division
(worldwide Facultative
Business; worldwide Treaty
and Facultative Business
Marine, Aviation and
Space); Non-Life Treaty
Reinsurance Great Britain
and Ireland; Retrocessions;
Insurance-Linked Securities

Wilhelm Zeller

Chairman
Controlling; Internal
Auditing; Risk
Management; Investor
Relations, Public Relations;
Corporate Development;
Human Resources
Management



Dr. Elke König

Finance and Accounting;
Asset Management;
Information Technology;
Facility Management

André Arrago

Non-Life Treaty
Reinsurance Arab,
European Romance and
Latin American countries,
Northern and Eastern
Europe, Asia and
Australasia

Jürgen Gräber

Coordination of entire
Non-Life reinsurance;
Quotations Non-Life
reinsurance; Non-Life
Treaty Reinsurance
North America and
English-speaking Africa;
Structured Products
worldwide

THE HANNOVER RE SHARE

2008: The worst stock market year in recent decades

The international financial market crisis dictated events on the world's stock markets in 2008. At the very outset of the year massive write-downs taken in the portfolios of international financial institutions brought about a steep collapse on equity markets. News of the urgent need for capital at some US bond guarantors and German regional banks as well as the forced sale of the fifth-largest investment bank in the United States prompted further price declines in the first quarter of 2008.

In the wake of the reporting season on the fourth quarter of 2007 equity markets steadied thanks to positive signals until the end of May 2008, before growing fears of recession and reports about the funding needs of various financial institutions triggered a fresh downward slide. In mid-September news of the fire sale of another US investment bank, the looming collapse of the world's largest insurer and above all the insolvency of the fourth-largest US investment bank unleashed outright panic on the markets: despite moves by central banks to slash interest rates, the Dax and Dow Jones had shed 20% by the end of October, while the Nikkei 225 Index lost as much as 30%.

An extremely volatile year for the Hannover Re share

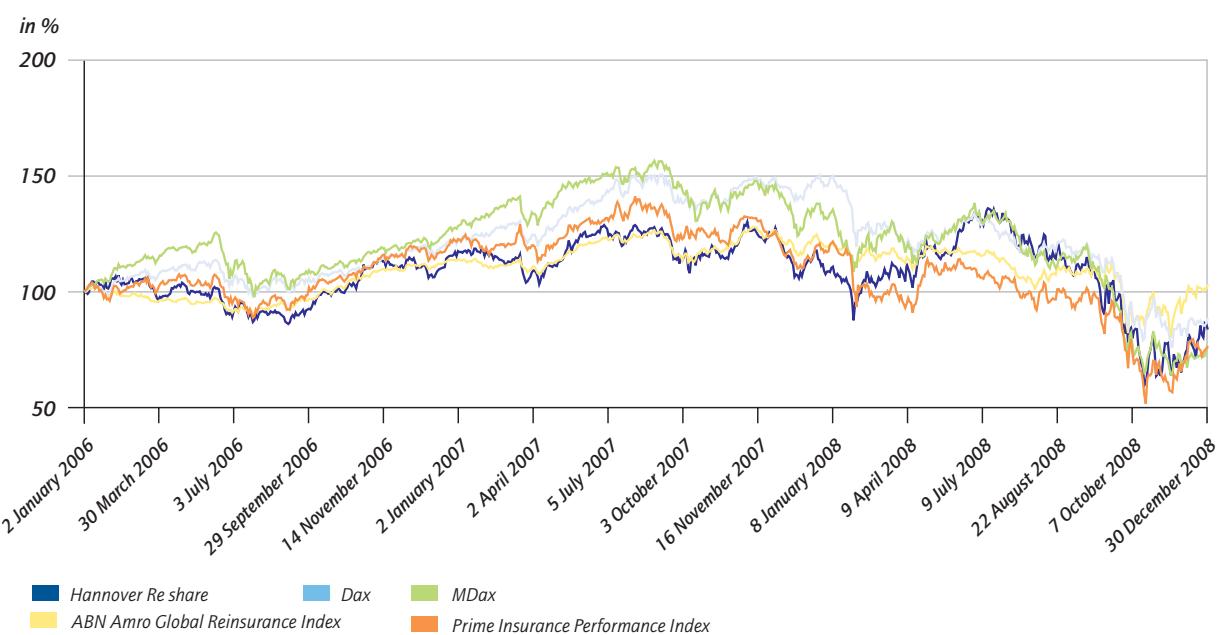
The movement of the Hannover Re share in the year under review was to a large extent similarly shaped by the crisis on financial markets. After the sharp fall in January, however, our business figures for the record year of 2007 initially prompted an upward climb and a clear decoupling from the general market trend. Our share reached its highest point of the year on 5 May 2008 at EUR 35.79. In early June, however, a downward trend set in against the backdrop of the aforementioned crisis news and gathered impetus from mid-September onwards. Shortly after the release of our profit warning – motivated primarily by write-downs on equity investments – our share touched its lowest point of the year of EUR 15.70 on 28 October 2008. A rally followed, boosted by positive expectations for the upcoming treaty renewals. Our share was listed at EUR 22.50 on 30 Decem-

ber 2008 and hence suffered a loss of EUR 9.05 or 28.7% in the year under review. After allowance for reinvestment of the dividend paid in an amount of EUR 2.30 the overall performance was -23.5% – and hence not as poor as that recorded by the Dax and MDax.

While the Dow Jones ended 2008 down by altogether 34%, the Dax closed the year under review some 40% lower at 4,810 points. The MDax gave back as much as 43% of its value to stand at 5,602 points at year-end.

In a three-year comparison (see chart) the Hannover Re share including reinvested dividends delivered a performance of -15.9%. It thus surpassed the MDax and Prime Insurance Performance Index, but fell just short of the Dax. In 2008 we did not achieve our strategic objective of outperforming the weighted ABN Amro Global Reinsurance Index in a three-year comparison.

Performance of the Hannover Re share in comparison with standard indices and the ABN Amro Global Reinsurance Index*



* Incl. reinvested dividend

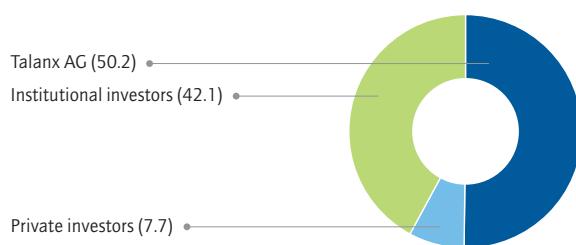
The market capitalisation of the Hannover Re Group totalled EUR 2,713 million as at year-end. With a free float market capitalisation of EUR 1,253 million our company ranked eighth in the MDax at the end of December, while our share came in at number 13 according to the criterion "Trading volume over the past 12 months" with a traded volume of EUR 4,962 million for the year. According to both criteria, therefore, the Hannover Re Group ranks among the 50 largest listed companies in Germany.

With a book value per share of EUR 23.47 the Hannover Re share recorded a price-to-book (P/B) ratio of 0.96 as at the end of December, compared with a higher MDax average of 1.01.

Our Investor Relations activities

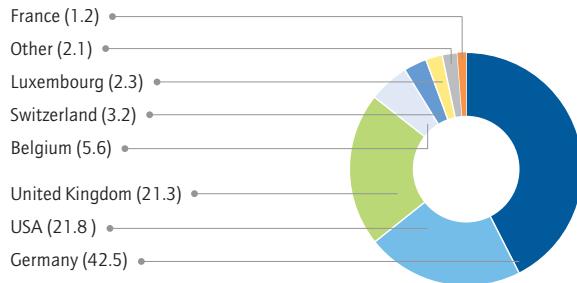
In 2008 regular participation in investor conferences and roadshows – at which we have the opportunity to meet analysts and investors – as well as the holding of numerous telephone conferences once again formed the core areas of our Investor Relations work. Yet we are not the only ones to travel in our efforts to meet our investors and analysts; we also enjoy hosting them for personal discussions at Hannover Re's offices.

Shareholding structure (in %)



In the year under review, in view of the positive experience in past years, we again held our analysts' conferences marking the unveiling of the annual financial statements on the same day in Frankfurt and London. In this way we were able to brief the capital market on the outcome of the year just-ended as promptly as possible on a face-to-face basis.

Shareholding structure by countries (as % of free float)



Our annual Investors' Day is another highlight of our Investor Relations activities. In 2008 we held this event in London and were again pleased to welcome numerous financial analysts and investors. We use this gathering as an opportunity to provide our guests with first-hand insights from the Executive Board. Topics covered in the year under review included risk management as it

relates to our non-life reinsurance business as well as explanations of our securitisation transactions, although a presentation on the growth potential inherent in life and health reinsurance was by no means neglected.

Analysts' opinions of the Hannover Re share

Opinion	Number	Q1	Q2	Q3	Q4
Buy	41	11	11	11	8
Overweight	1	–	–	1	–
Hold	67	16	15	16	20
Underweight	13	3	5	3	2
Sell	18	3	4	4	7
Total	140	33	35	35	37

Interest in our company among analysts remained lively in the year under review. According to Bloomberg and Reuters, analysts handed down altogether 140 opinions for Hannover Re in 2008. Despite the turmoil on stock markets they recommended the Hannover Re share as "buy" or "overweight" on forty-two occasions. The vast majority of opinions (67) were a "hold". Recommendations to "underweight" or "sell" were issued thirty-one times. At the outset of the new 2009 financial year the price target for our share – averaged across all analysts – was around EUR 23.

Share information

in EUR	2008	2007	2006	2005	2004
Earnings per share (diluted)	(1.05)	5.98	4.27	0.41	2.32
Dividend per share	–	1.80 + 0.50 ¹⁾	1.60	–	1.00

¹⁾ Bonus

International Securities Identification Number (ISIN):	DE 000 840 221 5
Ticker symbols:	Share: HNR1 Bloomberg: HNR1.GY Reuters: HNRGn.DE HNRGn.F
Exchange listings:	ADR: HVRRY Germany Listed on all German stock exchanges and Xetra; Frankfurt and Hannover in official trading USA American Depository Receipts (Level 1 ADR program), OTC (over-the-counter market)
Share class:	No-par-value registered shares
First listed:	30 November 1994
Shareholding structure:	50.2% Talanx AG 49.8% Free float
Common shares as at 31 December 2008:	EUR 120,597,134.00
Number of shares as at 31 December 2008:	120,597,134 no-par-value registered shares
Market capitalisation as at 31 December 2008:	EUR 2,713.4 million
Highest share price on 5 May 2008:	EUR 35.79
Lowest share price on 28 October 2008:	EUR 15.70
Annual General Meeting:	5 May 2009, 10.30 a.m. Hannover Congress Centrum Kuppelsaal Theodor-Heuss-Platz 1-3 30175 Hannover, Germany

OUR STRATEGY

at a glance

Our Overriding Objective

- One of the three most profitable reinsurers in the world
- Increasing our profit and the value of the company by a double-digit percentage every year

„Somewhat different“

- Well-diversified Multi-Specialist
- Quick, flexible and undogmatic
- Frugal with lean structure

Strategic Objectives

1. **Profitable Growth:** Return on equity of at least 750 basis points above the "risk-free" interest rate – Triple-10 target – Allocation of capital to generate the maximum risk-weighted profit – Increase in the share price > Global Reinsurance Index – Lowest cost of capital in the industry
2. **Capital Protection:** Positive return on equity in at least nine out of ten years
3. **Preferred Business Partner:** Highly capable – Rating of at least "AA-" from S&P and "A+" from A.M. Best.
4. **Motivated Employees:** Skills and motivation just as crucial to success as capital resources
5. **Lean Organisation:** Effective and efficient organisation geared to business processes – Safeguarding of know-how and cost leadership

Strategic Action Fields

1. **Performance Excellence:** Holistic management system including regular external assessment
2. **Corporate Governance:** Integrity in our dealings with all stakeholders – high ethical standards
3. **Compliance:** Observance of all external requirements in order to avoid business, liability and reputational risks

Business Group Strategies

Non-Life Reinsurance: Not one of the largest, but one of the most profitable non-life reinsurers in the world – special attention paid to the correct assessment of risks – pricing and conditions guided by technical considerations, appropriate level of reserves

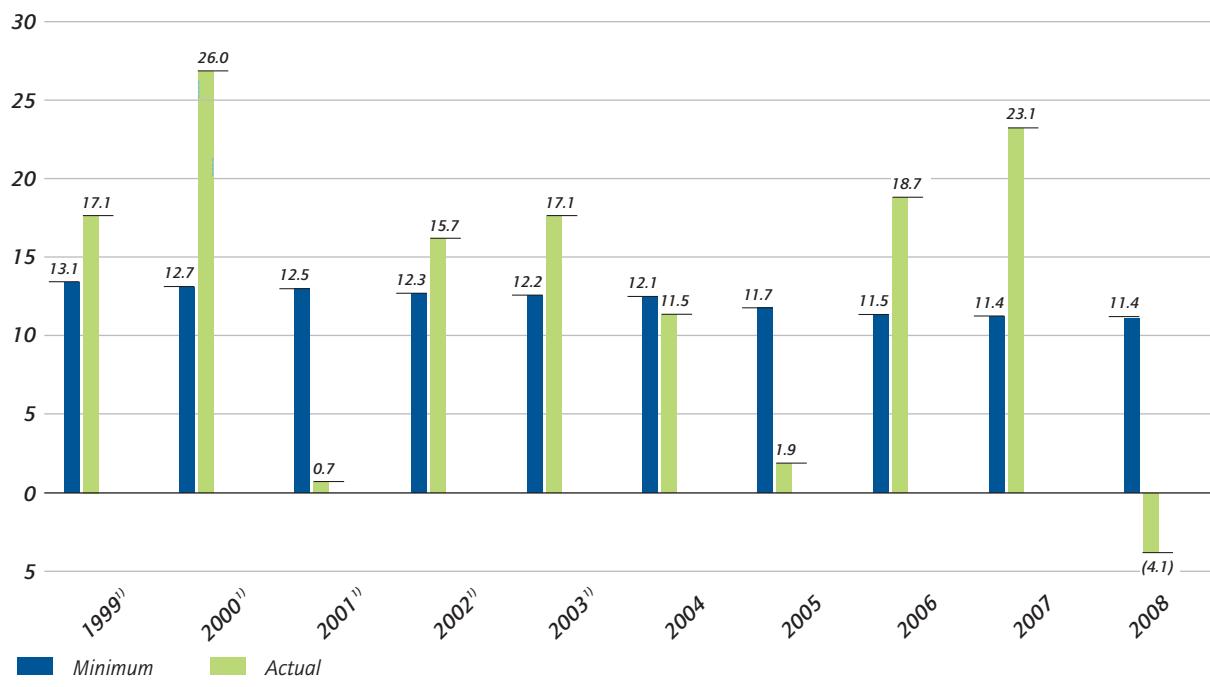
Life/Health Reinsurance: Within five years one of the three major, globally operating life and health reinsurers of above-average profitability – annual double-digit growth in volume and profit indicators – special attention devoted to the regional and biometric balance of the portfolio

Business Center Strategies/Service Center Strategies

These are derived from the Group and business group strategies.

After-tax return on equity

in %



ⁱⁱ⁾ Based on US GAAP



THE WHOLE PROTECTS ALL OF ITS PARTS

A network of individual elements: they are all interlinked and every one has its own very particular place. This is how it might look – the principle of solidarity on which insurance is based. Each premium protects the individual. All premiums combined form a protective shield for all those behind it. A well structured system – as is clearly evident.



MANAGEMENT REPORT

of the Hannover Re Group

Economic climate

2008 was dominated by a worldwide financial market crisis on an unimagined scale. It was triggered by upheavals on US real estate markets. Back in the second half of 2007 rising interest rates and falling property prices had already led to a mortgage crisis. For years mortgage lenders – especially in the United States – had handed out loans to borrowers with little or no equity, and as interest rates rose these loans could no longer be serviced. Many banks did not hold these poorly secured loans in their own books, but instead restructured them and passed them on to various groups of investors, including for example hedge funds. As part of a trend originating in the United States, hedge funds and banks began to get into liquidity problems. The capital market's proper functioning began to falter; banks lost confidence in one another and were scarcely willing to lend among themselves.

Hitherto sound banks had to rely on state assistance in order to stay afloat. The rescue packages put together by governments in the major industrial nations sought to defuse the crisis and restore the trust in the financial system that had been lost. The crisis on financial markets did, however, signal the end for the "investment bank" as a business model: in September the last two remaining institutions relinquished their special legal status and were transformed into commercial banks.

+++ Global crisis on financial markets dominates the year under review +++

The concerns about the stability of the banking system unleashed extraordinary turmoil on international capital markets. The leading stock indices shed up to 40% of their value in the year under review. Financials were especially hard hit by the stock market crash.

The economic climate around the world took a sharply darker turn as a consequence of the financial market crisis. The recession in the United States began to spill over to other countries; this was especially true of economic regions in which the financial sector and building industry

contributed a large share of economic output. Yet the downturn was considerable even in countries whose economic expansion is crucially driven by exports. Only in threshold markets was it possible to boost output, although here too it flagged towards year-end.

+++ Insurance industry a major factor in economic stability +++

The German economy initially stayed on its growth track in the year under review despite the turmoil on capital markets. Particularly in the second half of the year, however, a plethora of bad news in connection with the difficult state of financial markets cast a heavy shadow over economic prospects. Eventually, as German financial institutions also got into difficulties over the course of the year, the federal government responded with the Financial Markets Stabilisation Act in October. In a further step to consolidate the German economy it also adopted a package of measures designed to safeguard jobs.

With just a few exceptions, the impact of the financial market crisis on the insurance industry was nowhere near comparable with the toll it took on the banking sector. Rather, against the backdrop of wide-ranging uncertainties it again emerged as an important factor in economic stability. In this context the Solvency II Directive Proposal of the European Commission is also taking on increasing significance: it is intended to provide Europe with risk-based regulatory legislation in order to secure the financial market and strengthen the continent's own role as a global location for the insurance business.

Business development

The effects of the financial market crisis on Hannover Re

The international financial market crisis also influenced the development of Hannover Re's business to a not inconsiderable extent in the year under review. After our investment portfolio had been affected only marginally by subprime losses, write-downs on insolvent financial institutions also remained within tight limits. Our investments were not, however, able to escape the turmoil on international equity markets entirely unscathed.

In the area of fixed-income securities the price rally – prompted by interest rate cuts on the part of central banks and the flight towards more secure assets – had positive implications for our shareholders' equity. Yet this was significantly tempered by the rise in risk premiums for corporate bonds. Ultimately, though, the positive effect prevailed. On equity markets the downward trend that had set in during the first six months of the year gained additional massive momentum in September/October. As a result, we were compelled to take considerable write-downs and realise sizeable losses on our equity portfolio, which were partially limited by the counter-effect of hedge instruments.

In view of the high volume of write-downs taken, we published an ad hoc disclosure on 21 October 2008 in which we reported on a substantial profit decline for the third quarter.

+++ No solvency problems despite the financial market crisis +++

Irrespective of the appreciable value adjustments on our equity portfolio, however, Hannover Re does not – unlike the various banks that got into difficulties – have any liquidity or solvency problems whatsoever. Our long-term financial strength remains robust. This was also reaffirmed by the rating agency Standard & Poor's, which confirmed our very good rating of "AA-" with a stable outlook in October after the issue of our profit warning.

With a clearly positive cash flow and no need for re-financing, the liquidity and solvency of the Hannover Re Group are in no way impaired.

The repercussions of the financial market crisis on our reinsurance business were as follows:

In life and health reinsurance the income statement took a charge from derivatives embedded in US modified coinsurance contracts. The total charges here amounted to EUR 72.1 million.

In non-life reinsurance the effects of the financial market crisis were particularly notable in the directors' and officers' (D&O) and professional indemnity lines. The number of our directly exposed D&O contracts in the United States – at nine – was minimal in 2008; this was also true of the maximum amount of liability. The premium volume was in the order of EUR 35 million. Our exposure was even more modest in professional indemnity business. Other contracts that could be affected in the widest sense by the financial market crisis cover attorneys, auditors, architects, small banks and real estate brokers. The exposures under these contracts are appropriately reflected in our IBNR reserves.

Our *credit and surety business* was not affected by the real estate crisis since we do not write any mortgage guarantee contracts. An overall deterioration in the loss ratios cannot, however, be ruled out. In this case, too, appropriate allowance has been made in our IBNR reserves.

All in all, though, the implications of the financial market crisis for the reinsurance industry are positive: the heavy loss of capital at primary insurers is prompting growing demand for reinsurance and hence rising rates. Early indications were already apparent in the year under review. The round of treaty renewals completed on 1 January 2009 impressively lived up to expectations. Detailed information in this regard is provided in the forecast.

Development of operating business

Reinsurance business developed satisfactorily in the year under review: the market environment for non-life reinsurance was softer overall, as expected, and rates declined in most lines. Nevertheless, for the most part we were able to obtain prices that were commensurate with the risks.

+++ Softer market environment in non-life reinsurance +++

The balance of major claims and catastrophe losses was burdened by a number of severe natural disasters – especially hurricane "Ike" – in the year under review and came in slightly higher than the multi-year expected level.

In Brazil, the largest insurance market on the South American continent, Hannover Re opened a representative office following the lifting of the reinsurance monopoly; since July of the year under review it has been licensed as an "admitted reinsurer". This gives us more direct access to clients and puts in place an optimal platform for participating in the up-and-coming Brazilian market.

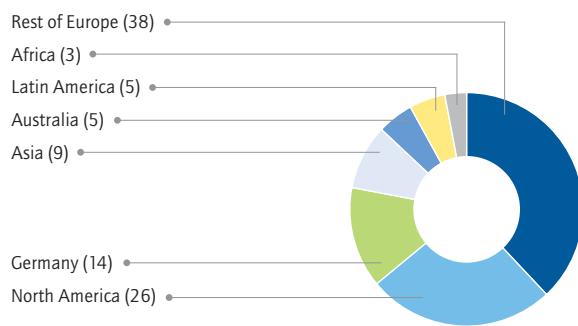
+++ Restrained growth in life and health reinsurance +++

Our second business group – life and health reinsurance – fell short of our expectations, principally due to the restraining effects of movements in exchange rates in the first six months. In the medium term, however, we are standing by our ambitious goal of generating double-digit growth in the original currencies. Both the demographic trend in industrialised nations and the growing urban middle class in threshold markets offer a solid basis for dynamic growth and justify such ambitious plans. We continue to participate in product development activities aimed at senior citizens, a customer group that is still neglected in Germany. What is more, we are optimally positioned in our largest market, the United Kingdom, thanks to our long-standing focus on enhanced annuities and the reinsurance of existing pension funds. In the United States, too, business with health insurance products for seniors shows great promise.

Last but not least, we remain keenly interested in the Asian growth markets. Hannover Re commenced business

operations in China and South Korea in the year under review through its newly established branches in Shanghai and Seoul. In India, too, we have put in place a platform that will enable us to respond rapidly to market opportunities as they present themselves: in June Hannover Re concluded a cooperation agreement with the leading Indian reinsurer GIC Re regarding the joint development of a profitable portfolio with the promise of further growth. These plans are supported by the service company that we established in Mumbai.

Gross premium by region (in %)



Detailed information on both business groups is provided in the following sections.

Following the withdrawal from specialty business at the beginning of 2007 and in the face of weak exchange rates – especially the US dollar and pound sterling in the first half-year – gross written premium in total business contracted by 1.7% to EUR 8.1 billion (EUR 8.3 billion). At constant exchange rates the premium volume would have grown by 3.9%. The level of retained premium increased to 89.1% (87.4%) as a consequence of appreciable savings on the costs of our own protection covers and reduced proportional cessions; net premium earned fell by 3.2% to EUR 7.1 billion (EUR 7.3 billion).

Investment performance

The performance of our investments was overshadowed by the worldwide financial market crisis in the year under review. After international equity markets had already retreated in the first half of the year, the downward slide continued – especially in September and

October. This was attributable to the loss of confidence on financial markets triggered by the meltdown on the US real estate market as well as the liquidity and capital crunch affecting the banks. While interest rate markets soared, especially towards the end of the year, risk premiums on corporate bonds widened enormously. It is gratifying to note that our portfolio of assets under own management nevertheless grew to EUR 20.1 billion thanks to a positive cash flow from the technical account and the rise of the US dollar towards year-end. This corresponds to an increase of 1.6% compared to the level as at 31 December 2007 (EUR 19.8 billion). Ordinary investment income excluding deposit interest fell short of the previous year at EUR 829.8 million (EUR 859.0 million) owing to portfolio regrouping into low-interest government bonds.

A large portion of the realised gains totalling EUR 379.2 million (EUR 244.0 million) can be explained by the tactical modification of durations in the US dollar portfolio undertaken in the first quarter as well as the liquidation of the hedge on around one-fifth of the equity portfolio in the fourth quarter. This contrasted with realised losses of -EUR 492.8 (-EUR 69.7 million) attributable largely to the sharp reduction of the equity allocation in the fourth quarter. The necessary write-downs of altogether EUR 479.9 million (EUR 71.4 million) were due in very large measure to the downslide on equity markets during the first three quarters, while write-downs on fixed-income securities accounted for an amount of EUR 96.9 million. The unrealised gains reported in the statement of income derived primarily from US quota share reinsurance treaties with a retained deposit, under which the partial assumption of default risks is envisaged and appropriately recognised. Total net investment income contracted by 75.2% to EUR 278.5 million (EUR 1.1 billion).

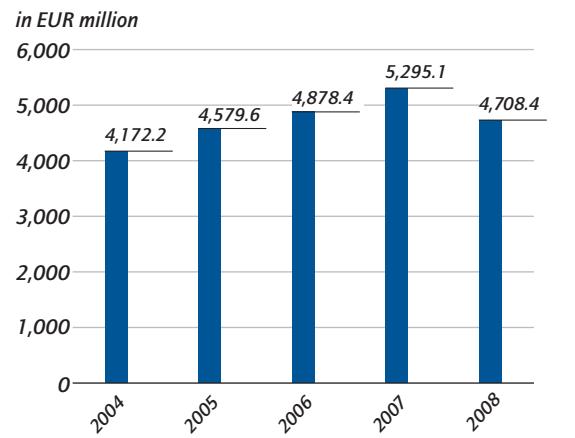
+++ Financial market crisis leaves a clear mark on investment income +++

Result of total business

We are not satisfied with the results trend in the year under review. The operating profit (EBIT) fell by 84.0% to EUR 148.1 million (EUR 928.0 million) owing to the effects of the financial market crisis. Group net income contracted by 117.6% to -EUR 127.0 million (EUR 721.7 million), although the previous year had been

assisted by a positive special effect associated with the reform of corporate taxation in an amount of EUR 191.5 million (before minority interests). The result in the year under review was additionally hampered by the fact that losses on equities are not tax-deductible in Germany and hence a tax load of EUR 205.6 million was incurred despite posting a pre-tax result of 70.6 million. Earnings per share stood at -EUR 1.05 (EUR 5.98).

Policyholders' surplus



Compared to the position as at 31 December 2007, shareholders' equity decreased by EUR 519.0 million in the year under review to EUR 2.8 billion. The book value per share consequently fell by 15.5% to EUR 23.47. The total policyholders' surplus – consisting of shareholders' equity, minority interests and hybrid capital – amounted to EUR 4.7 billion (EUR 5.3 billion).

We use retrocession, i.e. the passing on of portions of our covered risks to other reinsurers, as a means of risk reduction. In the course of the year the reinsurance recoverables on unpaid claims – i.e. receivables due to us from our retrocessionaires – decreased to EUR 2.1 billion (EUR 2.5 billion). We continue to attach considerable importance to the quality of our retrocessionaires: more than 95% of the companies with which we maintain such business relations have an investment grade rating of "BBB" or better from Standard & Poor's.

Alongside traditional retrocessions we also conserve our capital by transferring insurance risks to the capital market.

In the year under review Hannover Re was the recipient of several distinctions: the highly respected international trade magazine "The Review" crowned us Reinsurance Company of the Year, and our Chief Executive Officer

Wilhelm Zeller was honoured with the Lifetime Achievement Award. We were proud to accept further awards in Russia, where we were named as best foreign reinsurer on two occasions.

Our business groups

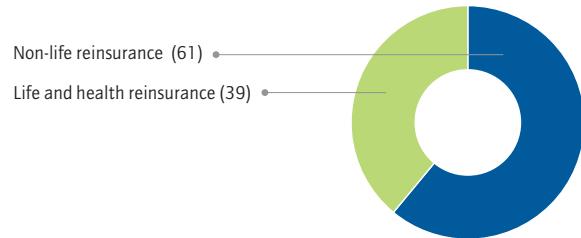
In the following section we discuss the development of the financial year on the basis of our two strategic business groups, namely non-life reinsurance and life and health reinsurance. In addition, the segmental report provided in the annual financial statement shows the key balance sheet items and profit components broken down into the individual business groups.

Non-life reinsurance

Non-life reinsurance is our largest and most important business group. Overall, business developed satisfactorily in the year under review. Although some major markets and lines exhibited softening tendencies (for example North America and marine business), the treaty renewals as at 1 January 2008 – the time of the year when around two-thirds of our treaties are renegotiated – passed off largely favourably. The rate reductions proved to be smaller than had been anticipated, and by and large we continued to obtain prices and conditions that were commensurate with the risks. These tendencies were reaffirmed in the mid-year treaty renewals as at 1 July 2008 in the United States; profitable acceptances were still possible based on the appropriate selection. Similarly, we were broadly satisfied with the renewal of treaties in Australia and New Zealand at the same point in time. Rates in non-proportional property business held stable; price increases were pushed through under programmes that had suffered losses.

Cornerstones of our underwriting continue to be our active cycle management and profit-oriented underwriting policy, according to which we concentrate on those segments that promise the greatest profitability. In the year under review we were able to largely offset more pro-

Gross premium by business group (in %)



nounced premium declines in some areas with increases in the German market and in worldwide credit and surety reinsurance.

We were satisfied on balance with the rate level in general US property business. Property catastrophe business, on the other hand, saw sharp rate cuts following the absence of major claims in 2007. In the casualty sector prices continued to soften on the reinsurance side, prompting us to further scale back our involvement. Our total premium volume in North America contracted as expected. In the second half of the year, however, it was already possible to secure rate increases in some segments as a consequence of the financial market crisis.

+++ Focus remains on cycle management +++

Our so-called retakaful business continues to fare well: thanks to the strong economic growth recorded to date in Southeast Asia and the Near East, we were able to substantially enlarge our premium volume in the year under review.

The Latin American insurance market is also developing steadily: following the abolition of the reinsurance monop-

oly in Brazil we established a representative office in Rio de Janeiro and received a licence as an "admitted reinsurer" in July of the year under review.

Our strategy when it comes to covers for agricultural risks is to acquire additional market shares. We are therefore expanding this business in both Latin America and Asia.

In the field of structured products we are one of the leading providers worldwide. The year under review was notable for the ongoing regional diversification of our portfolio, which in past years had been slanted heavily towards the United States. On the back of the repercussions of the financial market crisis we observed growing demand for such products in Europe and Asia. On the basis of tailored solutions and our long-standing actuarial expertise we are able to offer our clients the best possible service.

Following the withdrawal of Clarendon Insurance Group, Inc. from active specialty business, only International Insurance Company of Hannover Ltd., London, and Compass Insurance Company Ltd., Johannesburg, continue to transact primary insurance. Both companies again significantly boosted their premium income in the year under review. On account of several major loss events, however, the result posted by International Insurance Company of Hannover declined, while Compass Insurance Company's performance was highly gratifying.

In the year under review we again took steps to ensure that our equity base is not strained by exceptionally large losses. On the one hand, for example, we further scaled back our peak exposures, while on the other we topped up our "K5" capital market transaction by an extra USD 10 million.

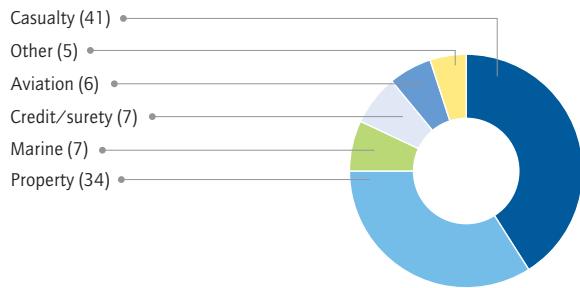
+++ Further capital market transactions in the year under review +++

As part of our extended activities in the area of insurance-linked securities we completed our first transaction in the year under review. Unlike Hannover Re's previous securitisations, it was not designed for our own protection but rather to directly transfer our clients' business to the capital market. Property catastrophe risks of a number of US cedants were packaged and passed on to the capital

market in several tranches. A special purpose entity named "Globe Re", which is capitalised at USD 133 million, was established in Bermuda for this transaction.

Owing to the restraining effects of exchange rate movements, primarily during the first half of the year, the gross premium volume booked in our non-life reinsurance business group in the year under review contracted by 3.9% to EUR 5.0 billion (EUR 5.2 billion). The withdrawal from specialty business was another factor that curbed premium income. At constant exchange rates, especially against the US dollar, growth would have come in at 1.3%. The level of retained premium climbed from 85.2% to 88.9% as a consequence of appreciable savings on our own protection covers and reduced proportional cessions. Net premium earned declined by 4.9% to EUR 4.3 billion (EUR 4.5 billion).

Percentage breakdown of gross premium income in non-life reinsurance by line of business



The most striking feature of the major loss situation in the year under review was a series of devastating natural disasters. These included, most notably, the snow and ice storms in several Chinese provinces, winter storm "Emma" in Europe, the severe earthquake in the Chinese province of Sichuan, hailstorms in Germany as well as the two hurricane events "Gustav" and "Ike". The latter produced a net strain of EUR 222.1 million for Hannover Re's account. A number of other small and mid-sized natural disasters were also recorded.

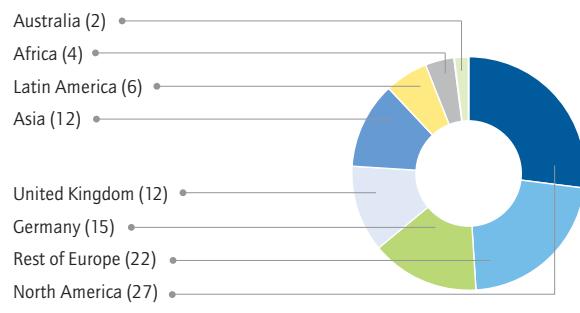
Total net expenditure on catastrophe losses and major claims in 2008 amounted to EUR 457.8 million (EUR 285.4 million). This figure corresponds to 10.7% of net premium in non-life reinsurance and was thus only

slightly higher than the expected level of 10%, despite the catastrophe losses indicated above. The combined ratio stood at 95.4% (99.7%) in the year under review.

The underwriting result improved to EUR 184.7 million, compared with a deficit of EUR 26.7 million in the previous year. Net investment income fell by 98.6% in the year under review to EUR 11.1 million (EUR 783.3 million) owing to the heavy write-downs that had to be taken on equities. It should be mentioned in this context that our equity investments are traditionally allocated to non-life reinsurance, and the strain in this business group was therefore disproportionately higher than in life and health reinsurance. The operating profit (EBIT) in non-life reinsurance consequently fell sharply by 99.7% to EUR 2.3 million (EUR 656.7 million). Group net income contracted by 129.3% to -EUR 160.9 million (EUR 549.5 million); the previous year's result included a positive

special effect of EUR 137.8 million associated with the reduction of deferred taxes. Earnings per share amounted to -EUR 1.33 (EUR 4.56).

Geographical breakdown of non-life reinsurance (in % of gross premium income)



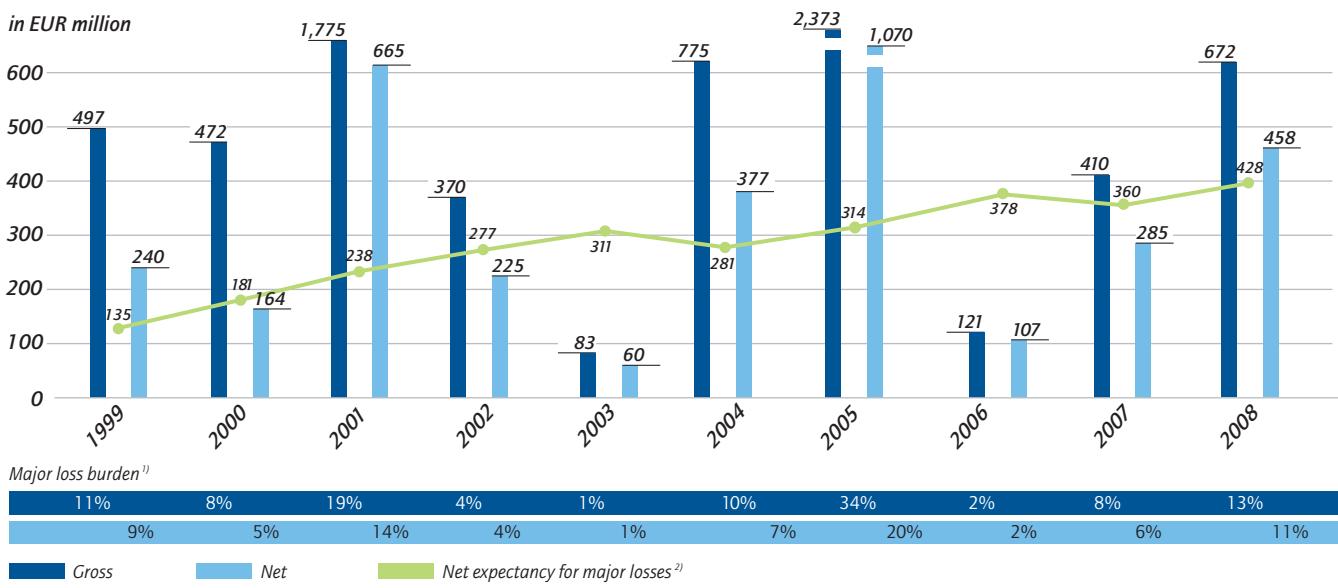
Key figures for non-life reinsurance

Figures in EUR million	2008	+/- previous year	2007	2006	2005 ¹⁾	2004 ¹⁾
Gross written premium	4,987.8	-3.9%	5,189.5	6,495.7	4,639.3	4,211.1
Net premium earned	4,276.7	-4.9%	4,497.6	4,718.7	3,922.9	3,456.2
Underwriting result	184.7	-792.3%	(26.7)	(71.0)	(500.5)	98.5
Net investment income	11.1	-98.6%	783.3	831.7	544.8	440.7
Operating result (EBIT)	2.3	-99.7%	656.7	670.1	(28.3)	463.0
Group net income (loss)	(160.9)	-129.3%	549.5	478.5	4.3	270.7
Earnings per share in EUR	(1.33)	-129.3%	4.56	3.97	0.04	2.24
Retention	88.9%		85.2%	72.4%	85.9%	83.0%
Combined ratio ²⁾	95.4%		99.7%	100.8%	112.8%	97.2%

¹⁾ Figures for 2005 and 2004 before new segmentation

²⁾ Incl. deposit interests

Major loss trend



Germany

The domestic market is served by our subsidiary E+S Rück. As the dedicated reinsurer for the German market, the company has for decades been a sought-after partner thanks to its excellent financial standing, highly developed customer orientation and the continuity of its business relationships. E+S Rück continues to rank second in Germany, the second-largest non-life reinsurance market in the world.

In view of the competitive climate prevailing on the German primary insurance market, we expanded our portfolio very selectively. Overall, though, the favourable claims situation enabled us to generate a satisfactory result.

Fierce competition continued to be the hallmark of the primary sector – both in industrial lines and private customer insurance. In the latter case this was especially true of motor business, an important line for our company. Compared to the original market, however, the climate on the reinsurance side was more favourable, i.e. rates and conditions continued to be broadly adequate. Although softening tendencies made themselves felt here

too, we were able to act on attractive business opportunities in the year under review.

In motor liability insurance the premium erosion – at around 2% – took a more favourable turn than had been initially anticipated. With the claims frequency also falling, profitability proved to be more than adequate. Results in motor own damage insurance, on the other hand, were adversely impacted by the hailstorm events "Hilal" and "Naruporn". Our losses from these two events amounted to EUR 55.2 million and EUR 12.0 million respectively. Winter storm "Emma" also caused severe damage in Germany; the net strain from this event totalled EUR 13.3 million.

Industrial property reinsurance lines suffered under premium reductions and increased losses in the year under review. Overall, though, a break-even result was achieved. Homeowners' comprehensive, which had incurred heavy strains in 2007 from winter storm "Kyrill", performed considerably better than in the previous year.

Terms and conditions were also gratifying in casualty insurance, and here too we were able to post a good result.

+++ E+S Rück expands market share in Germany+++

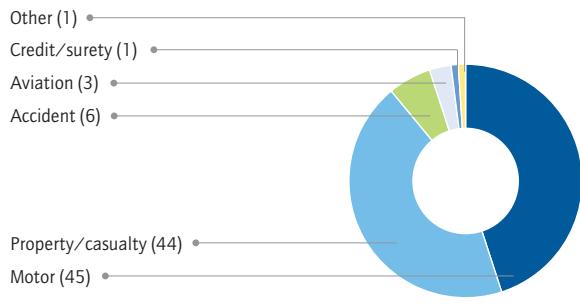
Personal accident insurance, which remains one of our target lines, continued to develop favourably. In addition to the traditional assumption of risks in treaty and facultative reinsurance, our clients again benefited from our product innovations in the year under review; by way of example, we may cite here the combined personal accident annuity product designed by our company that also provides benefits in case of severe illnesses. Furthermore, we complemented our range of services in the year under review through our cooperation with external providers.

By way of increased treaty shares under existing accounts and new customer relationships we were able to further enlarge our market share in the year under review and extend our position as one of the leading reinsurers in the profitable German market.

The directive adopted by the EU on finite reinsurance was implemented into national law in 2008 and incorp-

orated into the Insurance Supervision Act. Structured products are explicitly recognised under these provisions and their treatment is governed by binding rules. Aided by intensive marketing efforts we further raised our profile in this sector, as a consequence of which ceding companies are increasingly including our products in their reinsurance planning. All in all, we were satisfied with the development of our business with structured products in Germany.

Percentage breakdown of gross written premium in Germany by line of business



United Kingdom and the London Market

In the year under review we acquired new accounts and further diversified our portfolio in the United Kingdom. In accordance with our marketing strategy the focus was on expanding specialised niche business, such as travel personal accident covers, while scaling back our catastrophe-exposed business as planned.

In casualty business Hannover Re again profited from its very good rating. While the price level in the previous year had held stable, the year under review saw a slight reduction in rates. Although in a few instances our involvement is of a long-term nature, we generally pursue an opportunistic underwriting policy in the London Market.

Our premium volume in the year under review remained stable; all in all, the loss experience was moderate.

The London Market is also a prominent centre for the underwriting of international marine and aviation risks; in both lines Hannover Re ranks among the market leaders.

After the original market had seen sharp rate declines in *aviation insurance* in 2007, leaving insurers with their first overall deficit, there was heavy pressure to stop this premium erosion. The crisis on financial markets and associated loss of capital among insurers also had a favourable effect on rate movements on both the insurance and reinsurance sides, with the result that initial tendencies towards stabilisation and rising rates could be discerned in the year under review. What is more, the opening up of the Brazilian insurance market presented new business opportunities in aviation reinsurance.

Notable major claims in the year under review included the deadly plane crash in Madrid as well as a satellite failure, producing a total net burden of losses in the order of EUR 13.9 million.

+++ Marine business impacted by hurricane losses +++

Following two years that were virtually spared major claims, rates in *marine reinsurance* softened slightly in 2008. There were, however, regional differences. The Asian market, for example – which is one of the most fiercely competitive in the world – saw reductions of around 20%. Overall, we largely preserved our existing portfolio, although exposures in the Gulf of Mexico were purposefully reduced. Our underwriting policy is slanted heavily towards non-proportional covers.

Along with higher basic losses on the primary side in offshore energy business, it was hurricane "Ike" that inflicted substantial losses on the (re)insurance industry: despite the relatively moderate intensity of its winds, the slow speed of the hurricane's advance led to considerable damage. The market loss for offshore business – i.e. the drilling rigs and oil platforms in the Gulf of Mexico – was put at around USD 3 billion. Prices for covers in the Gulf of Mexico are therefore likely to rise appreciably. As a further factor, the crisis on financial markets has prompted general market hardening as insurance and reinsurance capacities contract.

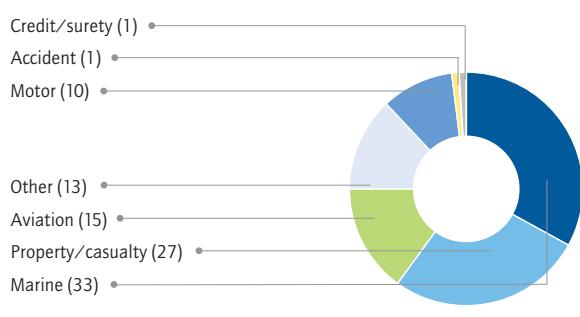
Our net burden of losses from hurricane "Ike" was in the order of EUR 222.1 million and encompassed not only offshore but also onshore business, i.e. the insured property damage on land. Another hurricane – by the name of "Gustav" – was recorded in the Caribbean in the year under review, although the resulting strain for Hannover Re's account was relatively modest at around EUR 18.1 million.

+++ Hannover Re posts very good result in credit and surety reinsurance +++

We were thoroughly satisfied with the development of the *credit and surety lines* in Europe. Business here is traditionally geared to continuity, and loyalty consider-

ations are therefore of major significance in relations between insurers and reinsurers.

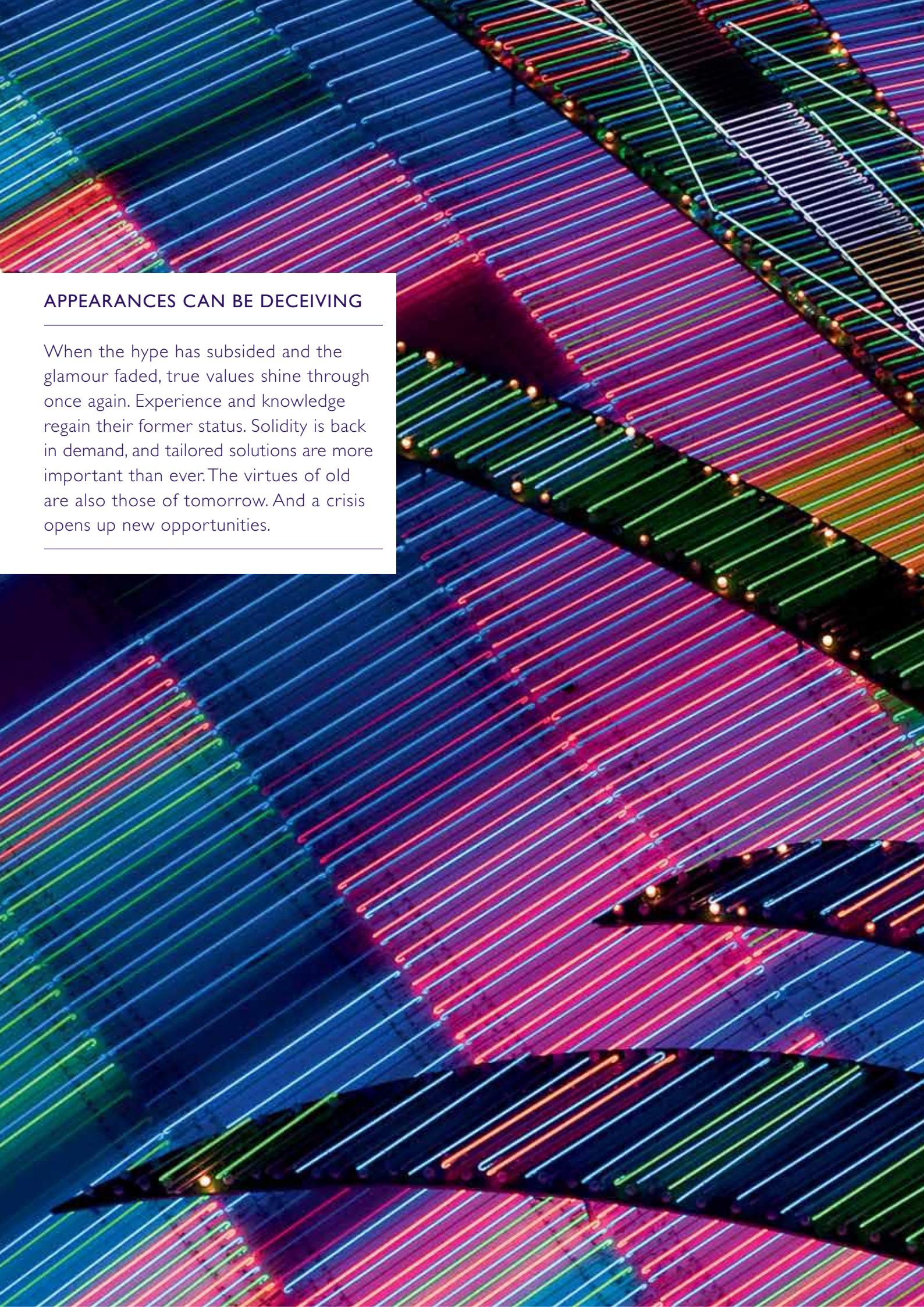
Percentage breakdown of gross written premium in the United Kingdom by line of business



Despite the worsening economic environment in Europe primary insurers again increased their retentions. An oversupply of reinsurance capacity continues to prevail, although ceding companies are placing greater emphasis on the financial strength of their reinsurers. The rate decline on the primary insurance side was halted in the wake of the financial market crisis. In some regions, such as Italy and Spain, rates even increased significantly. Although conditions on the reinsurance side deteriorated somewhat, they are still adequate. Demand for protection in the political risks segment rose worldwide.

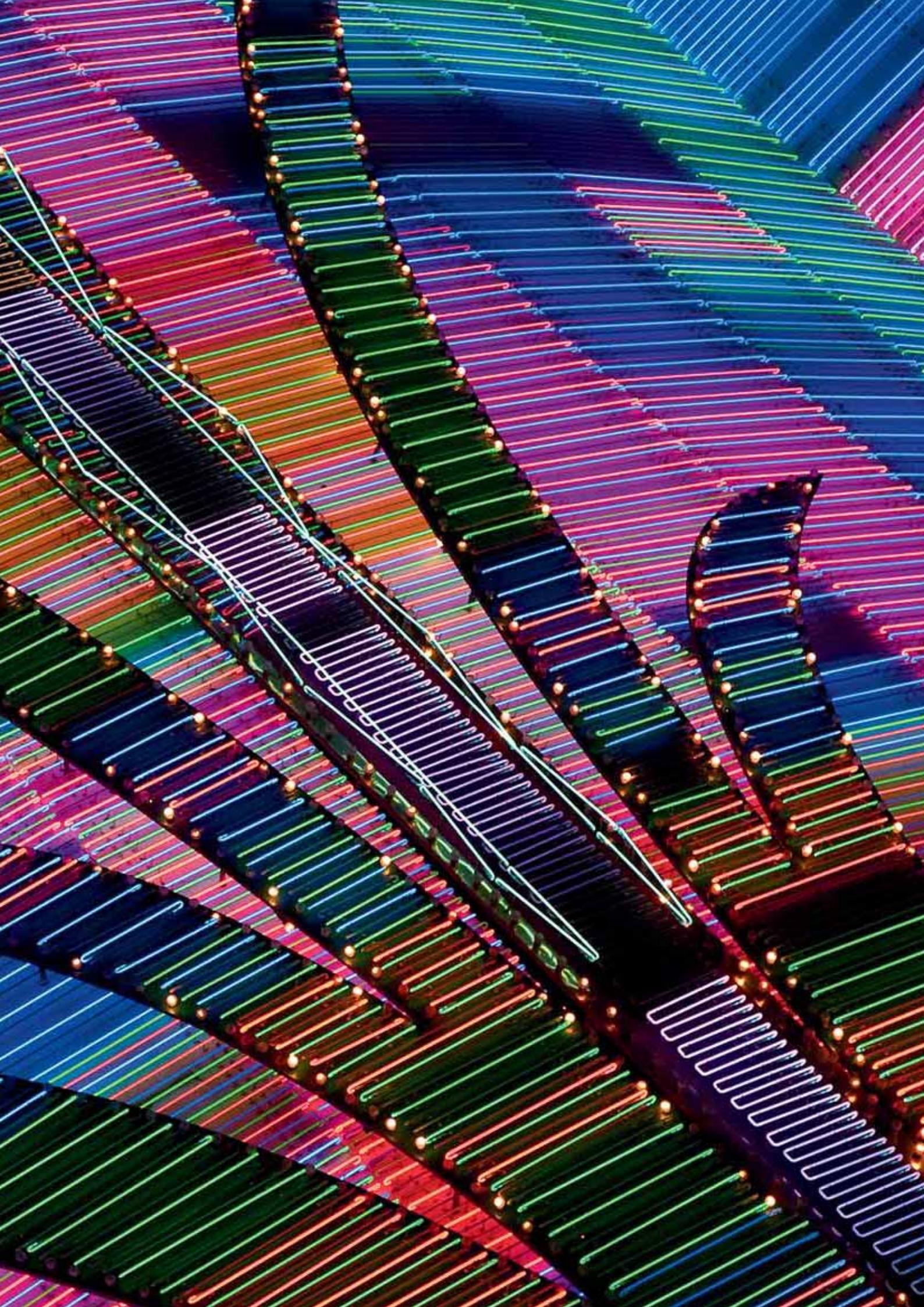
We selectively expanded our involvement in credit and surety business in the year under review – primarily by increasing shares under existing programmes, although also through new business relations in the surety line; the premium volume was consequently slightly boosted. We were able to cement our position as one of the three market leaders and further enhance the diversification of our portfolio by enlarging our surety business and stepping up our acceptances of political risks.

A rising claims frequency was observed in the credit line, especially in Spain and Italy. While a slight increase in claims was also witnessed in other countries, the previous year had been notable for a record historic low. The claims experience in surety business and the political risks segment was favourable.

The background of the entire page is a dense, abstract pattern of glowing, curved lines in various colors, including blue, green, red, and purple. These lines create a sense of depth and motion, resembling a microscopic view of a complex network or a futuristic landscape. The lines are primarily horizontal and diagonal, with some vertical elements, all glowing with a bright, neon-like light.

APPEARANCES CAN BE DECEIVING

When the hype has subsided and the glamour faded, true values shine through once again. Experience and knowledge regain their former status. Solidity is back in demand, and tailored solutions are more important than ever. The virtues of old are also those of tomorrow. And a crisis opens up new opportunities.



Western and Southern Europe

Primary insurance business in *France* fared satisfactorily. Rates bottomed out in 2008 after three years of declines. The motor line, in which the rate level on the reinsurance side was still insufficient, remained problematic.

In light of this situation we are not seeking to increase our market shares, but instead focus primarily on profitability.

In the year under review we continued to optimise our portfolio in builder's risk insurance and pursued a long-term strategy of consistent expansion. Operations at our Paris office for life reinsurance business were extended in 2008 to include facultative and treaty reinsurance in the personal accident line.

+++ Involvement in builder's risk insurance stepped up +++

With the exception of the fire in the Eurotunnel there were no significant loss events on the French market. The strain incurred by Hannover Re from this event was in the order of EUR 6.3 million for net account.

Our premium volume was slightly scaled back in the year under review.

Amalgamations among smaller players were the hallmark of the primary insurance market in the *Netherlands* in the year under review. Further insurers will find themselves forced to merge in the face of the looming high costs

associated with fulfilment of Solvency II standards. The financial market crisis also hit a number of insurers in the Netherlands, who felt compelled to take up government offers of assistance. The Dutch part of a major Belgian-Dutch group passed into state ownership. There were no negative repercussions for the reinsurance industry. Rather, it can be anticipated that the crisis on financial markets will prompt stronger demand for reinsurance covers. The intense price competition in industrial property business showed no signs of abating.

In the Netherlands we devoted special attention in the year under review to non-proportional niche segments, including for example reinsurance for greenhouses and public entities liability business. In view of the favourable rates in the casualty sector, we expanded our portfolio in this line.

Our premium volume from the Dutch market remained virtually unchanged.

The burden of losses incurred by Hannover Re in the year under review was moderate: while catastrophe business was spared losses – with the exception of a sizeable regional hailstorm –, the blaze at Delft University of Technology caused the largest fire claim hitherto recorded in Dutch property business. Based on the loss information currently available, the original claim is in the order of EUR 140 million. Our share of this loss will come in at a modest EUR 1 million.

All in all, we were satisfied with the development of our business in the Netherlands.

Italy

The Italian non-life market again generated only very marginal growth in the year under review in the face of an onerous economic climate; there were no significant shifts in market shares. The volume of business ceded contracted in 2008 as insurers raised their retentions. The consolidation phase on the Italian market has been largely completed; under currently applicable anti-trust laws the present market leaders cannot take over any further competitors.

+++ Premium volume enlarged +++

The positive claims trend in motor and industrial business fanned fierce competition in these lines, putting rates under appreciable pressure. On the other hand, in private customer business – with the exception of motor insurance – rates and conditions were adequate. Thanks to our selective underwriting policy we were able to achieve

technically acceptable prices overall. We enlarged our premium volume.

In light of a positive loss experience and adequate prices, we were once again thoroughly satisfied with our result in Italy.

Northern Europe

We strive to play a leading role in the markets of Northern Europe, especially in the segment of mutual insurers. In general terms, we prefer client relationships that are geared to the long term. In cases where we do not consider loyalty considerations a relevant factor, we write our business opportunistically.

+++ Consequences of financial market crisis in Northern Europe have no adverse effects +++

The intense competition prevailing on Nordic markets continued unabated in the year under review. It can, however, be assumed that the downward slide in rates in original business bottomed out in 2008. Conditions on the reinsurance market were highly competitive, especially with regard to covers for catastrophe, property and personal accident business. Only in the casualty sector did prices hold stable, prompting us to make more capacity available in these lines.

Denmark launched a new insurance product on the market in the year under review in the form of liability coverage for latent construction defects. For new building projects it must now be demonstrated that such a policy has been taken out at the time of applying for a construction

permit. We expect this regulation to generate attractive new business opportunities.

Insurers in Northern Europe, in common with players in other markets, had to take heavy write-downs as a consequence of the financial crisis – with *Iceland* being particularly hard hit. The nationalisation of that country's three largest banks and the associated problems for Icelandic captives – as owners of the major insurers – are enormous issues, and the repercussions of these developments cannot as yet be clearly grasped. It is likely that the companies will sell foreign-based insurance subsidiaries. Hannover Re does not, however, expect these circumstances to have any adverse implications for its reinsurance operations.

Premium income in Northern Europe contracted slightly in 2008. On the claims side we were thoroughly satisfied with the situation: fire claims decreased in frequency in the year under review, and our basic loss ratio in fire business therefore fell. Based on the loss information currently available, we expect a major fire claim in *Finland* to produce a strain in the lower single-digit millions for our account.

Central and Eastern Europe

The primary insurance markets of Central and Eastern Europe enjoyed above-average growth in the first six months of the year under review, although this slowed in the second half on account of the global financial market crisis. Rates in original business continued to decline in the face of undiminished intense competition.

+++ Strategic focus on Central and Eastern Europe +++

The situation on the reinsurance side was more favourable: conditions and rates held stable with few exceptions.

For Hannover Re the countries of Central and Eastern Europe constitute a clear strategic focus as growth markets. We rank among the three market leaders in this region and offer reinsurance covers across all lines. As long as profitable business opportunities continue to be available going forward, we intend to pursue further growth.

Our underwriting policy in these markets is opportunistic, and we prefer non-proportional treaties. It is gratifying to note that ceding companies are increasingly showing

interest in replacing their proportional cessions with non-proportional covers. In the year under review we observed growing demand for higher limits – as clients raised their retentions – and additional capacity for natural catastrophe risks. Against this backdrop we continued to enlarge our portfolio.

2008 was notable for an increased number of small and mid-sized claims. A severe fire claim occurred in *Russia*. Winter storm "Emma" caused relatively heavy losses in the *Czech Republic, Slovakia and Hungary*, while *Slovenia*

was impacted by heavy hailstorms in July and August. The strain for Hannover Re's account was moderate, however, enabling us to generate another gratifying profit in this region.

Our expertise in the Russian market was also honoured by the award of two distinctions as best reinsurance company in the year under review. Hannover Re gained plus points for its undogmatic and quick decision-making as well as for its customer-oriented products.

North America

The North American (re)insurance market is the world's largest single market and currently the second-most important for Hannover Re's portfolio. It accounted for 27.0% of our premium volume in non-life reinsurance.

The economic climate in North America was stretched to breaking point in the year under review. Consumers exercised considerable restraint in the face of the financial market crisis, and the economy slipped into recession. The real estate sector continued to be particularly heavily overshadowed by the crisis. Yet a number of the market's largest ceding companies also found themselves in financial difficulties – most strikingly the market leader in the United States. As a consequence of a reduced capital base, not all insurers were able to run retentions on their customary level.

The economic downturn prompted a contraction in demand on the original market, especially in commercial business – including for example covers for craft enterprises, construction firms and haulage companies.

+++ No significant implications of the crisis on financial markets for North American business +++

Of special relevance here is the contraction in equity resources on the primary insurance side. The situation as at the end of the year under review was almost back on a par with the starting point in 2005. What this means is de facto zero growth in equity capital opposed by four years of exposure increases. Surplus capital has been largely exhausted, and the excess reserves of the hard

market have been released; declining investment income is another factor. All these considerations will serve to push up prices in 2009. On the reinsurance side too a significant surge in demand and hence more attractive rates can therefore be expected, especially in the area of catastrophe reinsurance.

With a view to optimising the diversification of our portfolio we again scaled back larger shares with some cedants in the year under review, while at the same time expanding our business relationships with mid-sized regional players and mutual insurers. This business segment has been progressively enlarged over the past five years and now accounts for around 20% of our total portfolio. Going forward, the focus of our activities in North America will be on systematic adherence to our client segmentation, with greater weight attached to strategically oriented customer relationships.

For marketing purposes we further strengthened our partnerships with selected brokerage firms in the year under review, a helpful move which gives us extensive access to a cedant's entire portfolio. The positive effects of these initiatives will make themselves felt in the upcoming market hardening and will serve to further optimise our portfolio mix.

Our long-established, tried and trusted anticyclical business policy lends itself to consolidating our profitability in the North American market across various cyclical phases. Consequently, we did not seek to enlarge our market shares in 2008. Instead, for example, we scaled

back our market shares in property and casualty business – which at the end of the harder market cycle in 2004 and 2005 had still been in excess of 3% – to the current levels of around 2.5%. We nevertheless continue to form part of the small group of reinsurers that are approached for placement and pricing.

Given the cyclical nature of the North American market, it is absolutely essential to play such an active role even in softer market phases so as to safeguard our capability for renewed expansion of the portfolio in the coming hard market years. In this respect market surveys confirm that we continue to be ranked first in qualitative terms on the broker market.

+++ Premium volume in US D&O business further reduced +++

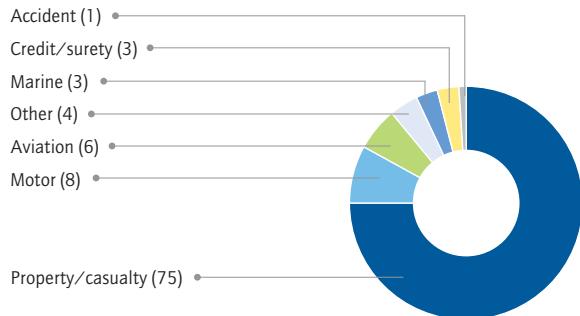
In most casualty segments – such as directors' and officers' (D&O) covers – rates showed further single-digit declines in the first nine months of the year under review. In the shadow of the financial market crisis, however, they stabilised in the fourth quarter. We purposefully relinquished market shares and reduced our volume in casualty business, especially in the professional indemnity and special liability lines.

The combined ratio climbed markedly in the year under review, creeping close to the maximum level that we are prepared to tolerate. Only in routine casualty business did we maintain our volume, since conditions here were relatively favourable and we were again able to generate a breakeven result.

While rate reductions in double digits were still the norm in property business in the first half of the year under review, the onset of the hurricane season heralded a trend reversal. In particular, the repercussions of hurricane "Ike", which with a market loss of around USD 20 billion came in as the third most expensive hurricane of all time, halted the price decline.

We are one of the market leaders in *credit and surety reinsurance* in North America. The protracted crisis on financial markets led to a drop in the solvency level of businesses and hence to a rising number of bankruptcies in the year under review. The claims frequency in the

Percentage breakdown of gross written premium in the US by line of business



credit line consequently increased. Losses in surety business, on the other hand, rose only marginally. Nor has the crisis on the real estate market had any significant implications for this line to date, whether in the primary sector or on the reinsurance side.

Rates in credit reinsurance climbed in the year under review in the face of a growing number of claims; the rate level in the surety line remained virtually unchanged.

+++ No negative repercussions of US mortgage market meltdown for credit and surety business +++

In view of the general economic environment we scaled back our involvement, albeit without relinquishing our place as the third-largest reinsurer. We selectively expanded our market position in the political risks segment.

The meltdown on the US mortgage market did not have any repercussions for our credit and surety portfolio. Our underwriting guidelines preclude the writing of credit derivatives, i.e. including mortgage guarantee business.

We were satisfied with our performance in North American credit and surety reinsurance, although it did not match up to the record result generated in the previous year.

Other international markets

Latin America

The most important Latin American markets for our company are *Mexico, Columbia, Venezuela, Ecuador and Argentina*. Both Mexico and Central America are regions with a marked natural catastrophe exposure. Hannover Re is highly active in this segment. In these markets too – with the exception of the *Caribbean* – we stepped up our involvement.

Particularly in the first half of the year most lines saw rate reductions, although slight improvements were recorded thereafter. All in all, prices were commensurate with the risks.

+++ Hannover Re is an "admitted reinsurer" in Brazil +++

Following the abolition of *Brazil's* reinsurance monopoly in 2008, we opened a representative office in Rio de Janeiro and are now able to operate in the Brazilian market as an "admitted reinsurer". This gives us an optimal platform for acquiring a satisfactory market share in Latin America's largest market. The business written in Brazil encompasses both obligatory and facultative acceptances in all lines, including motor, aviation, credit and surety, agricultural risks, structured products and life reinsurance.

Our strategy in the agricultural risks segment is to acquire additional market shares. State-run premium subsidy programmes in the primary sector and the promotion of plant-based energy sources continued to stimulate demand for agricultural insurance – and hence led to a greater need for reinsurance capacities.

Our premium volume from Latin American markets grew slightly in the year under review. On the claims side the severe hurricanes "Ike" and "Gustav" were the most notable events in the year just-ended, causing the loss ratio to rise somewhat.

Africa

Our most important market on the African continent is *South Africa*, where we are represented by our Johannesburg-based subsidiary, Hannover Re Africa.

The South African insurance and reinsurance markets were again notable in the year under review for fierce competition among foreign providers. The technical results posted by ceding companies came under appreciable pressure on account of a number of sizeable fire claims, and prices in this area climbed. Insurers nevertheless again raised their retentions and demand for facultative covers fell.

Faced with regulations governing a revised risk-weighted capital calculation, which are expected to enter into force from 2011 onwards, insurers currently find themselves needing either to develop an internal model or to turn to external providers for assistance. In future, risk capital is to be geared to a reinsurer's size and the underlying risks; the guideline for measuring risk capital has hitherto been 25% of net premium. We expect these more exacting capital requirements and the repercussions of the financial market crisis to deliver fresh impetus for business – especially in the area of structured products.

In Africa Hannover Re predominantly reinsures specialty risks – such as building insurance for thatched homes – written by managing general agents. A portion of this specialty portfolio is assumed from our subsidiary *Compass Insurance Company*.

Our strategic objective in South Africa is to expand our business accepted through underwriting agencies. We accomplished this goal in the year under review and were able to significantly boost our premium volume. In addition to setting up a new MGA in the year under review we acquired *MUA Insurance Company*, in which we already held a 49% stake. It is envisaged that the company – which has hitherto focused on the insurance of luxury automobiles – will be transformed into a managing general agent.

We were satisfied with the development of business and the underwriting result in South Africa in the year under review: despite poorer investment income as a consequence of the crisis on international financial markets and a higher claims frequency, we generated an acceptable result.

Given the increased strategic importance of Hannover Re Africa within the Group, Standard & Poor's upgraded its rating in the autumn from "BBB+" to "A" with a stable outlook. This reflects our subsidiary's very good capitalisation as well as the favourable development of its operational business.

+++ Standard & Poor's upgrades Hannover Re Africa +++

In Africa, too, Hannover Re is distinguished by the very high quality of its management team: within the scope of the Group-wide Performance Excellence assessment conducted in accordance with the model of the European Foundation for Quality Management, our South African subsidiary delivered an outstanding performance and thus demonstrated the particularly impressive quality of its enterprise management and supervision – something from which our clients profit.

Asia

Japan, where we support our clients through a local service company in Tokyo, is by far our largest Asian market. Hannover Re transacts business here across all segments – although natural catastrophe covers, which we write predominantly on a non-proportional basis, constitute the most important single line in Japan.

Business relations with our Japanese clients traditionally emphasise continuity, and thanks to our very good rating we are a sought-after partner for reinsurance covers.

We therefore enjoy the status of "core reinsurer" with most major primary insurers.

In the year under review the Japanese insurance market recorded negative growth as automobile and real estate sales declined. Although the financial market crisis did not affect Japanese insurers as severely as it did providers in other countries, investment portfolios were nevertheless adversely impacted by the volatility on stock markets.

Overall, original rates remained on a stable, albeit low, level.

On the reinsurance side the picture in the various segments was a mixed one. In property business, for example, stable prices prompted us to modestly enlarge our portfolio in this market. Windstorm and earthquake covers, on the other hand, saw sharp rate cuts as expected owing to the absence of losses – although reinsurance commissions for earthquake risks remained unchanged or even increased slightly. Personal accident business – a line that has been spared major claims in recent years – inevitably witnessed substantial price declines. In Japanese casualty business, however, prices held stable; true to our strategy of further optimising the diversification of our business, we therefore not only maintained the casualty portfolio on a par with the previous year's volume, but actually stepped up our involvement in the year under review.

Despite the generally difficult environment, our premium income in Japan remained virtually unchanged in the year under review. All in all, we were thoroughly satisfied with the development of our business in this market.

Further rate reductions were recorded throughout *South-east Asia* in 2008 in both the insurance and reinsurance sectors. Our main markets in this region are *Malaysia*, *India*, the *Philippines* and *Indonesia*.

Our portfolio here is composed principally of property business, which we further diversified in the year under review. Lines such as personal accident, crop and livestock insurance, motor with limited liability as well as structured covers were systematically expanded. Overall, we observed sustained demand in the year under review for structured products in Asian markets, including for example in *India*, *Indonesia*, *Thailand*, *South Korea* and the *Philippines*. In *China* the global financial market crisis was a key driver of our business opportunities in the area of structured covers.

In facultative reinsurance we are a sought-after partner in Southeast Asia for non-proportional property business and liability covers.

The number of primary insurers in the Philippines and *Pakistan* decreased in the year under review in the face of new solvency regulations (risk capital requirements). In Malaysia, too, a number of providers have disappeared from the market – in this case due to mergers and acquisitions. The situation was quite different in India, where new competitors entered the arena.

Our premium volume contracted in light of the devaluation of most local currencies. On the claims side, however, the year under review passed off relatively unremarkably; only in South Korea did we incur a major loss, which produced a moderate strain of around EUR 5 million for Hannover Re.

+++ Development of retakaful business highly satisfactory +++

Retakaful business – that is to say, insurance business transacted in accordance with Islamic law – once again generated dynamic growth for our portfolio both in Southeast Asia and on the Arabian peninsula: this can be attributed to the favourable state of the economy in the Gulf States, which was supported by high oil prices – at least until the autumn – as well as a boom in public and private investment. The effect of the financial market crisis on economic growth in the Gulf States has hitherto been at most marginal.

Since 2006 Hannover Re has maintained a *Bahrain*-based subsidiary, Hannover ReTakaful, which bears exclusive responsibility for transacting our retakaful business; we also have a local branch that writes traditional reinsurance in the region. Hannover ReTakaful serves a global customer base. Along with the Gulf States, Malaysia is one of our largest markets. In the year under review we established relationships with clients in *Syria*, *Egypt* and *Libya*, and we currently do business with 66 takaful insurers. It remains our goal to be the first and preferred partner for these companies over the long term.

We considerably enlarged our premium volume in this sector in the year under review.

+++ Competition remains fierce in China +++

China continues to rank as the most prominent growth market in Asia. While there was little movement year-on-year in the established primary insurance markets of *Hong Kong* and *Taiwan*, the Chinese market once again recorded disproportionately strong growth.

This expansion spanned all lines, although it was particularly noticeable in motor business and the casualty lines. *China* continues to be a target market for international insurers and reinsurers, and competition is correspondingly fierce. The number of insurers is consistently rising, while at the same time an oversupply of reinsurance capacity prevails on the market. Accounting for over 65% of total volume, motor business is the dominant line in *China*. *Hong Kong* and *Taiwan* are markets heavily slanted towards non-proportional covers – with property lines dominant for our company in *Taiwan* and casualty business generating the bulk of our premium volume in *Hong Kong*.

Both regions saw appreciable rate reductions in the year under review. In *China*, however, reinsurance rates held stable in view of the inadequate results recorded in 2007; conditions improved slightly.

Hannover Re pursues an opportunistic underwriting policy in the aforementioned markets. We accept primarily non-proportional business that meets our profitability standards; this is especially true of *China*, where the market is dominated by proportional treaties. We stood by this strategy in the year under review and enlarged our non-proportional portfolio, while at the same time stepping up our involvement in casualty lines. Our premium volume consequently showed modest growth.

+++ Natural disasters are the dominant feature of the financial year in China +++

The business development in *China* was crucially shaped by a tense catastrophe loss situation in 2008, which led to highly unsatisfactory results on the reinsurance side:

snow- and ice-storms between mid-January and mid-February left a trail of severe destruction and hence caused the most expensive insured losses in the history of China. The net burden of these events for Hannover Re was in the order of EUR 16.2 million. In May a severe earthquake in Sichuan Province resulted in a human tragedy, although the devastating economic losses bore no relation to the insured values. Hannover Re's loss expenditure was therefore rather modest at around EUR 8.3 million.

The loss scenario was more favourable in Hong Kong and Taiwan, where our account incurred only small and mid-sized claims.

Australia

Hannover Re still ranks third in the Australian non-life reinsurance market. For more than 20 years we have been represented by a branch office in Sydney. Our clients value us as a reliable and attractive partner on account of this local presence as well as our very good rating.

In accordance with a decision of the Australian insurance regulator, from 31 December 2008 onwards non-local reinsurers are required to furnish collateral for their contracts; as a locally based provider we therefore enjoy an edge over some market players.

A competitive climate prevailed on the Australian primary insurance market in the year under review. Since listed

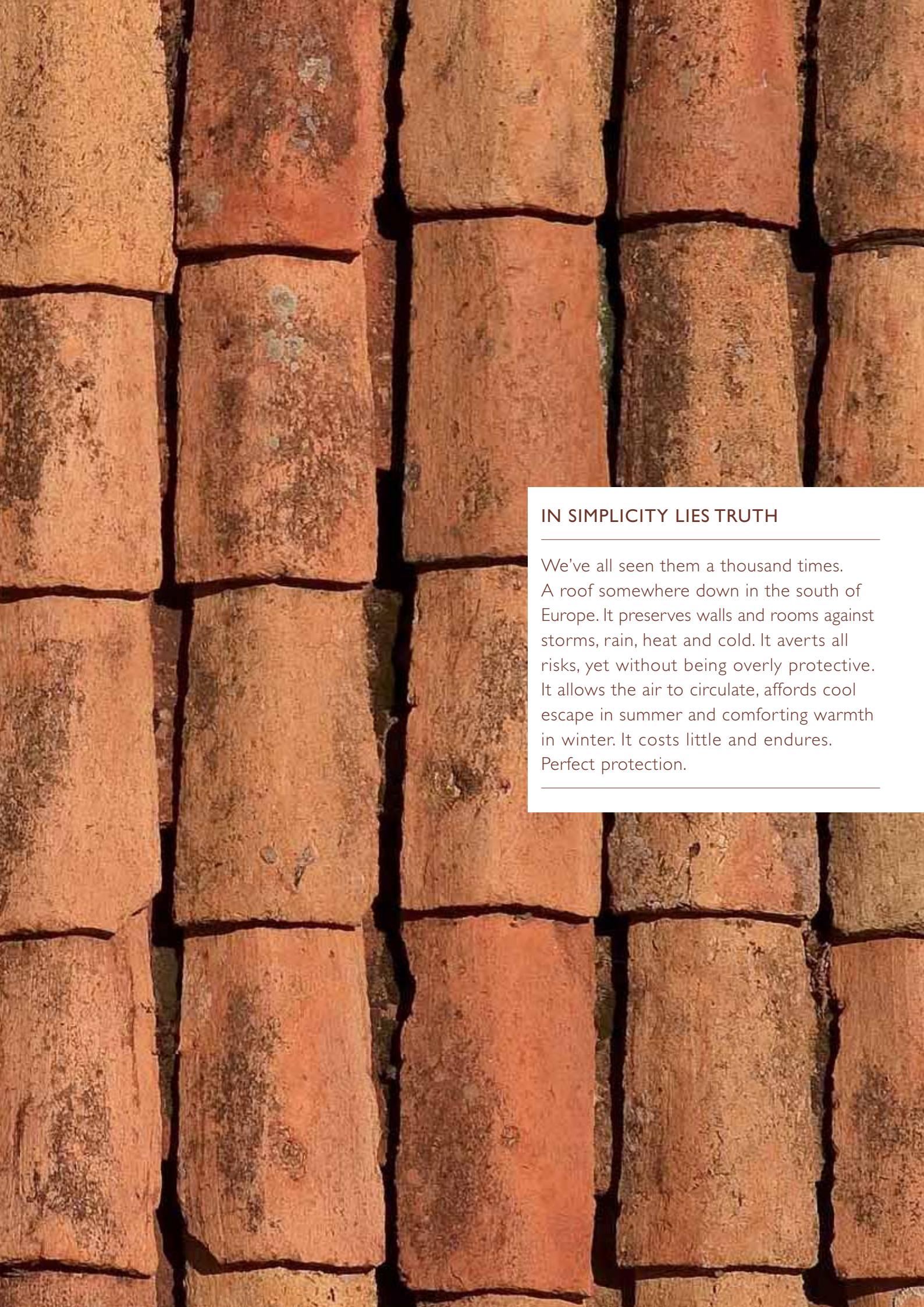
companies are under special pressure to deliver profits, indications of market hardening could nevertheless be discerned. On the reinsurance side, however, rate reductions were for the most part the order of the day. Workers' compensation insurance came under heavy price pressure, and markdowns also had to be taken for catastrophe covers. Rates in non-proportional casualty business, on the other hand, remained stable.

On the Australian continent, too, the overriding principle guiding our business strategy is adherence to our profitability targets: leaving aside a very small number of proportional treaties, we therefore concentrate entirely on non-proportional business. We make exceptions only for customer relationships that have already existed for some years – provided they generate sustained profits. We are a leading provider for the upper layers of catastrophe programmes and for medical malpractice covers.

Following a very strained claims situation in Australia in the previous year, the losses incurred by Hannover Re in 2008 were moderate. A number of flood losses occurred in Queensland, although none of these developed into a major claim for our company. In addition, a gas explosion resulted in a business interruption claim, the effects of which for Hannover Re were, however, only minimal.

We were satisfied with the result generated on the Australian continent in the year under review.





IN SIMPLICITY LIES TRUTH

We've all seen them a thousand times. A roof somewhere down in the south of Europe. It preserves walls and rooms against storms, rain, heat and cold. It averts all risks, yet without being overly protective. It allows the air to circulate, affords cool escape in summer and comforting warmth in winter. It costs little and endures. Perfect protection.

Life and health reinsurance

The life and health reinsurance business group combines under the worldwide Hannover Life Re brand the international activities of the Hannover Re Group in the life, health, annuity and personal accident lines (the latter only insofar as they are transacted by life insurers). The strategic emphasis is on building long-term, directly acquired customer relationships that can generate discernible value-added for our cedants in risk and financial management.

The repercussions of the worldwide financial market crisis, which became especially apparent on an enormous scale in the second half of the year under review, also affected the operating result of Hannover Life Re. On the underwriting side, we did not observe any changes in the claims experience for the biometric risks, and there were also no unusual developments affecting structural risks – such as the persistency of the business in force and the counterparty risk associated with ceding companies.

+++ Hannover Life Re ranks among the four most important internationally operating life reinsurers +++

Turning to the investments side, our life subsidiaries in the United States and Ireland took particularly heavy

charges on account of the fair value adjustments made for reinsurance funds deposited with US cedants. These adjustments (prompted by the so-called DIG B36 provisions of FAS 133) reached a record level of EUR 72.1 million – in particular due to the substantial widening of risk premiums on corporate bonds in the course of the year – and were charged to the operating result (EBIT) accordingly. It should, however, be noted that from today's perspective this involves unrealised losses that may be significantly reduced over the remaining term depending upon movements on capital markets.

We appreciably strengthened our international market position in the year under review, with systematic expansion in the important threshold markets of Asia and Latin America playing a key role. Despite adverse effects of movements in the exchange rates of all major currencies relative to the euro, we enlarged our premium income and currently enjoy a global market share of 10% to 12%. Indeed, we rank first or second in a number of significant markets. In the worldwide arena Hannover Life Re is one of the four most important life and health reinsurers and is distinguished by its excellent rating and global presence.

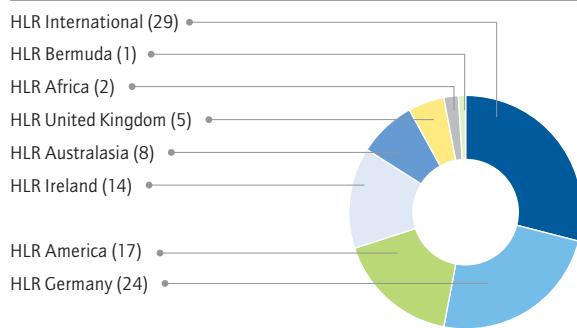
Hannover Life Re – expanding the international network

The operating units of Hannover Life Re are active at more than twenty locations on all five continents in order to offer our clients optimal local service. We operate as a decentralised network through our subsidiaries, branches and service offices. This organisation safeguards the rapid and efficient transfer of knowledge in the interests of our clients at all times and all around the world.

Eight licensed life reinsurers (business centres) of Hannover Life Re serve as the nodes of our network; their shares of total gross premium income are set out below.

Along with Hannover Life Re Bermuda, which is reporting on a full financial year for the first time after receiving its licence in October 2007, our new branches in Shanghai and Seoul commenced their operational activities; in the second half of 2008 we also established a service

Percentage breakdown of gross premium by business centers (before consolidation)



company in Mumbai – concentrating on life and facultative non-life business – to serve the Indian market.

With a view to the further cultivation of this vital threshold market we were able to agree upon a strategic partnership with the leading Indian reinsurer GIC Re; this was cemented in June 2008 with the official signing of the cooperation agreement in Mumbai. We also established a service company in Rio de Janeiro in the middle of the year under review, thereby completing our entry into the Brazilian life market.

In 2008 we once again devoted special attention to extending our presence in the Islamic life insurance market, which we support principally through our Bahrain-based subsidiary Hannover ReTakaful. With an eye to the group business that traditionally predominates in the

Islamic and Arab markets we substantially boosted our personnel resources at this location in the fields of actuarial marketing and product development.

Demand for financial reinsurance solutions rose steadily in the course of the year under review – the worldwide crisis on financial markets has damaged the solvency and risk-carrying capacity of life insurers in many countries. Against this backdrop the focus has moved back to the reinsurance market as a partner, especially as solutions designed for the capital market (securitisations) have proven to be extremely challenging. We made the most of this situation and completed several significant transactions of this type in the second half of 2008; these will make themselves felt to positive effect in the statement of income from 2009 onwards.

Hannover Life Re – the "Five Pillar" business model

Hannover Life Re's tried and trusted business model is based on a range of five structurally distinct product and service offerings that are known as the "five pillars". Unique expertise is the feature of each pillar, and this enables us to provide our cedants with solutions tailored to their specific needs.

To a growing extent, it is the case that multiple business centers of Hannover Life Re participate in the implementation of reinsurance solutions for our key account relationships. In this way we are able to optimise our risk and financial resources in the best interest of the customer and efficiently bundle the worldwide capacities of Hannover Life Re. In this context, our two subsidiaries Hannover Life Re Ireland and Hannover Life Re Bermuda play a particularly pivotal strategic role.

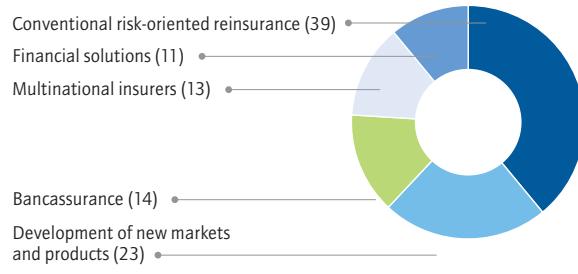
Relationship Marketing (as an overarching conceptual business approach) and Customer Relationship Management (as a package of actions to be implemented) continue to play an essential role in our global acquisition and underwriting policy.

As an inherent feature of this approach, priority is accorded to existing, value-creating customer relationships, while the acquisition of new clients is a secondary concern.

Surveys of primary insurers again confirmed the success of this orientation in the year under review: the vast majority of our existing loyal customers in Europe and Asia attribute to Hannover Life Re the role of best or second-best life reinsurer.

The leading international rating agencies are also displaying growing interest in Hannover Life Re's unique risk and business model. In this connection Standard & Poor's recognised most foreign life subsidiaries of Hannover Life Re as core companies of the Hannover Re Group in the fourth quarter of 2008.

Breakdown of gross written premium according to the "five pillar model" (in %)



Development of premium income

The gross premium income booked by Hannover Life Re totalled EUR 3.1 billion (EUR 3.1 billion) in the year under review; this corresponds to growth of 1.7% year-on-year. The strength of the euro against our three most important foreign currencies – namely the pound sterling, US dollar and Australian dollar – means that the real increase in the international portfolio is not fully reflected; at constant exchange rates growth would have stood at 7.9%. Net premium earned contracted by 0.4% to EUR 2.8 billion (EUR 2.8 billion) owing to a slight reduction in the level of retained premium.

The United Kingdom reaffirmed its position as the largest market in our portfolio through significant expansion in the area of impaired/enhanced annuities – despite the fact that we scaled back our involvement in risk-oriented covers in the face of the competitive situation.

The United Kingdom currently accounts for 27.3% (30.1%) of our premium, followed by the United States – where most notably we consolidated our position in the areas of private health insurance covers for senior citizens and block assumption transactions – with 21.6% (20.8%). Germany and Australia ranked third and fourth with shares of 12.2% (14.0%) and 9.6% (11.6%) respectively. Further key markets are Ireland, France, South Africa, Barbados, Italy, Luxembourg and Asia, with the latter market in particular recording above-average growth of almost 18%. Business in Latin America similarly generated strong growth rates.

Our preferred lines of life and annuity – in which the biometric risks of mortality and longevity are of primary relevance from the standpoint of risk considerations –

Key figures for life and health reinsurance

Figures in EUR million	2008	+/- previous year	2007	2006	2005 ¹⁾	2004 ¹⁾
Gross written premium	3,134.4	+1.7%	3,082.9	2,793.6	2,425.1	2,176.6
Premium deposits	2,181.2	+155.3%	854.5	1,166.2	308.1	311.4
Gross premium incl. premium deposits	5,315.6	+35.0%	3,937.4	3,959.8	2,733.2	2,487.9
Net premium earned	2,784.9	-0.4%	2,795.3	2,373.4	2,257.6	1,956.3
Premium deposits	2,126.9	+171.4%	783.6	1,084.4	274.5	267.2
Net premium incl. premium deposits	4,911.8	+37.2%	3,579.0	3,457.8	2,532.1	2,223.5
Investment income	245.5	-16.4%	293.9	313.2	275.3	221.6
Claims expenses	1,674.7	+0.2%	1,672.2	1,495.3	1,415.2	1,212.6
Change in benefit reserves	421.3	+5.9%	397.9	192.8	258.0	241.2
Commissions	743.4	-4.8%	780.5	831.7	684.1	589.6
Own administrative expenses	70.1	+14.5%	61.2	50.0	59.3	55.9
Other income/expenses	-0.2	-100.4%	52.7	22.7	-23.1	-2.0
Operating result (EBIT)	120.7	-47.5%	229.8	139.5	93.1	76.7
Group net income (loss)	78.3	-58.3%	187.7	102.6	59.6	38.0
Earnings per share in EUR	0.65	-58.3%	1.57	0.85	0.49	0.32
Retention	89.3%		90.8%	85.4%	92.8%	90.2%
EBIT margin ²⁾	4.3%		8.2%	5.9%	4.1%	3.9%

¹⁾ Figures for 2005 and 2004 before new segmentation

²⁾ Operating profit (EBIT)/net premium earned

accounted for almost 85% of the total premium income booked by Hannover Life Re in the year under review.

As far as the morbidity risk is concerned, our principal areas of involvement are US senior health medicare supplement products, long-term care covers in Europe and Asia and disability policies in Australia. Individual

Results

As in previous years, the main factors with a bearing on the performance of our life and health reinsurance business group remained unchanged as follows:

- development of the three biometric risks of mortality, morbidity and longevity, the structural risk associated with the persistency of the business in force as well as the specific client-related counterparty risk in connection with financing transactions,
- developments on international capital markets and movements in exchange rates, especially in our most relevant currencies of EUR, GBP, USD, AUD and ZAR,
- development of our own administrative expenses.

The trends on international capital markets – against the backdrop of the already familiar turmoil and upheavals – took on particular relevance in the year under review and had a considerable impact on our results.

The situation as regards the biometric risk of mortality, to which we are exposed principally through our acceptances in the United Kingdom, South Africa, Australia and the Asian markets, was highly satisfactory overall, although we did observe a slightly increased loss ratio at some UK cedants in connection with the "Treating Customers Fairly" initiative.

+++ Results influenced by turmoil on capital markets +++

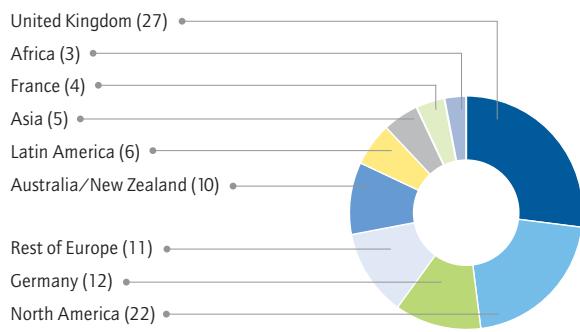
The morbidity factor is constituted by a combination of different risk profiles from critical illness covers, US senior health medicare supplement plans, long-term care annuities and the usual occupational disability riders

accident business again accounted for a modest, but stable share of our premium volume at 2.2%.

We do not offer reinsurance protection for long-term financial guarantees in connection with deferred unit-linked annuities.

from the German and French markets as well as Australian disability covers. Involuntary unemployment insurance, which is offered in many markets in conjunction with protection for consumer loans, also belongs in this category. The claims experience here varied widely: it was very good under critical illness covers and long-term care annuities, slightly poorer for US supplementary health products and less favourable for disability annuities on the Australian market.

Geographical breakdown of life and health reinsurance (as % of gross premium)



The longevity factor has been of special relevance to our company for many years due to our market leadership in the UK; working closely together with our clients, we continuously analyse the short-, medium- and long-term trends of this risk category using an extensive range of actuarial methods. The claims experience in the year under review was in line with our projections.

The risk associated with the persistency of the in-force reinsured portfolios and the counterparty risk did not exhibit any peculiarities in the year under review –

although a large international account based in the United States, under which we reinsure more than 40 individual life insurers, was heavily downgraded by the rating agencies in connection with financial difficulties affecting the holding company. This downgrade did not have any noticeable effect on the performance of the reinsurance treaties.

The impact of the risks associated with movements on capital markets and fluctuations in exchange rates was, however, severe in the year under review. With respect to the capital market risk, it should be borne in mind that the various operations of Hannover Life Re scarcely hold any equity securities or shares in their asset portfolios. We do, however, hold a high-quality portfolio of fixed-income securities – including corporate bonds – that optimally satisfies actuarial standards with respect to the mix of durations and currencies.

The total investment income generated for the life and health reinsurance business group amounted to EUR 245.5 million (EUR 293.9 million); this was equivalent to a decline of 16.4%.

As in the past, we attach considerable importance to lean processes and a flat management structure at all our operating units. With internal administrative expenses

of EUR 70 million – corresponding to an expense ratio of 2.2% relative to gross written premium – we were again the cost leader among highly reputed international life and health reinsurers in the year under review.

The operating profit (EBIT) generated for the life and health reinsurance business group amounted to EUR 120.7 million (EUR 229.8 million); in this context, unlike in the previous year, allowance must be made for the negative special effect totalling EUR 72.1 million. Had it not been for this influencing factor, the operating profit would have reached EUR 192.8 million. The EBIT margin stood at 4.3%; it thus fell short of the previous year and our target range of 6.5% to 7.5% (excluding the negative special effect it would have reached 6.9%).

In the year under review we transferred a portfolio of life and annuity reinsurance to the capital market. Designated "L7", the transaction converts a future earnings stream into a current liquidity position and monetises an embedded value of EUR 100 million.

With a tax ratio of 29.4% and after allowance for minority interests, the consolidated net income of the life and health reinsurance business group came in at EUR 78.3 million (EUR 187.7 million). This was equivalent to earnings of EUR 0.65 (EUR 1.57) per share.

Germany

The amended Insurance Contract Act entered into force in the German market on 1 January 2008. Key aims of this reform are to enhance the transparency of life and annuity insurance products, provide increased cash surrender values in the event of premature contract termination and facilitate timely participation of customers in life insurers' hidden reserves.

Implementation of the reform tied up considerable resources at providers, especially for the conversion of internal processes; the restructuring of sales processes was similarly reflected in a drag on new business that was particularly visible in the first half of 2008.

On the other hand, new business profited from government-assisted "Riester" annuity products, for which the

fourth and last step increase came into force at the beginning of 2008. Many of our existing clients used this incentive step as an opportunity to substantially raise premiums and benefits.

E+S Rück, which serves the German market within the Hannover Re Group, saw its premium income in life and health reinsurance decline to EUR 381.9 million (EUR 428.6 million) in 2008. Key factors in this development were the further planned run-off of a large transaction from 2004 and the reduction of our involvement in financing new business acquisition costs on the German market. In the fourth quarter of 2008 a mid-sized block assumption transaction with a planned term of ten years was written with a life insurer in western Germany. The operating profit (EBIT) in 2008 was positive.

Insurance solutions for the so-called "60-plus generation" are a focus of our activities, particularly in the area of long-term care annuity insurance. We have amassed

special expertise, which is attracting growing interest in what is still – in Germany – a relatively rare form of individual risk provision.

United Kingdom

For many years we have devoted special attention to the UK market, the most significant European life reinsurance market. We participate not only in traditional risk-oriented business but also in the area of enhanced annuities with a reduced payment period.

While traditional reinsurance relationships were adversely impacted by slowing new business on the back of the mortgage crisis, the vitality of the private annuity segment was undiminished. We significantly extended our customer base in this area and have considered ourselves the market-leading reinsurer for many years.

Ceding companies from this market are reinsured by various risk carriers within Hannover Life Re: the parent company Hannover Re, Hannover Life Re United Kingdom, Hannover Life Re Ireland and – since 2008 – by our new subsidiary Hannover Life Re Bermuda. For the first time we concluded a number of block assumption transactions for existing pension funds under which we assume the longevity risk for a defined group of pensioners.

Gross written premium contracted by 7.6% to EUR 857.1 million (EUR 927.4 million) on account of the weakness of the pound sterling; of this amount, 43.0% was attributable to business written by Hannover Re, 21.4% to Hannover Life Re United Kingdom, 32.8% to Hannover Life Re Ireland and 2.8% to Hannover Life Re Bermuda.

The technical results from this market were once again most gratifying for the mortality and critical illness risk categories, while for the longevity risk they were within the actuarially expected bounds.

With net premium of EUR 100.7 million (+7.8%) and an operating profit (EBIT) of EUR 22.8 million (EUR 26.3 million), our UK subsidiary Hannover Life Re United Kingdom based in Virginia Water outside London delivered a very pleasing result; net income after tax came in at EUR 16.5 million (EUR 19.7 million).

Ireland

Since its establishment in 1999 our Dublin-based Irish subsidiary Hannover Life Re Ireland has designed and implemented tailored reinsurance solutions for an international clientele comprised primarily of large life insurers with first-class ratings in the United States, United Kingdom and Continental Europe.

The contraction in the premium volume to EUR 502.7 million (EUR 586.8 million) in the year under review was crucially driven by the strength of the euro against our two main currencies – the pound sterling and US dollar. The technical result, especially from UK business, did not quite pick up on the previous year's performance. The

significant strain on the company's profitability was incurred in the investment sector, however, as a consequence of fair value adjustments (B36) in excess of EUR 29 million for securities deposits furnished to US cedants.

Following the exceptionally high operating profit (EBIT) of the previous year (EUR 45.0 million), which had been heavily shaped by positive special effects, net income after tax amounted to EUR 0.7 million in the year under review.

France, Maghreb and Arab countries

Life and health reinsurance business in these regions – also including French-speaking Canada – is lead-managed by our life branch in Paris. The premium volume in the year under review climbed by 17% to EUR 372.0 million, and profitability was again very pleasing.

Key growth drivers – as in the previous year – were bancassurance business, in which we successfully accompanied moves made by several life subsidiaries of major French banks into foreign markets, as well as the Near East. In

this region we were able to use structural changes at some competitors as opportunities to initiate new business contacts within traditional reinsurance.

At our composite subsidiary Hannover ReTakaful based in Manama, Bahrain, which focuses on the reinsurance of Islamic insurance organisations, we put in place a complete infrastructure for the life sector (so-called family takaful) and acquired a number of new customers from Bahrain, Saudi Arabia and other countries in the region.

Italy, Spain and Southeastern Europe

Reinsurance business in these Mediterranean nations is written from Hannover Home Office. Our offices in Milan and Madrid play a vital role in marketing, acquisition and service activities and primarily serve bancassurance clients in their region.

Total premium income came in at EUR 70.4 million (EUR 76.3 million) in the year under review; technical results can be described as satisfactory.

Scandinavia, Eastern Europe, Russia, CIS states, Turkey and Israel

For some years these regional markets – excluding Russia and the CIS states – have been handled by our life branch in Stockholm, with a concentration on Sweden, Norway and Israel. These three markets account for 80.8% of our business volume. Finland, the Baltic countries, Poland and Bulgaria also play a noteworthy role.

In the Scandinavian markets we support first and foremost life insurers that focus on unit-linked products and bancassurance models, while in Israel long-term morbidity policies such as long-term care and critical illness dominate.

In this context we are currently seeing rapidly growing interest on the part of our cedants in efficient application systems that can be integrated into the overall application process at point of sale, thereby ensuring prompt processing for policyholders – a precondition that is especially essential in bancassurance business. To this end, working

in close cooperation with highly respected IT systems providers, we have developed a variety of state-of-the-art system solutions that we deploy at several ceding companies in Scandinavia and the Baltic markets.

The gross premium volume booked by the Stockholm branch in the year under review was significantly influenced by the expiry of earlier financing business and totalled EUR 81.3 million (EUR 86.9 million); profitability was again highly gratifying.

Looking ahead to the future cultivation of life markets in Russia and the CIS states, we set up a new underwriting unit in Hannover in the year under review with actuaries who are native speakers of Russian, Ukrainian and Georgian. In the coming years they will substantially reinforce our activities in this region. Particularly in the Russian market, where we have already acquired our first clients, we have identified a considerable long-term potential.

North America incl. Bermuda

Responsibility for the US market is borne by our Orlando-based subsidiary Hannover Life Re America, which concentrates on the underwriting of financially oriented covers for US clients, supplementary private health insurance for seniors and a number of other US specialty segments.

+++ Sharp rise in premium income at US subsidiaries +++

The English-speaking Canadian market plays a minor role in our assumed business. Canada is, however, home to Hannover Life Re's most important retrocessionaires, with whom we work together on a long-term basis; they are of considerable significance to our worldwide risk management with respect to large and complex individual risks that surpass our retention.

In the United States we closed the largest block assumption transaction involving US individual life business in the history of Hannover Life Re; the transaction encompassed the monetisation of embedded values in several portfolios of endowment insurance.

The gross premium volume booked by Hannover Life Re America totalled EUR 613.6 million (EUR 508.6 million) in the year under review, an increase of 20.7%.

This company too was significantly affected by fair-value adjustments to securities deposits (B36), as a consequence of which the operating result (EBIT) slipped into the red at -EUR 17.7 million (after an operating profit of EUR 8.7 million in the previous year); net income after tax came in at -EUR 12.6 million (EUR 4.9 million).

The Hamilton-based Hannover Life Re Bermuda, our subsidiary that was newly established in 2007, can report a gratifying business development in its first full financial year. It systematically consolidated its position as a specialist within the Hannover Life Re network and acquired its first clients in Bermuda, the Caribbean, the United Kingdom, South Africa and the United States. Gross premium totalled EUR 29.5 million, producing an operating profit (EBIT) of EUR 9.2 million. This operating profit is identical to the net income after tax.

Other international markets

Africa

Our subsidiary Hannover Life Re Africa, which is based in Johannesburg, serves South Africa and the English-speaking African markets. The company writes predominantly risk-oriented individual life business of mid-sized and larger South African life insurers. In the fourth quarter of 2008 the company – in cooperation with its affiliates Hannover Life Re Bermuda and Hannover Life Re Ireland – concluded a large block assumption transaction with one of South Africa's foremost life insurers.

Over the past two years we stepped up our expansion into neighbouring African markets and improved our access to Nigeria and Kenya by cooperating with a local professional reinsurer outside South Africa.

The gross written premium generated by Hannover Life Re Africa contracted to EUR 92.2 million (EUR 105.2 million) due to the strength of the euro against the South African rand. Results were thoroughly satisfactory, however, producing an operating profit (EBIT) of EUR 6.9 million (EUR 5.7 million).

Central and South America

Central American markets are served by our office in Mexico City, while South America is supported directly from Hannover Home Office.

In the year under review, despite growing competitive pressure, we succeeded in cementing a leading position in most of our target markets – especially the bancassur-

ance sector – and winning over clients through our clear commitment to loyalty and continuity.

Premium income in 2008 climbed by 40.7% to EUR 98.8 million, and profitability – as in previous years – can be described as good.

Events have taken a new turn in Brazil: following the long-awaited opening up of the reinsurance market, Hannover Re has now secured the status of an "admitted reinsurer" and established a representative office in Rio de Janeiro for life and non-life business. We intend to be more of a pacesetter in this key market going forward.

Asia

The Asian life markets in the Far East – encompassing the Chinese-speaking economic region, Korea and Japan – are served by our regional centre in Hong Kong, while responsibility for the markets of Southeast Asia and South Asia rests with our branch office in Kuala Lumpur.

Our premium income climbed by 23.1% in the year under review to EUR 103.9 million (EUR 84.4 million), with all major markets contributing to this growth. Results continued to develop favourably.

+++ New customer relationships in China +++

In China we have been represented by a fully operational life branch in Shanghai since May 2008. We made the most of the extended opportunities opened up by the status of a locally licensed reinsurer to acquire several new customer relationships and thus moved closer to

attaining our goal of ranking among the market's three leading life reinsurers.

In the Korean market, the largest life reinsurance market in Asia, we have also made significant progress since our new life branch in Seoul commenced business operations in May 2008.

We have successfully taken the first steps towards tapping into the Indian market by concluding a multi-year cooperation agreement with the leading local reinsurer GIC Re. In a parallel move, we established our own service company in Mumbai to support our customer relationships in life and facultative non-life business. This company started doing business on 1 December 2008.

Australia and New Zealand

Business written in Australia and New Zealand is the responsibility of our subsidiary Hannover Life Re Australasia. The company concentrates on risk-oriented treaty business in the areas of life, critical illness and disability annuities.

Occupational retirement provision is becoming an increasingly important segment in Australia; in this context the company participates in the assumption of biometric risks but plays no part in the capital accumulation process.

Owing to the planned reduction of a major individual account, the premium volume contracted by 17% in 2008 to EUR 290.5 million (EUR 348.6 million). The operating profit (EBIT) of EUR 11.3 million was again satisfactory, although it failed to match up to the previous year's result of EUR 34.5 million – which had been influenced by a non-recurring effect.

Investments

Stock markets around the world were plunged into an unparalleled downward slide in the year under review. The German stock index (Dax) had fallen by around 40% by the end of the year. The EuroStoxx 50 and S&P 500 experienced slumps of similar dimensions. Although equity markets rallied somewhat from their lows of October and November, the Dax stood at just 4,810 points at the end of December – compared to a level in excess of 8,000 at the start of the year.

While the US Federal Reserve Board slashed its key lending rates dramatically to 0% to 0.25%, the adjustments made by the European Central Bank were more moderate. It too cut the base rate, albeit initially only to 2.5%. In view of the recessionary tendencies in virtually all major currency areas, a cycle of interest rate reductions was set in motion worldwide.

The return on ten-year US treasury bonds declined appreciably to less than 2.8% in view of the economic outlook. In Europe, too, ten-year bonds paid a return of less than 3.0%, while highs markedly in excess of 4.0% were recorded by the middle of the year. As the fourth quarter progressed corporate bonds were listed with considerable risk premiums – against a backdrop of extensive illiquidity. The euro slipped slightly against the US dollar in the course of the year, but held its ground – in some cases forcefully – against other currencies.

Hannover Re's investment policy continues to be guided by the following core principles:

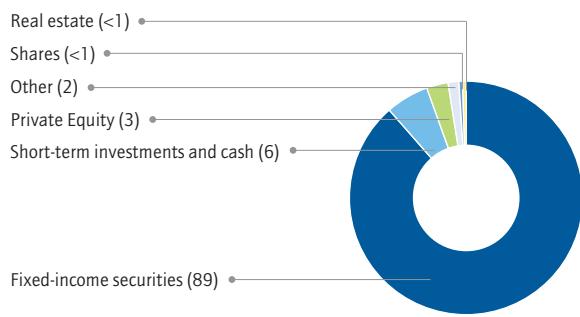
- generation of stable, plannable and tax-optimised returns while at the same time maintaining the high quality standard of the portfolio;
- ensuring the company's liquidity and solvency at all times;
- high diversification of risks;
- limitation of currency exposures in accordance with the principle of matching currencies.

With these goals in mind we engage in active risk management on the basis of balanced risk/return analyses. In this context we observe centrally implemented investment guidelines and are guided by the insights of dynamic financial analysis. These measures – in combination with a positive technical cash flow – ensure that at all times we are able to meet our payment obligations.

Within the scope of our asset/liability management activities, the allocation of investments by currency is determined by the development of underwriting items on the liabilities side of the balance sheet. We are thus able to achieve extensive currency matching of assets and liabilities, thereby ensuring that our result is not significantly affected by fluctuations in exchange rates. As at year-end 43.8% of our asset portfolio was held in euros, 40.3% in US dollars and 6.1% in pounds sterling.

Thanks to a positive cash flow from the technical account and investments, and assisted by a slight recovery in the US dollar, our portfolio of assets under own management grew to EUR 20.1 billion (EUR 19.8 billion) despite the fall in fair value.

Breakdown of investments (in %)

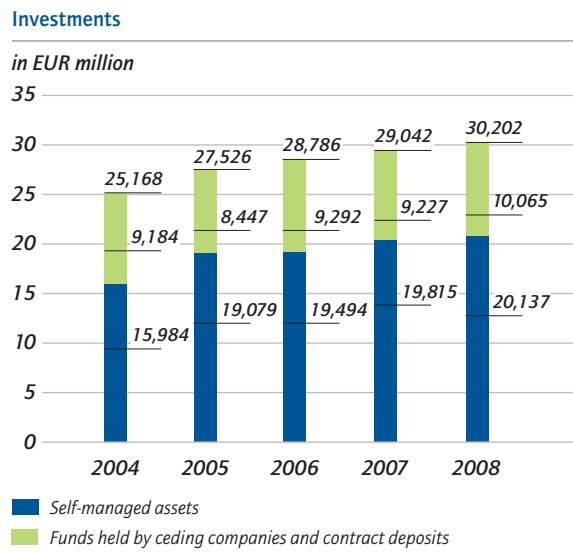


Ordinary investment income, on the other hand, was flat and came in below the previous year at EUR 829.8 million (EUR 859.0 million). This was due to a lower average yield than a year earlier, attributable principally to tactical re-grouping into low-risk securities.

The balance of our deposit interest and expenses was largely unchanged at EUR 199.6 million (EUR 220.1 million). Write-downs of EUR 479.9 million (EUR 71.4 million) were taken on securities. Gains of EUR 379.2 million realised on disposals were attributable to the tactical modification of durations in the US dollar portfolio undertaken in the first quarter as well as the liquidation of a hedge on around one-fifth of the equity holdings in the fourth quarter. This contrasted with realised losses of EUR 492.8 million (EUR 69.7 million) that resulted principally from the significant reduction of the equity allocation in the fourth quarter. In light of the developments described above, net investment income contracted appreciably to EUR 278.5 million (EUR 1,121.7 million).

For years we have actively managed the average duration of our fixed-income portfolio, thereby conserving our shareholders' equity. In the course of the year under review we initially reduced the modified duration of our bond portfolio. As at 31 December 2008 it was roughly back on a par with the previous year at 3.8.

The portfolio of fixed-income securities climbed sharply to EUR 17.9 billion (EUR 15.7 billion), primarily as a consequence of the reduced equity allocation but also due to inflows of cash from the technical account. The funds were invested predominantly in government bonds. Hidden reserves for fixed-income securities recognised in



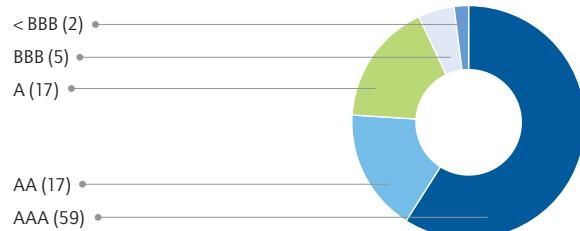
shareholders' equity totalled EUR 101.7 million, compared to hidden losses of EUR 103.4 million in the previous year. The quality of the bonds – measured in terms of rating categories – was maintained on a consistently high level. The proportion of securities rated "A" or better – at 92.9% – was slightly higher than in the previous year (92.3%).

The crash on the US real estate sector snowballed into a crisis on global credit and financial markets as the year progressed. After our investments had been only marginally impacted by subprime losses, the value adjustments prompted by loan defaults and write-downs on financial securities also remained within bounds. It was thanks to our broad diversification and tight issuer limits that losses on other individual instruments were within the single-digit million euro range. What is more, not only is the counterparty risk limited, the portfolio is also diversified by sectors and product types. This was another reason why write-downs on fixed-income securities were restricted to altogether EUR 96.9 million (EUR 26.6 million).

We held a total amount of EUR 1.2 billion (EUR 1.3 billion) in short-term assets and current assets as at the end of the year under review. Funds held by ceding companies amounted to EUR 10.1 billion (EUR 9.2 billion).

The downward trend on equity markets that had started in the first half of the year gathered pace on a massive scale in the fourth quarter. As a result, we were compelled to take write-downs of EUR 356.1 million (EUR 34.2 million). In addition, the equity allocation was reduced to a minimum in the fourth quarter, and it now stands at less than 1% (10.1%).

Rating of fixed-income securities (in %)



Holdings of alternative investments continued to grow. As at 31 December 2008 an amount of EUR 751.8 million (including uncalled capital) was invested in private equity funds, a further EUR 294.5 million in high-return bond funds and loans as well as CDOs and altogether EUR 139.1 million in structured real estate investments.

During the reporting period we also began to implement our real estate investment programme. An initial property has already been acquired, and further buildings are under review; the real estate allocation will therefore rise progressively as planned, although it is currently still below 1%.

Net investment income

Figures in EUR million	2008	+/- previous year	2007	2006	2005	2004
Ordinary investment income ¹⁾	829.8	-3.4%	859.0	792.6	654.6	604.5
Results from participation in associated companies	4.2	-61.9%	11.0	6.3	3.9	2.2
Realised gains/losses	(113.6)	-165.1%	174.3	217.4	162.2	167.4
Impairments	480.4	+567.4%	72.0	19.0	15.5	21.3
Unrealised gains/losses ²⁾	(119.7)	+537.8%	(18.8)	19.2	14.5	10.7
Investment expenses	41.4	-20.3%	52.0	49.5	55.4	65.7
Net investment income from assets under own management	78.9	-91.3%	901.6	967.0	764.3	697.8
Net investment income from funds withheld	199.6	-9.3%	220.1	221.9	351.6	382.1
Total investment income	278.5	-75.2%	1,121.7	1,188.9	1,115.9	1,079.9

¹⁾ Excluding expenses on funds withheld and contract deposits

²⁾ Portfolio at fair value through profit or loss and trading

Liquidity and financing

We generate liquidity primarily from our operating re-insurance business, investments and financing measures. Regular liquidity planning and a liquid investment structure ensure that Hannover Re is able to make the necessary payments at all times. Hannover Re's cash flow is shown in the consolidated cash flow statement on page 80 et seq. in the notes.

The cash flow from operating activities, which also includes inflows from interest and dividend receipts, increased by a substantial EUR 546.8 million year-on-year to EUR 1,458.9 million. The net inflow results from the positive experience of our reinsurance business and is notable, in particular, for appreciably lower claim payments than in the previous year.

This inflow from operating activities enabled us to further enlarge our portfolio of high-quality fixed-income securities. Overall, the allocation of funds in connection with investing activities grew by EUR 463.5 million to EUR 1,034.1 million. The funds were for the most part invested with durations that matched the technical liabilities. Against the backdrop of the illiquidity prevailing in some parts of the capital markets, liquidity management assumed greater importance, also prompting restructuring

measures in the existing asset portfolio. In this context please see our remarks in Section 6.6 "Liquidity risks" in the notes.

A crucial factor in the outflow of funds from financing activities in the year under review was our dividend payment of EUR 318.9 million. Hannover Re's debt financing was composed of subordinated loans and bonds that we issued in past years to ensure lasting protection of our capital base. The total volume of loans and subordinated capital amounted to EUR 1,420.0 million (EUR 1,414.9 million) as at the balance sheet date. In addition, unsecured syndicated guarantee facilities exist with a number of financial institutions. For further explanatory information please see our remarks in Section 7.8 "Debt and subordinated capital" and 7.9 "Shareholders' equity and minority interests".

Overall, the cash and cash equivalents increased by EUR 94.8 million year-on-year to EUR 430.2 million.

For further information on our liquidity management please see page 63 et seq. of the risk report as well as the explanatory remarks contained in Section 6 "Management of technical and financial risks" in the notes.

Value-based management

Our overriding strategic objective is to be one of the three most profitable reinsurers in the world and to increase our profit and the value of the company by a double-digit percentage every year.

In order to achieve this objective we have developed tools that enable us, on the one hand, to measure how close we are to accomplishing our goal and, on the other, to break it down to the level of individual profit centres.

In non-life reinsurance we have many years of positive experience using a ratio based on underwriting years, namely "DB 5": level 5 of our contribution margin accounting method constitutes the clear profit after earning the discounted claims expenditure (level 1) plus all direct (level 2) and indirect costs (level 3), including the cost of capital (level 4). We apply DB 5 to the non-life reinsurance treaty departments as part of the fine tuning of portfolios down to the level of individual contracts.

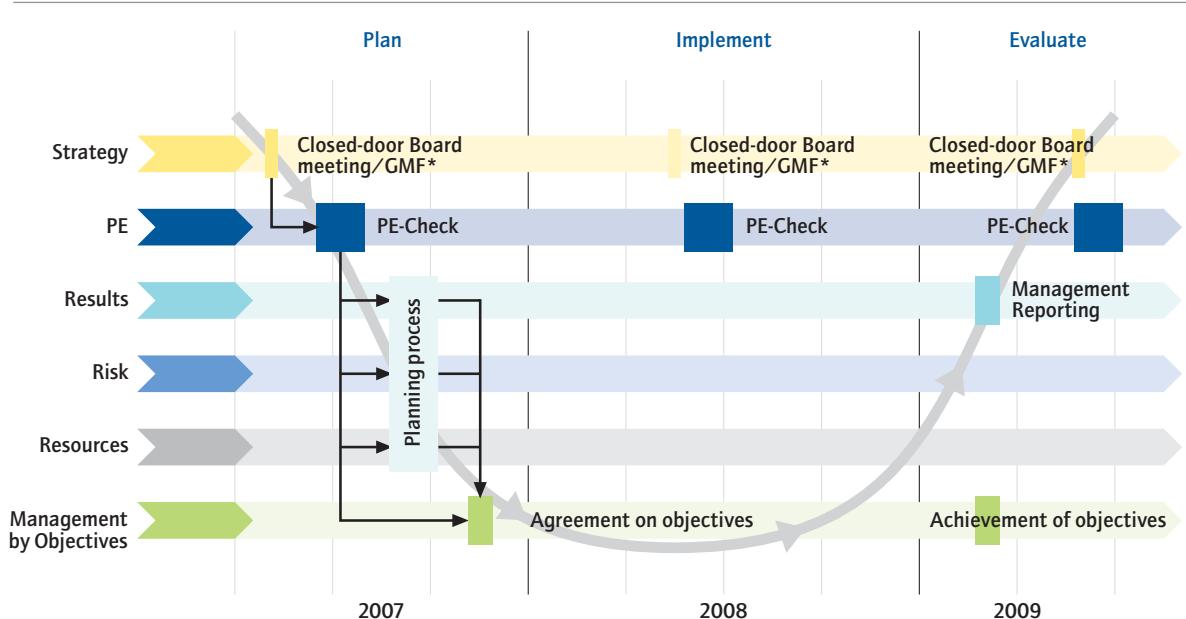
In life and health reinsurance we use the Market-Consistent Embedded Value (MCEV). The MCEV is defined as

the intrinsic value of an enterprise, measured as the discounted profit flow until final run-off of the in-force portfolio – from the standpoint of the shareholder and after taxes. Both concepts reflect the specific characteristics of the individual segments. Together, they constitute the basis for our central management tool: Intrinsic Value Creation (IVC).

With the aid of IVC it is possible to compare the value contributions of the Group as a whole, its two business groups and the individual operating units. This enables us to reliably identify value creators and value destroyers. In this way, we can

- optimise the allocation of capital and resources,
- identify opportunities and risks and
- use IVC – as the core business result within the scope of our holistic management system Performance Excellence (PE) – to measure the extent to which we are able to execute our strategy.

System of value-based management: Performance Excellence (PE) combines the strategic and operational levels



* At the Global Management Forum (GMF) all senior managers of the worldwide Hannover Re Group come together once a year to define aspects of strategic orientation. The parameters elaborated here serve as the basis for the subsequent planning process.

Profit growth targets

Business group	Key data	Target	2008	2007	2006	2005 ¹⁾	2004 ¹⁾
Non-life reinsurance	Combined ratio	< 100%	95.4%	99.7%	100.8%	112.8%	97.2 %
	Net catastrophe loss ratio	up to 10%	10.7%	6.3%	2.3%	26.3%	8.3%
	EBIT margin ²⁾	≥ 12.5%	0.1%	14.6%	14.2%	(0.7%)	13.4%
Life and health reinsurance	Gross premium growth	12–15%	1.7%	10.4%	15.2%	11.4%	(4.4%)
	EBIT margin ²⁾	6.5–7.5%	4.3%	8.2%	5.9%	4.1%	3.9%
	EBIT growth	12–15%	(47.5%)	64.7%	49.8%	21.4%	25.7%
	MCEV growth ⁴⁾	≥ 10%	n.a. ⁵⁾	12.3%	16.3%	8.2%	
	Value of new business growth	≥ 10%	n.a. ⁵⁾	65.7%	(24.2%) ⁶⁾	54.8%	
Group	Investment return	≥ 4.2% ⁷⁾	0.4%	4.6%	5.0%	4.4%	4.6%
	Minimum return on equity	≥ 11.1% ³⁾	(4.1%)	23.1%	18.7%	1.9%	11.5%
Triple-10 target →	EBIT growth	≥ 10%	(84.0%)	13.2%	795.0%	(82.9%)	(26.4%)
	Growth in earnings per share	≥ 10%		8.3% ³⁾	942.7%	(82.4%)	(28.4%)
	Growth in book value per share	≥ 10%	(15.5%)	15.6%	11.4%	3.0%	6.3%

¹⁾ Figures for 2005 and 2004 in accordance with old segmentation

²⁾ Operating profit (EBIT)/net premium earned

³⁾ 750 basis points above the risk-free interest rate

⁴⁾ Embedded value after consolidation, before minority interests

For 2005 to 2007 the European Embedded Value (EEV) was established according to the EEV principles of the CFO Forum. For 2006 and 2007 market-consistent assumptions were already used as a basis. For 2008 a Market Consistent Embedded Value (MCEV) was calculated on the basis of the principles of the CFO Forum published in June 2008

⁵⁾ The MCEV as at 31 December 2008 will be published on our website at the same time as the quarterly financial report for the first quarter of 2009

⁶⁾ The decrease in the value of new business was due to three special effects: details are provided in the EEV report for 2006 published on our website

⁷⁾ Risk-free interest rate + cost of capital

⁸⁾ Excl. tax effect

With PE we have at our disposal a consistent method Group-wide that enables us to measure how the company is evolving and to what extent we have achieved our strategic objectives, while at the same time accommodating the specific conditions of the various treaty departments and service units. The local approach used by PE is of special importance in this context: it is incumbent upon every single organisational unit to continually reassess and enhance its value contribution to the Hannover Re Group. In so doing, however, we never lose sight of the big picture.

Performance Excellence Check

The PE Check (consisting of Output, Strategy and Input Checks as well as Activity Planning) is used by the treaty departments and service units to develop – making allowance for the strategic parameters – detailed strategies and activity plans. These central documents also serve as a basis for the planning cycle – both for the operational planning and for the planning of resources and costs. The PE Check is carried out at closed-door meetings of the individual units.

Planning process

The planning process spans the three levels of Results, Risks and Resources, which are closely interrelated. Results, Risks and Resources are planned by the responsible officers with the support of Group Controlling Services and Corporate Development and they are reconciled by the Executive Board. Key pivot points are the detailed strategies and activity plans drawn up by all treaty departments and service units. The planning is approved by the Executive Board and subsequently communicated within the Group.

Management by Objectives

The targets that emerge out of the planning process are integrated into the individual agreements on objectives with managers. When defining targets the participants take into account not only profit-oriented but also non-financial goals, including for example the activity planning.

Management reporting

Internal Management Reporting is drawn up twice a year, tiered according to areas of responsibility. In the first place, the achievement of objectives in the past year is reviewed here, and secondly the planning is assessed with an eye to the strategic objectives.

IVC – our key ratio

We use the following formula to calculate the IVC (Intrinsic Value Creation):

Adjusted operating profit (EBIT) – (capital allocated x weighted cost of capital) = IVC

The adjusted operating profit (EBIT) consists principally of the reported Group net income after tax and the change in the balancing items for differences between present values and amounts stated in the balance sheet (one adjustment for non-life and one for life/health reinsurance). In addition, the interest on hybrid capital, minority interest in profit and loss and extraordinary profits and losses are eliminated. We consider the allocated capital to be the shareholders' equity plus minority interests, the balancing items for differences between present values and carrying amounts as well as the hybrid capital. Capital is allocated to the profit centres according to the risk content of the business in question.

In calculating the cost of capital, our assumption for the cost of shareholders' equity – based on a Capital Asset Pricing Model (CAPM) – is that the investor's opportunity

Both business groups of the Hannover Re Group have clearly defined long-term objectives; in view of the cyclical nature of non-life reinsurance we have not defined any targets for premium growth here, but solely for profit growth.

costs are 350 basis points above the risk-free interest rate. Value is created in excess of this return. The definition of our targeted minimum return on equity as 750 basis points above "risk-free" thus already contains a not insignificant target value creation. Interest is calculated on the balancing items for present value at the underlying interest rates, and on debt capital at the actually paid interest for our hybrid capital. Weighted according to the composition of the allocated capital defined above, the weighted cost of capital applicable to all profit centres is calculated from these interest rates. We allocate equity sparingly and make efficient use of hybrid capital as well as other equity substitutes; our weighted cost of capital is consequently the lowest in the industry (6.6% in 2007).

Since comparison of absolute amounts is not always meaningful, we have introduced the xRoCA (excess return on capital allocated) in addition to the IVC. This describes the IVC in relation to the allocated capital and shows us the relative excess return generated above and beyond the weighted cost of capital. Once they have been calculated we communicate the IVC and xRoCA for the reporting year in various media, including on our website.

Intrinsic Value Creation and excess return on capital allocated

Figures in EUR million	2007		2006		2005		2004	
	IVC	xRoCA	IVC	xRoCA	IVC	xRoCA	IVC	xRoCA
Non-life reinsurance	185.6	+3.2%	242.4	+4.4%	(101.1)	-1.9%	122.2	2.6%
Life and health reinsurance ¹⁾	193.0	+28.8%	174.9	+40.1%	149.1	+35.7%	45.1	+13.3%
Consolidation	34.9	-	(11.1)	-	(13.4)	-	-	-
Group	413.5	+6.4%	406.2	+6.8%	34.7	+0.6%	167.3	+3.4%

¹⁾ 2004 the present value components is based on the value of in-force business. from 2005 to 2006 they are based on the European Embedded Value (EEV).

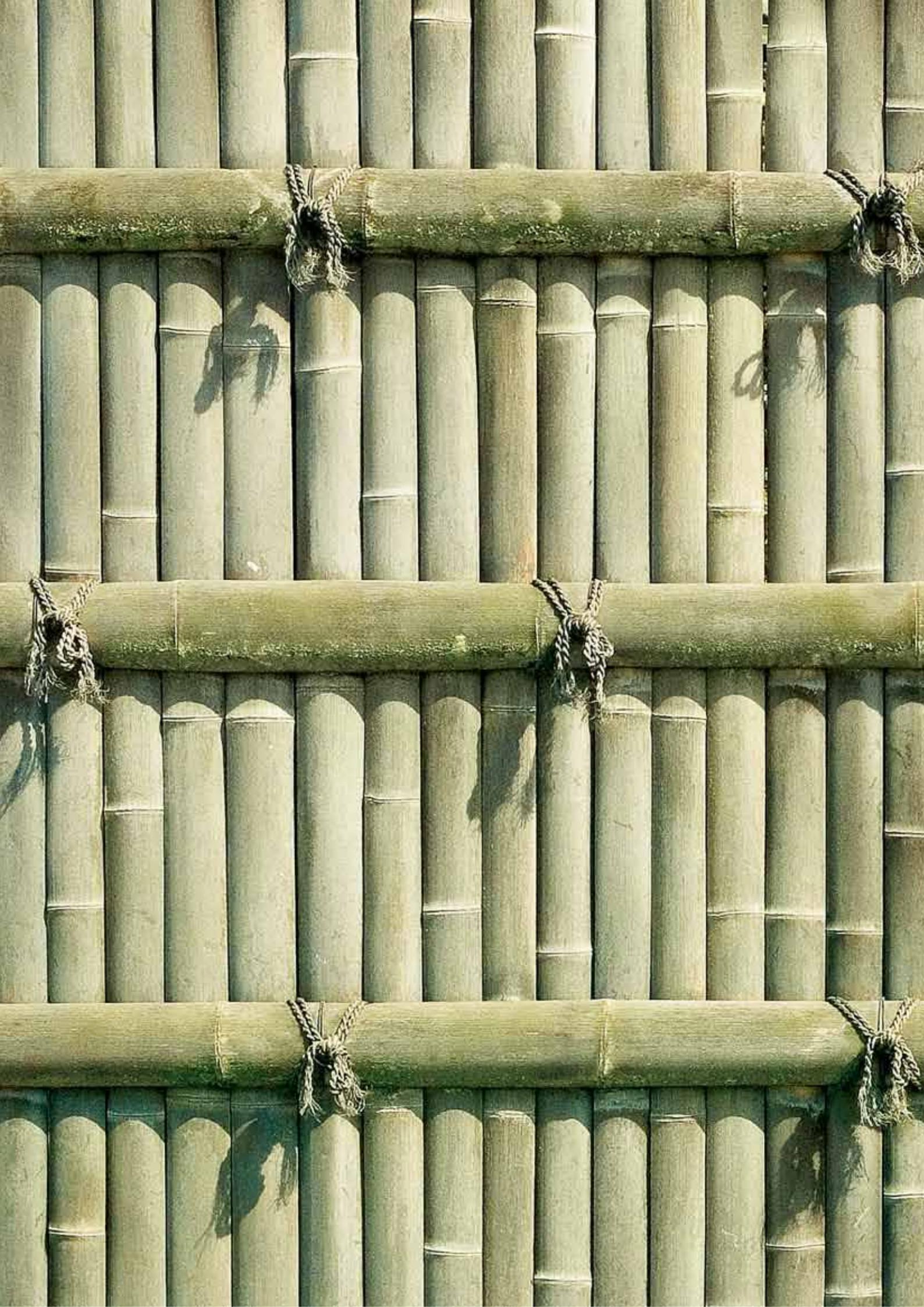
Value drivers

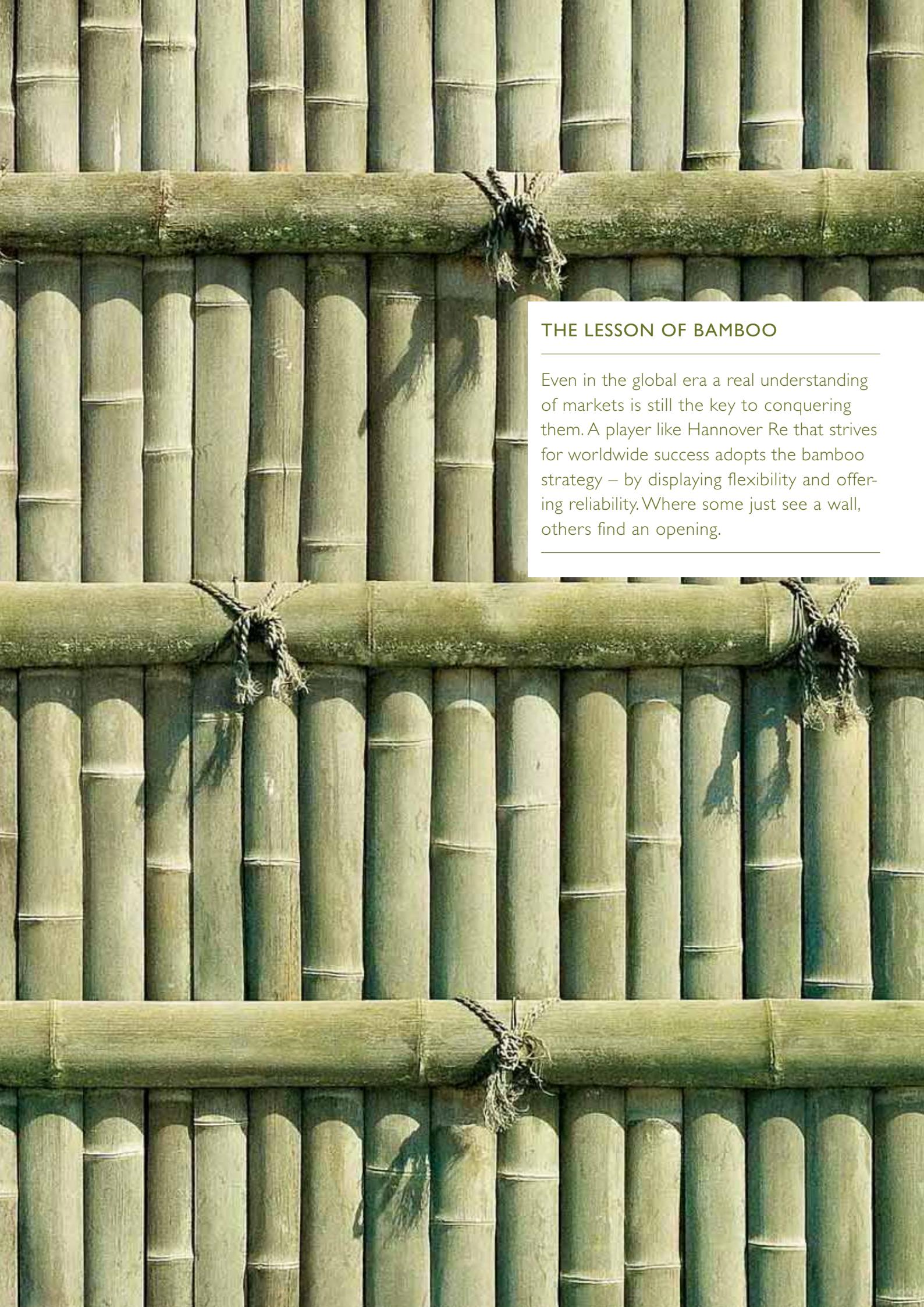
Value management is not limited to the specification and determination of a value-based ratio, but also encompasses the definition of so-called value drivers. These describe action fields through which the Intrinsic Value Creation can be influenced.

When seeking to identify these value drivers, it is first necessary to break the IVC down into individual decision fields. Even in the case of performance measurements, e.g. in connection with Management by Objectives, this approach makes it possible to take as a basis only those IVC components whose value drivers the manager in question can influence. Thus, for example, an underwriter at Hannover Home Office will only be accountable for the "Underwriting" decision field, whereas the manager of a subsidiary will also bear responsibility for all other decision fields. With regard to the operational units the IVC consists of six levels; its degree of detail varies according to Home Office and our foreign companies as well as between non-life and life/health reinsurance:

1. IVC from gross underwriting (current business)
2. IVC from gross run-off (underwriting of previous years)
3. IVC from retrocession
4. IVC from investments
5. IVC from service center activities
6. IVC from excess capital

The IVC for the Group should be defined as close to the annual financial statements as possible so that it can also be used for external reporting. On the other hand, the IVC calculation of the operational units is geared to the explicit identification of value drivers that require a more detailed breakdown of the IVC.





THE LESSON OF BAMBOO

Even in the global era a real understanding of markets is still the key to conquering them. A player like Hannover Re that strives for worldwide success adopts the bamboo strategy – by displaying flexibility and offering reliability. Where some just see a wall, others find an opening.

Human resources

Our staff

Hannover Re strives to be an attractive employer for ambitious, performance-minded individuals who identify with the company's goals. With this in mind we offer a flexible, receptive working environment as well as latitude for self-reliant decision-making. Our human resources staff, systems and structures put in place the framework

needed for the further professional development of our workforce. Three areas constituted the cornerstones of our personnel activities in the year under review: the fostering of an entrepreneurial mindset on all levels, the recruitment of highly qualified people and the promotion of a healthy work/life balance for our staff.

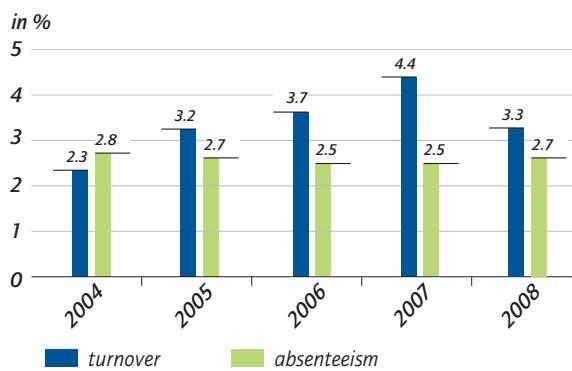
Number of employees at our worldwide permanent establishments

Country	2008			2007
	Total	Male	Female	Total
Germany	963	466	497	907
United States	217	101	116	323
South Africa	150	67	83	149
United Kingdom	111	59	52	104
Sweden	81	35	46	79
Australia	57	28	29	52
France	41	21	20	42
Bermuda	30	19	11	24
Ireland	30	11	19	32
Malaysia	28	12	16	30
China	26	10	16	23
Bahrain	15	11	4	9
Colombia	14	6	8	12
Italy	12	4	8	11
Korea	7	4	3	1
Japan	7	5	2	7
Spain	6	1	5	6
Taiwan	5	2	3	5
Canada	4	1	3	5
Mexico	4	2	2	4
Brazil	2	2	–	–
India	2	2	–	–
Total	1,812	869	943	1,825

Key personnel data

The Hannover Re Group employed 1,812 (1,825) staff as at 31 December 2008. The turnover ratio at Home Office in Hannover of 3.3% (4.4%) was lower than in the previous year. The rate of absenteeism – at 2.7% – was slightly higher than in the previous year (2.5%). The turnover ratio and rate of absenteeism thus continued to be comfortably below the industry average.

Staff turnover and absenteeism (Hannover Home Office)



Future Workshop – entrepreneurial thinking on all levels

Fresh ideas and entrepreneurial thinking are especially important to Hannover Re if it is to enjoy a successful future. Fostering the latter, in particular – among younger employees and not just seasoned staff – was the goal of the "Future Workshop" held for the first time in July 2008. Conducted in an informal atmosphere, the workshop gave 30 individuals who had been with Hannover Re for between two and five years the opportunity to put aside the concerns of day-to-day business and discuss in general terms strategy, the future and Hannover Re as a company.

At the conclusion of the "Future Workshop" the specialists responsible for our strategic objectives – under whose leadership the event had also been held – received direct, knowledgeable feedback from the participants.

In this way, our junior staff were not only able to get to know other areas and perspectives within Hannover Re and hence broaden their own working horizon; with the questions and ideas that they had developed they also seized the chance to make a significant contribution to our company's strategy process – and what is more, they did so in a direct dialogue with the responsible experts.

In view of the success of this concept we shall henceforth hold the "Future Workshop" once a year. Over the medium to long term the purpose of this event will be to establish a group of junior executives. We realise that our younger staff, in particular, can contribute interesting suggestions and a fresh perspective on Hannover Re – one which we would like to continue to benefit from going forward.

Labour market for qualified university graduates remains fiercely competitive

Demand for motivated, well educated university graduates – especially those with degrees in mathematics or business mathematics – continued to intensify in the year under review. Our company finds itself facing fierce competition from banks, management consultants and other financial services providers. Thanks to our long-standing involvement in university recruiting we have a presence at Germany's major job fairs. As a result, we are consistently able to fill new positions with highly qualified young candidates.

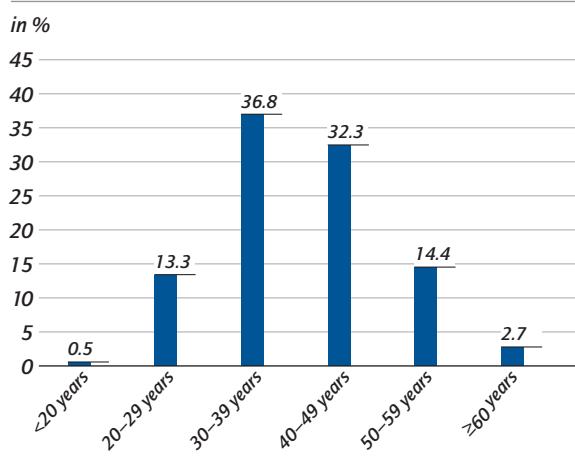
With a view to consolidating and further extending our position as an attractive employer in the market, we systematically seek to identify room for optimisation within the scope of our strategic human resources planning. In 2008 we therefore set up a "Task Force" for the recruitment of mathematicians. Comprised of the managers of departments which are especially reliant on mathematicians as well as representatives of Human Resources, it has set itself the task of further improving the way in which the company addresses this group of graduates

in particular. Stepping up and expanding our contacts with universities – in part also through the sponsoring of chairs in mathematics –, increasing the number of positions offered to apprentices and soon-to-be graduates as well as launching an employer branding project are just the first measures undertaken by this task force.

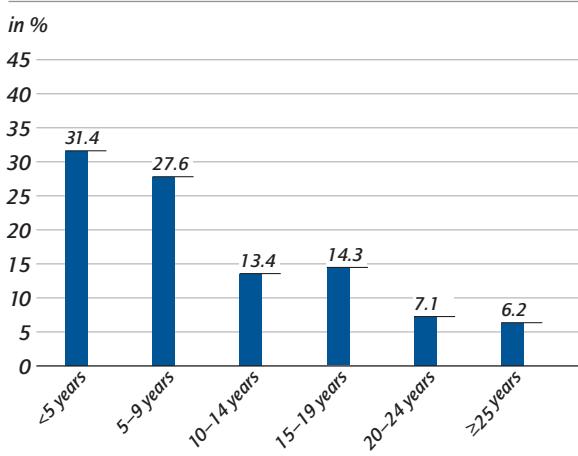
Flanking these marketing-oriented approaches, we have also created a trainee programme specially aimed at mathematicians: in the future, Hannover Re will offer

particularly well-suited graduates the opportunity to undergo an 18-month trainee programme for junior executives and thereby familiarise themselves with the company from a broad variety of perspectives by spending periods of six to twelve weeks in various areas of the organisation. In this way, we shall be able to promptly fill vacancies in these departments as they arise with well-trained staff and further boost the appeal of Hannover Re among university graduates with a background in mathematics.

Age structure (Hannover Home Office)



Length of service (Hannover Home Office)



Work/life balance

Demographic changes are leading to a shortage of managers and junior executives. Hannover Re, just like its competitors, must position itself in this battle for managerial recruits. Our offer to qualified young applicants therefore encompasses not only attractive compensation and above-average development opportunities, but also the possibility to strike a healthy balance in their professional and private lives. After all, the range of possible living and working models has multiplied in comparison with the traditional allocation of roles. We seek to enable our staff to combine their individual life plans with their work for our company.

In addition to further steps aimed at simplifying the harmonisation of family life and career, Hannover Re is therefore funding the building of a new daycare centre on its premises at Hannover Home Office, which was

commissioned in December 2008. The nursery is supported by the parents' initiative "Hannover ReKids", a society founded by Hannover Re staff; more information on our daycare facility is provided in the Sustainability Report.

Management feedback

For a number of years Hannover Re has employed management feedback as a personnel development tool which can be used to give managerial staff systematic feedback on their leadership behaviour. In 2007 we revamped this tool – both in terms of content and process –, which has enjoyed high acceptance within the company since its adoption in 2001: it is now implemented online, and the assessment also encompasses the supervisor's perspective.

Successful implementation at Hannover Home Office prompted initial inquiries in early 2008 from our permanent establishments abroad with regard to the possi-

bilities for deploying management feedback on a local basis. Once the necessary organisational adjustments had been made, the first run at an office abroad was completed before the end of the year under review.

Furthermore, building on the many years of wide-ranging experience with management feedback on various levels of management, the Executive Board also decided to use the tool for itself and have an assessment performed by directly subordinate staff worldwide. This project too was translated into practical reality in the year under review – with a very high rate of participation among the staff concerned.

New module for personnel development

In the year under review we completed the company-wide roll-out of the new SAP module "Personnel Development" at Hannover Home Office. The goal is to optimally track and utilise our employees' existing skills throughout the organisation: staff potentials are to be identified and cultivated, while shortcomings can be alleviated with targeted training activities.

Centralised data recording interlinks the appraisals from various personnel development tools – while preserving the greatest possible objectivity – and thus enables us to obtain a comprehensive overview of the highly diverse skills set available among our workforce. As a supporting measure, we use already established applications for the updating and viewing of data by staff and managers.

Going hand-in-hand with the new module we have implemented self-assessment as a further criterion; in

future, this will complement the feedback obtained from the other tools. All in all, then, the following personnel development tools are now available in addition to self-assessment and appraisal interviews: personnel development workshops, management feedback and project manager appraisals.

In the year under review we additionally included an assessment of specialist expertise as a further component of our appraisal interview; the relevant lists are being drawn up progressively and stored for all departments of our company in close consultation with the specialist areas. In the context of this project special reference should be made to the close and trusting cooperation with our Employee Council.

Fostering a culture of achievement

Performance management is embedded into the Performance Excellence process at our company. Departmental and individual goals are derived from the strategic corporate objectives. By linking agreements on objectives and Performance Excellence criteria we ensure that the efforts of our staff contribute directly to the success of the business strategy.

We are convinced that performance-based remuneration elements foster individual initiative. Consequently, we make every effort – where possible – to increase the performance-based salary component. The group of participants in our variable systems of remuneration was therefore further enlarged in the period under consideration.

Employee shares

Employee shares are another means of enabling the labour force to share in the company's success. For the fifth time Hannover Re arranged an employee share purchase scheme in the year under review, which offered 841 members of staff the opportunity to acquire Hannover Re shares at a preferential price; 389 employees took up the offer and purchased altogether 13,984 shares.

Participation of staff in performance-based remuneration (Hannover Home Office)

2008	Number
Senior executives	66
Managerial levels up to the rank of Chief	403
Total participants	469
Proportion of the total workforce	48,7%

Word of thanks to our staff

The Executive Board would like to thank all employees for their dedication in the past year. At all times the workforce identified with the company's objectives and purposefully pursued them. We would also like to ex-

press our appreciation to the representatives of staff and senior management who participated in our co-determination bodies for their critical yet always constructive cooperation.

Sustainability report

Profit and value creation are prerequisites for sustainable development in the interests of our clients, shareholders, staff and business partners as well as for the fulfilment of our social responsibility. This includes the responsible underwriting of risks and diligent risk management, since these are vital conditions for assuring the quality of our business over the long term. Hannover Re consequently strives to be one of the three most profitable reinsurers in the world and consistently enhances its position. In so doing, our premise of achieving growth through self-generated profits and wherever possible avoiding imbalances that could necessitate capital measures continues to apply unchanged. We thus act guided solely by profitability considerations and concentrate on attractive segments of reinsurance business.

High ethical and legal standards are the platforms for our strategy and daily actions alike. We recognise that the public image of the Hannover Re Group is shaped by the manners and conduct of every single member of staff.

Successful, responsible and above all sustainable business management forms the basis for playing a positive role in society. It establishes the foundation that enables our company to continuously foster and advance its staff and support projects that are in the public interest.

Social commitment

We are aware of our responsible role as a major employer and contractor in the city of Hannover and surrounding region, and we strive to award contracts locally where possible so as to foster businesses based here.

Social commitment is also something that Hannover Re takes very seriously, and the assumption of social responsibility constitutes a core element of our corporate culture. In the year under review, for example, we funded the building of a new daycare centre on our premises in Hannover. It is our hope that this facility will make it easier for working mothers and fathers to re-enter professional life and, what is more, to better combine the joys of parenting with their career. A maximum of 30 infants will be looked after at the nursery by trained childcare nurses. The staff at Hannover Re have taken up this offer of childcare very eagerly, as reflected in the fact that all 30 places for 2009 have already been filled. A society has been founded by Hannover Re employees – "Hannover ReKids e.V." – to support this institution. Going forward, Hannover Re will continue to cover the maintenance and operating costs for the daycare centre.

Yet our assistance is not limited to Germany alone, but is instead geographically wide-ranging. A variety of projects around the world are run under the auspices of individual subsidiaries and branch offices that collect donations for social causes through various staff activities. In Florida, for example, our subsidiary's workforce supports the "New Hope for Kids" campaign: children and their families who find themselves in difficult life situations are assisted with cash donations or other forms of aid.

In Africa, too, Hannover Re has been active for a number of years, *inter alia* in the project "Food for homeless children": twice a week employees at our South African subsidiary donate food to a centre for homeless children.

These are just two examples of Hannover Re's social commitment on the international level. Back in Hannover we launched a Christmas tree campaign this year – inspired by the South African model: in this way, staff at Hannover Re helped to realise the dreams of children at a local children's home during the Christmas season.

Research and development

The transfer of knowledge between business and research is an important element of our core commercial activities. Among other things, this exchange is indispensable for the underwriting and assessment of catastrophe risks. For some years now we have therefore supported the Geo Research Center in Potsdam, which engages in the systematic investigation and early detection of earthquakes.

Yet we also set great store by our dialogue with other universities. We assist a number of institutions of higher learning in Germany in a variety of ways – for example the University of Göttingen, where we sponsor a guest professorship in Anglo-American law to promote the internationalisation of legal training.

Environment

Hannover Re recognises that business flights undertaken by its employees cause CO₂ pollution. As a compensatory measure we pay a carbon offset levy for each kilometre flown to atmosfair, an international organisation that puts the funds collected towards climate protection. atmosfair invests *inter alia* in solar, hydroelectric, bio-

mass and energy-saving projects so as to reduce greenhouse gases to an extent comparable with the effect on the climate of the emissions produced by flying. Preferential support is given to projects in developing countries, although all projects must deliver a demonstrable contribution to climate protection.

In 2007 Hannover Re participated for the first time in the "Ecological Project for Integrated Environmental Technology" (Ecoprofit). In the year under review we continued to pursue the basic idea underlying this

project – to combine economic profit with ecological benefit – through preventive environmental protection in order to bring about a further reduction in CO₂ emissions.

Support for the arts

In 2008, as in previous years, our subsidiary E+S Rück held a so-called "examination concert" in Hannover. Every year this event offers three to four "master students" at Hannover University of Music and Drama the opportunity to play with the accompaniment of a large orchestra. With this performance the students are able to complete their final examination and satisfy the requirements for becoming a professional soloist. In addition to advancing the career of the master students, the examination concert – which was held for the eleventh time in the year under review – served as the musical highlight of E+S Rück's annual "Hannover Forum" seminar event.

For many years our company has also dedicated itself to supporting the fine arts, especially in Hannover. Seventeen years ago, for example, we launched an art foundation that benefits the Sprengel Museum Hannover and we regularly make works of art available to this institution as permanent loans. The interest earned on the foundation's capital is used to acquire these pieces. Specifically organised art tours make this collection accessible to interested sections of the broader public.

Our own art collection has enabled us to offer our staff, clients and other visitors an ambiance that presents multiple opportunities for contemplation and exploration. With the acquisition of Rolf Szymanski's six-metre high sculpture "Grosse Synagoge" we added another important work of contemporary art to our collection in the year under review.

Hannover Re also supports the Kestnergesellschaft in Hannover through its participation in the latter's partner programme: in our role as a "kestnerpartner" we are able to promote the society's work on a continuous and lasting basis. In addition, our Chief Executive Officer has set up a Board of Trustees for this art institution – whose reputation extends far beyond Hannover – under his own chairmanship. The revenue from donations brought in by this Board of Trustees will at least partially offset the sharp reduction in public subsidies.

Risk report

Risk strategy

The risk strategy is an expression of Hannover Re's fundamental approach to the identification and handling of risks. It is derived from the company strategy and constitutes a self-contained set of rules. At the same time it serves as the point of departure for the Group-wide

practice of risk management. Applicable right across the Group, the risk strategy is an integral component of entrepreneurial actions and is reflected in the detailed strategies of the various divisions.



Risk conception

As an internationally operating reinsurer we are confronted with a broad diversity of risks that are directly connected with our entrepreneurial activities and which manifest themselves differently in the individual strategic business groups and geographical regions. Our conception of risk is holistic. For our company, risk means the entire spectrum of positive and negative random realisations in relation to planned or expected values. Negative random realisations, by which we understand

the possibility of non-attainment of an explicitly formulated or implicitly deduced goal, are of special importance for risk management. The conservation of capital is a decisive criterion for our risk tolerance. This necessitates a conscious approach to dealing with risks, both in non-life and life/health reinsurance and in the investment sector.

Overriding goals and organisation of our risk management

With a view to conserving capital, we seek to control and manage our specified individual risks in such a way that the total risk remains within the permissible, defined tolerances. Risk management therefore forms an integral component of our value-based enterprise management and hence of all higher-order decision-making processes. In addition to conserving capital, we are careful to allocate our scarce equity resources flexibly to those areas that promise the highest risk-weighted profit. Our insights from the risk management system provide an overview at all times of the Group's current and expected future overall risk situation. These insights thus establish a framework for decision-making on all levels of management by bringing transparency to the relationship be-

tween opportunities and risks. Operational realisation of these objectives is ensured *inter alia* through standard and ad hoc reports tailored to the risks, systematic and comprehensive recording of all material risks and our review – based on a closed loop system – of the efficiency of all relevant systems in risk management. Appropriate rules establish a separation between units that enter into or manage risks, on the one hand, and those that monitor risks, on the other. Process-integrated monitoring is performed by the Risk Committee, the Chief Risk Officer and the supporting organisational units. Process-independent monitoring is the responsibility of Internal Auditing.

Central elements of the risk management system

Controlling elements	Key risk management tasks
Supervisory Board	<ul style="list-style-type: none"> Advising and monitoring the Executive Board in its management of the company, inter alia with respect to risk management
Executive Board	<ul style="list-style-type: none"> Overall responsibility for risk management Definition of the risk strategy Responsible for the proper functioning of risk management
Risk Committee	<ul style="list-style-type: none"> Monitoring and coordinating body with respect to operational risk management Decision-making power is within the bounds of the risk strategy defined by the Executive Board
Chief Risk Officer	<ul style="list-style-type: none"> Responsibility for holistic risk monitoring across departments (systematic identification and assessment, control/monitoring and reporting of risks) of all material assets- and liabilities-side risks from the Group perspective
Group Risk Management (central and decentralised risk monitoring function)	<ul style="list-style-type: none"> Process-integrated risk monitoring function Methodological competence, inter alia for <ul style="list-style-type: none"> development of processes/methods for risk assessment, management and analysis, risk limitation and reporting, risk monitoring and determination of the required risk capital across the Group
Business units	<ul style="list-style-type: none"> Primary risk responsibility, inter alia responsible for risk identification and assessment on the departmental level The task is performed on the basis of the guidelines set out by Group Risk Management
Internal Auditing	<ul style="list-style-type: none"> Process-independent review of all functional areas of Hannover Re

Quantitative and qualitative risk management

Hannover Re's risk management draws on quantitative simulation models. The purpose of risk quantification is to calculate – with the aid of the internal risk capital model – the risk capital on the basis of a Value at Risk (VaR) with a confidence level of 99.97% for an observation period of one year. This consciously high confidence level ensures – as a vital subsidiary condition – that future regulatory capital requirements (confidence level of 99.5%) will also be exceeded. Our qualitative processes and controls for risk identification, quantification and

steering are based upon recognised, advanced methods. Centrally defined guidelines, methods and processes as well as systems of limits and thresholds provide the framework for decentralised implementation, monitoring and reporting. In addition, the central risk monitoring function quantifies and aggregates all risks on the Group level. It performs central reporting and monitors measures taken across the organisation to control risks that could potentially jeopardise the Group's existence.

Technical risks in non-life reinsurance

As far as technical risks affecting the non-life reinsurance business group are concerned, we make a fundamental distinction between risks that result from business operations in past years (reserving risk) and those stemming from activities in the current or future years (price/premium risk). The catastrophe risk is especially important in the latter case.

A significant technical risk is the risk of underreserving and the associated strain on the underwriting result. We calculate our loss reserves on an actuarial basis. The point of departure here is always the information provided by our cedants, where necessary supplemented by additional reserves that may seem appropriate on the basis of our own actuarial loss estimations. Furthermore,

we constitute an IBNR (incurred but not reported) reserve for losses that have already occurred but have not yet been reported to us. Our own actuarial calculations regarding the adequacy of the reserves are subject to annual quality assurance reviews conducted by external actuaries and auditors. Catastrophe risks, especially those associated with natural hazards such as earthquakes or windstorm events, constitute another material risk for Hannover Re. Licensed scientific simulation models, supplemented by our own expertise, are used to assess the risks posed by natural hazards. Within the scope of accumulation control the Executive Board defines the appetite for assuming natural hazards risks once a year on the basis of our risk strategy. In order to manage the

portfolio with this consideration in mind, maximum underwriting limits (capacities) are stipulated for various extreme loss scenarios and return periods /probabilities, utilisation of which is monitored and reported to the relevant bodies. The price/premium risk lies primarily in a failure to correctly calculate the necessary premiums in relation to the future loss experience. The risk arises out of the incomplete or inaccurate estimation of future claims, especially over time. Regular and independent reviews of the models used for treaty quotation as well as the implemented methods, e.g. our compulsory central and local underwriting guidelines, are therefore essential for the management of these risk potentials.

Technical risks in life and health reinsurance

In life and health reinsurance biometric risks are of special importance to our company. This term refers to all risks directly connected with the life of an insured person, such as miscalculation of mortality, life expectancy, morbidity and occupational disability. Since we also prefinance our cedants' new business acquisition costs, lapse and catastrophe risks – e.g. with an eye to pandemics – are of significance too.

We reduce these potential risks with a broad range of risk management measures. For example, the reserves in life and health reinsurance are calculated in accordance with actuarial principles using secure biometric actuarial bases and with the aid of portfolio information provided by our clients. Through our own quality assurance 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 disability tables, assumptions regarding the lapse rate etc.). New business is written in all regions in compliance with internationally applicable Global Underwriting Guidelines, which set out detailed rules governing the type, quality, level and origin of risks. These global guidelines are revised every two years and approved by the Executive Board. They are supplemented by country-specific special underwriting guidelines that cater to the special features of individual markets. In this context the quality standards set for the portfolio reduce the po-

tential counterparty risk stemming from an inability to pay or deterioration in the credit status of cedants. We review the risk feasibility of new business activities and of the assumed international portfolio on the basis of a series of regularly performed, holistic analyses, *inter alia* with an eye to the lapse risk. Quality is further assured – especially at the level of the subsidiaries – by the actuarial reports and documentation required by local regulators. A key tool of our value-based management and risk management in the area of life and health reinsurance is the European Embedded Value (EEV). This is calculated as the present value of future earnings from the worldwide life and health reinsurance portfolio plus the allocated capital. In this context appropriate allowance is made for all risks underlying the covered business. Since the 2006 financial year the EEV has been calculated on a market-consistent basis. In future, this Market Consistent Embedded Value (MCEV) is to be established on the basis of the principles of the CFO Forum published in June 2008. We publish the MCEV on our Internet website at the same time as the quarterly report for the first quarter. The interest guarantee risk, which is important in life business in the primary insurance sector, is of only minimal risk relevance to our business owing to the structure of our contracts.

Capital market risks

The net income or loss generated by the Hannover Re Group is fundamentally determined by two components, namely the "underwriting result" and the "investment income". The asset portfolios derive in substantial measure from insurance premiums that must be set aside for future loss payments. The risks in the investment sector encompass primarily market risks (share price, interest rate, real estate and currency risks as well as the spread risk). Credit risks are also relevant.

The share price risk results from volatilities on equity markets. Fixed-income securities are exposed to the interest rate risk when market interest rates change. Declining market yields lead to increases and rising market yields to decreases in the fair value of fixed-income securities portfolios. Real estate risks derive from unfavourable changes in the value of our own real estate. This may be caused by a general downslide in market values (as seen with the present US real estate crash) or a deterioration in the particular qualities of the property. Real estate risks are of subordinate importance for our company owing to our minimal real estate portfolio. Currency risks result from fluctuations in exchange rates – especially if there is a currency imbalance between the technical liabilities and the investments. By systematically adhering to matching currency coverage, i.e. extensive matching of currency distributions on the assets and liabilities side, we are able to minimise this risk. The spread risk refers to the risk that the interest rate differential between a risk-entailing bond and risk-free bond may change while the quality remains unchanged.

We reduce these potential risks using a broad range of risk-controlling measures, the most significant of which are monitoring of the Value at Risk (VaR), various stress tests that estimate the loss potential under extreme market conditions as well as sensitivity and duration analyses and our asset/liability management (ALM). Despite our conservative investment strategy, restrictive limits and thresholds as well as the controlling tools described above, we cannot divorce ourselves entirely from general market developments. We took a number of risk-minimising measures in the year under review in response to the financial market crisis:

- Limitation of the investment spectrum to government or supranational bonds in September 2008. Although this step reduced the average yield for 2008, it also limited any new risk-taking on the credit markets in view of the uncertain state of the market.
- Elimination of all counterparty risks with respect to existing options for equity hedging.
- Despite the already high diversification of the portfolio, further tightening of issuer limits for all investments of the Hannover Re Group in September 2008 in order to minimise potential accumulation risks.
- Near complete reduction of unhedged holdings of listed equities in October 2008.
- Thorough review of the existing investment guidelines in December 2008. Scarcely any adjustments were necessary even in the present circumstances; the limits, especially in respect of covered bonds, ABS and MBS, were nevertheless further refined.
- Making available of a minimum level of liquidity or assets that can be realised at any time in an amount of at least EUR 4 billion or around 20% of the investments under own management as the prevailing illiquidity of secondary markets that had begun in September 2008 continued and in view of the risks arising in connection with the acceptance of LOCs by ceding companies.

Credit risks

The credit risk consists primarily of the complete or partial failure of the counterparty and the associated default on payment. Also significant, however, is the so-called migration risk, which results from a rating downgrade of the counterparty and is reflected in a change in fair value.

In reinsurance business the credit risk is material for our company because the business that we accept is not always fully retained, but instead portions are retroceded as necessary. These retrocessions conserve our capital, stabilise and optimise our results and enable us to derive maximum benefit from a "hard" market (e.g. following a catastrophe loss event). Alongside traditional retrocession we also transfer risks to the capital market. Over-

all, these tools support diversification within the total portfolio and promote risk reduction. Credit risks are also relevant in life and health reinsurance because we pre-finance acquisition costs for our ceding companies. Our investments similarly entail a credit risk. 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.

Operational risks

In our understanding, this category encompasses 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 also encompass legal risks, although they do not extend to strategic or reputational risks.

Operational risks may derive, *inter alia*, from system failures or unlawful or unauthorised acts. Given the broad spectrum of operational risks, there is a wide range of

different management measures tailored to individual risks. Core elements of risk management are our contingency plans that ensure the continuity of mission-critical enterprise processes and systems (recovery plans, back-up computer centre). The range of tools is rounded off with external and internal surveys of clients and staff, the line-independent monitoring of risk management by Internal Auditing and the Internal Control System (ICS).

Other risks

Under the heading of "Other risks" we primarily consider emerging risks, strategic risks, reputational risks and liquidity risks.

The hallmark of emerging risks (such as obesity, nanotechnology) is that the content of such risks is not as yet known with any certainty and their implications – especially for our portfolio – are difficult to assess. It is therefore vital to detect such risks at an early stage and determine their relevance. On this basis it is possible to decide which steps must be taken, e.g. ongoing observation, the implementation of contractual exclusions or the devel-

opment of new reinsurance products. Strategic risks derive principally from an imbalance between the corporate strategy and changing general economic conditions. Such an imbalance might be caused, for example, by incorrect strategic policy decisions, a failure to consistently implement the defined strategies or by fundamental changes in court decisions or the regulatory environment. We therefore regularly review our strategy and systematically adjust our structures and processes as and when required. Our holistic management system of "Performance Excellence" ensures that our strategy is constantly reviewed and consistently translated into practice.

Hannover Re's reputation as a company is one of its most vital intangible assets. It often takes decades to build up a positive reputation, yet this reputation can be damaged or even destroyed within a very brief space of time. Like the strategic risk, the reputational risk usually manifests itself in combination with other risks, such as market or technical risks. Management of this risk is facilitated by our mandatory communication channels and processes that have been specified for defined crisis scenarios as well as by our business principles. The liquidity risk refers to the risk of being unable to convert investments and others assets into cash in order 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. Regular liquidity planning and a liquid asset structure are core elements of our ability to manage this risk. Our active liquidity management has helped to ensure that even in times of financial crisis we are able to meet our payment obligations at all times without reservation.

In our view, there is very little risk that tax assessments containing additional taxation of investment income at Irish companies will prevail.

Assessment of the risk situation

The above remarks describe the diverse spectrum of potential risks to which we, as an internationally operating reinsurance company, are exposed as well as the steps taken to manage them. These risks can potentially have a significant impact on our assets, financial position and net income. Yet it is inappropriate to consider only the risk aspect, since risks always go hand-in-hand with opportunities. Thus, we have already explained that our conception of risk is holistic. With the aid of our effective controlling tools as well as our organisational structure and process organisation, we ensure that we are able to identify risks in a timely manner and maximise our opportunities. Based on our currently available insights arrived at from a holistic analysis of the risk situation, we cannot discern any

risks that could jeopardise the continued existence of our company in the short or medium term or have a significant, lasting effect on our assets, financial position or net income. This remains true even against the backdrop of the recent upheavals on global financial markets. Further information on our risk management system, and in particular quantitative data on individual risks, is provided in Section 6 of the Notes, "Management of technical and financial risks".

Forecast

In 2009 we expect to see a sharp downturn in the global economy and a continuing recession.

Monetary policy is currently tending towards an expansionary stance worldwide. In view of the drastic slowdown in economic activity and the risk of deflation, central banks have sharply eased their policy on interest rates. In the United States the Federal Reserve moved to a zero interest rate policy in the middle of December 2008. Economic stimulus packages have already been launched in many countries with a view to alleviating the slumping economy. Further measures intended to revive the economy will probably be unveiled in the course of the year. Despite all the efforts of governments and central banks to stabilise the financial sector and stimulate business activity, the global economy will probably show only very minimal growth in 2009.

With consumption already on the wane in the United States, exports are now also declining. This is likely to be

reflected in a sharp contraction in gross domestic product. The European Union is experiencing the most pronounced slump in manufacturing output in its existence. Domestic and foreign demand will drop significantly in 2009 and real gross domestic product will fall. Prospects for the emerging markets have also taken a considerably darker turn.

In Germany the recession is being driven first and foremost by a sharp decline in exports. It is still uncertain whether the steps taken by the federal government to boost the economy will begin to bite. Real gross domestic product will probably contract in 2009. Provided there is no further bad news to reinforce the downward trend, the economic situation is expected to stabilise gradually in the second half of the year.

Non-life reinsurance

We were thoroughly satisfied with the treaty renewals as at 1 January 2009 – the date on which a good two-thirds of our treaties were renegotiated. The situation on the reinsurance markets has improved appreciably. This is due to the financial market crisis, which has led to a capital shortage throughout the worldwide insurance industry and hence fuelled demand for reinsurance covers. Hardly any further rate reductions were observed, and some rate increases pushed into the double digits. This is particularly true of catastrophe business, and especially those programmes that had suffered losses in 2008 – but it was also the case in worldwide credit and surety reinsurance, which saw rate increases of up to 50%. German business continued to be attractive.

In the course of the renewal season it was again evident that ceding companies are attaching considerable importance to their reinsurers' ratings; this applies particularly to the underwriting of long-tail casualty business,

where a very good rating is an indispensable prerequisite in order simply to be asked to submit a quotation. With its very good ratings ("AA-" from Standard & Poor's and "A" from A.M. Best), Hannover Re is one of the few reinsurers to meet this condition without reservation.

We are very content with market conditions in *Germany*: our subsidiary E+S Rück enjoyed highly satisfactory treaty renewals in its domestic market.

In motor liability business we obtained appreciable rate increases after several years of reduced basic premiums in the original market and claims inflation for bodily injuries. In view of the accumulation losses carried in 2008, significant improvement in conditions were also possible in own damage business.

Prices and conditions in personal accident insurance remained on a very pleasing level for E+S Rück. Going

forward, as in the past, we shall support our clients in this line not only by assuming risks in treaty and facultative reinsurance but also by offering them product innovations.

Rates in property catastrophe business climbed sharply as expected following a year of heavy losses.

We were able to further extend our already large market share in Germany thanks to new customer relationships and increased treaty shares under existing accounts, thereby cementing and expanding our position as one of the leading reinsurers in the profitable German market.

In the *United Kingdom*, too, we were satisfied with the treaty renewals; in both motor insurance and casualty business we enlarged our portfolio on the back of increased rates.

+++ 2009/2010 promise good business conditions +++

Owing partly to the heavy losses from hurricane "Ike" in 2008, but also due to the worldwide financial market crisis, capacities in *marine business* contracted sharply in both the primary and reinsurance sectors; rates consequently rose. Increases were recorded in regions that had suffered heavy losses, such as the Gulf of Mexico, with prices here climbing by as much as 35%. In aviation business, too, where Hannover Re ranks among the global market leaders, the premium erosion was halted.

In *Northern European* countries, too, the rate erosion came to a halt in view of the repercussions of the financial market crisis. Insurers are buying additional reinsurance capacity in order to protect their balance sheets. Given the fact that smaller insurers are likely to struggle to improve their strained capital position through their own efforts alone, the current financial year is expected to bring market consolidation.

In the Netherlands the financial market crisis led to a "revaluation" of the technical account, prompting rates to rise again in industrial property insurance. In other Western European countries, too, business opportunities improved and we were therefore able to enlarge our premium volume.

The outlook for rates in *France* has brightened. Further improvement in prices for natural catastrophe risks should be attainable on the back of the severe winter storm "Klaus" in January. The net burden of losses for Hannover Re is in the mid- to high double-digit millions of euros.

The countries of *Central and Eastern Europe* are strategic growth markets for our company, insofar as we continue to be able to write profitable business going forward. At the time of the 2009 treaty renewals, as expected, we observed an appreciable surge in demand among insurers for high-quality reinsurance protection. As a result, we were able to acquire new clients and enlarge our shares in existing business, especially in Russia and other successor states of the former Soviet Union. Our premium volume was substantially expanded. The profitability of the written portfolio continues to be more than satisfactory.

For *North America*, too, we are looking to a significantly improved market environment in the current year; reductions in rates or conditions are a thing of the past. The diminished capital resources of primary insurers – in the aftermath of the financial market crisis – have fanned demand for reinsurance covers and hence pushed up prices. Especially in areas where reinsurance capacity is scarce, e.g. catastrophe business in exposed zones such as the Gulf of Mexico and California earthquake territory, we are seeing double-digit price rises. It should, however, be noted that prices here were not always commensurate with the risks.

+++ Rates for US catastrophe business still not adequate +++

In catastrophe-exposed US property business the market began to harden – both in terms of rates and conditions. It was also gratifying to note that the premium erosion in US casualty business was halted. Indeed, it was even possible to push through rate increases in directors' and officers' (D&O) and professional indemnity business. With the effects of the financial market crisis still reverberating, we expect to see further price rises in the middle of the year.

All in all, we are looking to a slightly enlarged premium volume for North America in the current financial year and stronger growth rates in 2010. In view of the favourable general climate, we shall set aside our cautious stance of the past year and step up our involvement. Our good market position and excellent contacts with all major market players should help us in this regard.

We are similarly very satisfied with the outcome of the treaty renewals in *China*. Both the crisis on financial markets and the losses from the 2008 snowstorm generated greater demand for reinsurance. Treaty conditions in proportional property business, which accounts for around 80% of the local market volume, showed substantial improvements – prompting us to appreciably expand our involvement. In non-proportional property business prices held stable, while they showed double-digit gains under loss-affected programmes. We enlarged our premium volume in China by roughly 30%. Given the importance of the Chinese market, we stepped up our efforts to obtain a licence for a branch office serving non-life reinsurance business.

The renewals picture in the other *Asian* markets was a mixed one. The state of the market in *Taiwan* remained broadly unchanged; conditions in proportional treaties are largely stable. In *Japan* – where the bulk of contracts are renewed on 1 April – we also expect rates to rise owing to the effects of the financial market crisis.

The *retakaful* segment continues to develop very well: here, too, the financial market crisis has positively impacted demand for Sharia-compliant products. Both our subsidiary in Bahrain and our branch in Malaysia enjoyed appreciable increases in premium income.

+++ Substantially increased premium volume expected in retakaful business +++

Along with our treaty business, we shall extend our involvement in the facultative segment – i.e. in the (re)insurance of individual risks, particularly in engineering business. Numerous infrastructure-related construction activities are funded by Islamic financial institutions, which for their part obtain insurance from takaful companies. We expect the premium volume in the current financial year to come in substantially higher.

In *Latin America* we extended our market presence by opening a new representative office in Brazil. The outcome of the treaty renewals as at 1 January, however, fell short of our expectations. Our interest is focused primarily on agricultural risks. Although only 15% of the treaty portfolio was up for renewal on 1 January, it may be observed that the trend in this segment is exceptionally favourable. We provide covers for agricultural risks not only in Latin America but worldwide. Substantial premium growth is anticipated for the current financial year.

As far as our business in *South Africa* is concerned, we expect 2009 to bring a rise in premium volume, which is driven by specialty business. In the area of structured products, too, we anticipate fresh business stimuli as a consequence of more exacting capital requirements and the repercussions of the financial market crisis.

In *Australia* we are looking to premium growth in the original currency for 2009. During the current financial year our subsidiary International Insurance Company of Hannover plans to open a branch office in Australia so as to further promote specialty business.

The financial crisis and economic crunch have had far-ranging repercussions on worldwide *credit and surety reinsurance*. The number of insolvencies – and hence also the loss ratios – is set to rise. In the face of this business climate we are seeing appreciable hardening on the markets to the benefit of reinsurers and were thus extraordinarily satisfied with the outcome of the treaty renewals as at 1 January 2009. In proportional credit business we were able to push through significantly reduced commissions. Rate increases in the mid-double-digit percentage range were obtained for non-proportional covers. Although we appreciably enlarged our premium volume, we also significantly scaled back our acceptances in some business segments. In these cases we did not consider even high prices to be commensurate with the risks.

The development of *structured reinsurance products* has been highly satisfactory. The loss of capital at primary insurers has sharply boosted demand, especially for surplus relief contracts. Our goal is to further diversify our business and to expand in regions outside the United

States. These efforts are proving successful. Especially in Asia, we have achieved sizeable growth. Yet in the US market, too, demand has risen.

In *facultative* reinsurance, which involves the writing of individual risks, around 40% of our treaty portfolio was renewed on 1 January. In this area we observed stable rates in virtually all markets. While a tendency towards a hardening market has made itself felt in the wake of the financial market crisis, the rate increases are still relatively insignificant. Only in US property business were we able to secure price increases running into the low double-digits. We anticipate further rate increases in the second half of the year.

+++ Reinsurers scarcely impacted by the recession +++

All in all, it may be stated that for our company – as a reinsurer – conditions in non-life reinsurance are once again favourable and should improve even further in 2010.

Life and health reinsurance

The general environment for international life and health reinsurance remains favourable – not only in the short term but also from a medium-term perspective. Even against the backdrop of the current financial market crisis, the long-term demographic trends, heightened risk awareness among the urban middle classes, the opening up of the seniors' market and the creative design of innovative types of products should generate sustained growth stimuli, especially in key threshold countries.

In this context we believe that Hannover Life Re is very well positioned to share in these growth potentials to an above-average extent. We intend to further refine our tried and tested "Five Pillar model", with reinsurance solutions for occupational pension funds set to play an especially pivotal role in the new markets segment.

The application processes in life insurance, which were developed more than 100 years ago, are to be subjected to a thorough overhaul. The goal is to channel the purchase of life insurance policies into a process that – in common with many straightforward bank products – can

Although the recession continues to spread, it will scarcely affect us as a reinsurer since its primary impact is on the income statement of companies and less on the fixed assets to be insured. Conditions for a financially strong reinsurer such as Hannover Re are good. The increased demand among insurers – triggered by diminished capital resources and greater risk awareness – is coming up against a reduced supply, hence prompting higher prices. A further positive factor is that the capital market's interest in reinsurance products has faded. In view of this environment and our very healthy diversification, and thanks to our excellent rating, we are able to generate attractive business. In non-life reinsurance we continue to have a close eye on profitable niche business, as a consequence of which we are looking forward to a very positive development in the current financial year.

For the non-life reinsurance business group we expect net premium growth of 10% in the original currencies as well as a healthy profit contribution.

be efficiently completed in a short space of time. To this end Hannover Life Re offers expert, proven models of varying levels of complexity that are enjoying growing popularity on the market.

+++ Significantly higher cession ratio expected for mortality risks in the United States +++

The main drivers of our business will continue to be the developed insurance markets of the United Kingdom, United States, Germany and Australia. In the long term, though, we see considerable potential in the four BRIC markets of Brazil, Russia, India and China, and in 2009 we are planning to enhance our network by opening a representative office in Beijing.

In many countries the international financial market crisis has brought about a considerable shift in life insurers' demand for reinsurance solutions and hence created – to the benefit of globally operating reinsurers with a first-class rating – a continuously growing imbalance in the dynamics of supply and demand.

Owing to the visible weakening of their solvency position, primary insurers will find themselves compelled to adopt a significantly more cautious risk strategy and financial policy in the immediate future. This development is generating a wave of demand for both risk- and financially oriented reinsurance solutions – especially because direct access to the capital markets by way of securitisations is largely blocked.

This state of affairs is encapsulated especially succinctly in the US life market, where the insurance industry suffered marked erosion of its capital base in the course of the year under review. In this market, therefore, we expect 2009 and 2010 to bring an appreciable increase in the cession ratio for mortality risks.

Similar developments are taking place in markets such as the United Kingdom and Germany; the spotlight here is on financially oriented solutions such as realising the value of in-force business. Overall, most life reinsurers

belong to the subsegment of the international financial services industry that is currently profiting from the worldwide financial market crisis and for which attractive new business opportunities are opening up on a scale that would have been considered unrealistic just a few years ago.

In life and health reinsurance we expect annual growth of 12% to 15%. Due to our purchase of a US individual life portfolio we anticipate growth of 35% for the current year. This acquisition is forecast to generate a premium volume in the order of USD 1.2 billion for 2009. As early as 2009 the acquisition of this portfolio will help to boost Group net income.

For the current financial year and beyond we are looking to an attractive EBIT margin in the range of 6.5% to 7.5% as well as a better-than-average return on the invested capital.

Overall business outlook

Bearing in mind the favourable market conditions described above in non-life and life/health reinsurance as well as our strategic orientation, we are looking forward to another good financial year in 2009. In view of our acquisition in life reinsurance we expect our gross premium in total business to grow by about 16%. This transaction will also improve the diversification of our earnings streams, since life reinsurance business – with its greater stability – will account for a significantly larger share of total business going forward.

As things currently stand, we expect to generate a return on equity in excess of 15%. This is subject to the premise that the burden of catastrophe losses does not significantly exceed the expected level and that there are no drastically adverse movements on capital markets. As in past years, the company is aiming for a dividend in the range of 35% to 40% of Group net income.

The expected positive cash flow that we generate ourselves 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.

+++ Good prospects for a successful 2009 financial year +++

In the course of the current financial year and beyond we expect further hardening of the non-life reinsurance markets and continuing favourable conditions in life and health reinsurance.

We define our long-term goals as follows:

In non-life reinsurance we are guided exclusively by profit rather than growth targets. Our goal here is to achieve an EBIT margin of at least 12.5% each year.

In life and health reinsurance, on the other hand, we have set ourselves an annual growth target of 12% – 15% for both gross premium income and the operating profit (EBIT).

On the Group level our return-on-equity target is at least 750 basis points above the risk-free interest rate.

Both the earnings per share and the book value per share also constitute central management ratios and perform-

ance indicators for our company. Our strategic objective is to increase these key figures – together with the operating profit (EBIT) – by double-digit margins every year.

Information pursuant to § 315 Para. 4 German Commercial Code (HGB)

The common shares (share capital) of the company amount to EUR 120,597,134.00. They are divided into 120,597,134 registered no-par shares.

The Executive Board of the company is not aware of any restrictions relating to voting rights or the transfer of shares, including cases where these may arise out of agreements between shareholders.

The following company holds direct or indirect capital participations that exceed 10% of the voting rights:

Talanx AG, Riethorst 2, 30659 Hannover, holds 50.2% (rounded) of the company's voting rights. There are no shares with special rights granting their holders powers of control, nor is there any specially structured voting control for employees who have capital participations and do not directly exercise their rights of control.

The appointment and recall of members of the Executive Board are determined by §§ 84 et seq. Stock Corporation Act. Amendment of the Articles of Association is governed by §§ 179 et seq. Stock Corporation Act in conjunction with § 16 Para. 2 and § 21 of the Articles of Association of Hannover Re.

The powers of the Executive Board with respect to the issue and repurchase of shares are defined in § 6 "Contingent capital" and § 7 "Authorised capital" of Hannover Re's Articles of Association as well as in §§ 71 et seq. Stock Corporation Act. In this connection the Annual General Meeting authorised the Executive Board on 6 May 2008 pursuant to § 71 Para. 1 No. 8 Stock Corporation Act to acquire treasury shares on certain conditions.

The following paragraphs explain major agreements concluded by the company that are subject to reservation in the event of a change of control following a takeover bid and describe the resulting effects.

The two syndicated letter of credit lines extended to Hannover Re in the amount of USD 2 billion each as well as a syndicated line of credit in the amount of EUR 500 million contain standard market change-of-control clauses that entitle the participating banks to require early repayment if Talanx AG loses its majority interest or drops below the threshold of a 25 percent participation or if a third party acquires the majority interest in Hannover Rückversicherung AG.

In addition, the retrocession covers in non-life and life business known as the "K" and "L" transactions contain standard market change-of-control clauses which in each case grant the other contracting party a right of termination if a significant change occurs in the ownership structure and participation ratios of the affected contracting party.

The company has not concluded any compensation agreements with the members of the Executive Board or with employees in the event of a takeover bid being made.

Consolidated Accounts
of the Hannover Re Group

CONSOLIDATED BALANCE SHEET

as at 31 December 2008

Figures in EUR thousand		2008	2007
Assets	Notes	31.12.	31.12.
Fixed-income securities – held to maturity	7.1	1,475,202	1,488,816
Fixed-income securities – loans and receivables	7.1	1,680,857	1,537,889
Fixed-income securities – available for sale	7.1	14,482,832	12,477,055
Fixed-income securities – at fair value through profit or loss	7.1	254,528	158,740
Equity securities – available for sale	7.1	22,589	2,000,390
Other financial assets – at fair value through profit or loss	7.1	44,654	20,385
Real estate	7.1	25,514	16,962
Investments in associated companies	7.1	128,680	170,839
Other invested assets	7.1	784,421	677,957
Short-term investments	7.1	807,719	930,821
Cash		430,225	335,422
Total investments and cash under own management		20,137,221	19,815,276
Funds held	7.3	9,776,147	8,610,554
Contract deposits	7.3	288,782	616,134
Total investments		30,202,150	29,041,964
Reinsurance recoverables on unpaid claims	7.2	2,079,168	2,471,585
Reinsurance recoverables on benefit reserve	7.2	159,151	255,076
Prepaid reinsurance premium	7.2	29,733	92,322
Reinsurance recoverables on other technical reserves	7.2	9,928	5,574
Deferred acquisition costs	7.2	1,860,783	1,807,143
Accounts receivable	7.2	2,801,762	2,525,871
Goodwill	7.4	42,833	45,438
Deferred tax assets	7.5	549,146	577,731
Other assets	7.12	260,265	244,278
Accrued interest and rent		6,824	1,425
		38,001,743	37,068,407

Figures in EUR thousand		2008	2007
Liabilities	Notes	31.12.	31.12.
Loss and loss adjustment expense reserve	7.2	16,932,069	16,553,888
Benefit reserve	7.2	5,913,075	6,143,460
Unearned premium reserve	7.2	1,333,856	1,186,382
Provisions for contingent commissions	7.2	156,996	183,725
Funds held	7.3	565,952	956,912
Contract deposits	7.3	5,146,424	3,668,825
Reinsurance payable		1,236,912	1,141,067
Provisions for pensions	7.7	72,207	67,101
Taxes	7.5	201,960	202,621
Provision for deferred taxes	7.5	1,371,589	1,350,679
Other liabilities	7.12	319,183	277,037
Long-term debt and subordinated capital	7.8	1,420,027	1,414,877
Total liabilities		34,670,250	33,146,574
Shareholders' equity			
Common shares	7.9	120,597	120,597
Nominal value 120,597			
Authorised capital 60,299	7.9		
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		113,864	181,395
Cumulative foreign currency translation adjustment		(247,565)	(213,117)
Other changes in cumulative other comprehensive income		(4,577)	6,482
Total other comprehensive income		(138,278)	(25,240)
Retained earnings		2,123,178	2,529,170
Shareholders' equity before minorities		2,830,059	3,349,089
Minority interests		501,434	572,744
Total shareholders' equity		3,331,493	3,921,833
		38,001,743	37,068,407

CONSOLIDATED STATEMENT OF INCOME

for the 2008 financial year

Figures in EUR thousand	Notes	2008 1.1.–31.12.	2007 1.1.–31.12.
Gross written premium		8,120,919	8,258,901
Ceded written premium		886,621	1,036,950
Change in gross unearned premium		(113,480)	298,490
Change in ceded unearned premium		(59,193)	(227,511)
Net premium earned		7,061,625	7,292,930
Ordinary investment income	7.1	829,786	859,020
Profit/loss from investments in associated companies	7.1	4,199	11,028
Income/expense on funds withheld and contract deposits	7.1	199,587	220,108
Realised gains on investments	7.1	379,202	244,046
Realised losses on investments	7.1	492,756	69,735
Unrealised gains and losses on investments	7.1	(119,718)	(18,771)
Total depreciation, impairments and appreciation of investments	7.1	480,420	71,982
Other investment expenses	7.1	41,421	51,968
Net investment income		278,459	1,121,746
Other technical income	7.13	7,294	1,130
Total revenues		7,347,378	8,415,806
Claims and claims expenses	7.2	4,702,127	5,031,071
Change in benefit reserves	7.2	421,342	397,934
Commission and brokerage, change in deferred acquisition costs	7.2, 7.13	1,635,941	1,759,010
Other acquisition costs	7.2	11,676	12,571
Other technical expenses	7.2, 7.13	12,166	20,081
Administrative expenses	7.13	216,047	204,358
Total technical expenses		6,999,299	7,425,025
Other income and expenses	7.14	(200,011)	(62,779)
Operating profit/loss (EBIT)		148,068	928,002
Interest on hybrid capital	7.8	77,442	77,600
Net income before taxes		70,626	850,402
Taxes	7.5	205,610	47,452
Net income (loss) from continuing operations		(134,984)	802,950
Net income (loss) from discontinued operations		–	35,085
Net income (loss)		(134,984)	838,035
thereof			
Minority interest in profit and loss		(7,997)	116,372
Group net income (loss)		(126,987)	721,663
Earnings per share			
Earnings per share in EUR	7.11	(1.05)	5.98
from continuing operations in EUR		(1.05)	5.69
from discontinued operations in EUR		–	0.29

CONSOLIDATED STATEMENT

of changes in shareholders' equity 2008

Figures in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)			Retained earnings	Minority interests	Shareholders' equity
			Currency translation	Unrealised gains/losses	Other			
Balance as at 1.1.2007	120,597	724,562	(71,518)	144,199	(1,526)	1,981,521	608,551	3,506,386
Capital repayments							(69)	(69)
Income and expense directly recognised in equity			(147,395)	61,070	11,392	18,941	(119,087)	(175,079)
Tax effects on income and expense directly recognised in equity			5,796	(23,874)	(3,384)			(21,462)
Dividends paid						(192,955)	(33,023)	(225,978)
Net income (loss)						721,663	116,372	838,035
Balance as at 31.12.2007	120,597	724,562	(213,117)	181,395	6,482	2,529,170	572,744	3,921,833
Balance as at 1.1.2008	120,597	724,562	(213,117)	181,395	6,482	2,529,170	572,744	3,921,833
Income and expense directly recognised in equity			(22,526)	(17,285)	(17,182)	(1,632)	(21,821)	(80,446)
Tax effects on income and expense directly recognised in equity			(11,922)	(50,246)	6,123			(56,045)
Dividends paid						(277,373)	(41,492)	(318,865)
Net income (loss)						(126,987)	(7,997)	(134,984)
Balance as at 31.12.2008	120,597	724,562	(247,565)	113,864	(4,577)	2,123,178	501,434	3,331,493

CONSOLIDATED CASH FLOW STATEMENT

2008

The reporting on cash flows within the Group is based on IAS 7 "Statement of Cash Flows". In addition, we observed the principles set out in German Accounting Standard No. 2 (DRS 2) of the German Standards Council regarding the preparation of cash flow statements, which were supplemented by the requirements of DRS 2–20 that apply specifically to insurance enterprises. In accordance with the recommendation of the German Standards Council for insurance enterprises, we adopted the indirect method of presentation. The amounts taken into consideration are limited to cash and cash equivalents shown under the balance sheet item "Cash".

Figures in EUR thousand	2008	2007
	1.1.–31.12.	1.1.–31.12.
I. Cash flow from operating activities		
Net income (loss)	(134,984)	838,035
Appreciation/depreciation	537,578	92,725
Net realised gains and losses on investments	113,554	(174,311)
Net realised gains and losses on discontinued operations	–	(92,080)
Amortisation of investments	(8,737)	(9,043)
Changes in funds held	(1,735,801)	(728,897)
Net changes in contract deposits	1,645,271	155,984
Changes in prepaid reinsurance premium (net)	204,187	(71,536)
Changes in tax assets/provisions for taxes	(12,341)	(141,612)
Changes in benefit reserve (net)	399,654	566,914
Changes in claims reserves (net)	733,112	461,279
Changes in deferred acquisition costs	(136,715)	83,135
Changes in other technical provisions	(35,452)	(956)
Changes in clearing balances	(189,891)	(161,390)
Changes in other assets and liabilities (net)	79,418	93,806
Cash flow from operating activities	1,458,853	912,053
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	39,245	86,516
Purchases	–	(43,518)
Fixed-income securities – loans and receivables		
Maturities, sales	86,975	129,315
Purchases	(219,451)	(490,617)
Fixed-income securities – available for sale		
Maturities, sales	10,421,889	5,459,925
Purchases	(12,558,404)	(5,624,716)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	34,663	23,602
Purchases	(111,206)	(25,001)

Figures in EUR thousand	2008 1.1.-31.12.	2007 1.1.-31.12.
Equity securities – available for sale		
Sales	2,159,265	1,550,732
Purchases	(1,010,888)	(1,880,906)
Equity securities – at fair value through profit or loss		
Sales	–	20,340
Purchases	–	(13,830)
Other financial instruments – at fair value through profit or loss		
Sales	156,010	–
Purchases	(69,012)	–
Other invested assets		
Sales	19,962	93,616
Purchases	(163,638)	(137,436)
Affiliated companies and participating interests		
Sales	41,405	591,223
Purchases	(5,543)	(1,663)
Real estate		
Sales	–	1
Purchases	(10,076)	(166)
Short-term investments		
Changes	183,949	(279,507)
Other changes (net)	(29,247)	(28,464)
Cash flow from investing activities	(1,034,102)	(570,554)
III. Cash flow from financing activities		
Contribution from capital measures	5,908	2,833
Structural change without loss of control	(5,126)	(108,157)
Dividends paid	(318,865)	(225,978)
Proceeds from long-term debts	39	–
Repayment of long-term debts	(630)	(10,006)
Cash flow from financing activities	(318,674)	(341,308)
IV. Exchange rate differences on cash	(11,274)	(16,545)
Change in cash and cash equivalents (I+II+III+IV)	94,803	(16,354)
Cash and cash equivalents at the beginning of the period	335,422	351,776
Change in cash and cash equivalents according to cash flow statement	94,803	(16,354)
Cash and cash equivalents at the end of the period	430,225	335,422
Income taxes	(134,451)	(181,816)
Interest paid	(99,203)	(163,643)

SEGMENTAL REPORT

as at 31 December 2008

Hannover Re's segmental report is based on IAS 14 "Segment Reporting" and on the principles set out in German Accounting Standard No. 3 "Segment Reporting" (DRS 3) of the German Standards Council, supplemented by the requirements of DRS 3–20 "Segment Reporting of Insurance Enterprises".

The segments are shown after consolidation of internal transactions within the individual segment, but before consolidation across the segments. This is reported separately in the "Consolidation" column.

Segmentation of assets

Figures in EUR thousand	Non-life reinsurance	
	2008	2007
	31.12.	31.12.
Assets		
Held to maturity	1,262,866	1,262,619
Loans and receivables	1,418,271	1,263,764
Available for sale	11,244,214	11,387,469
At fair value through profit or loss	145,226	118,573
Other invested assets	871,345	808,047
Short-term investments	654,969	587,455
Cash	324,659	241,812
Total investments and cash under own management	15,921,550	15,669,739
Funds held by ceding companies	789,996	870,892
Contracts deposits	–	137
Total investments	16,711,546	16,540,768
Reinsurance recoverables on unpaid claims	1,975,496	2,371,387
Reinsurance recoverables on benefit reserves	–	–
Prepaid reinsurance premium	23,582	86,217
Reinsurance recoverables on other reserves	9,813	3,031
Deferred acquisition costs	302,229	262,176
Accounts receivable	1,976,575	1,373,824
Other assets in the segment	1,187,502	1,287,379
Total	22,186,743	21,924,782

Life/health reinsurance		Consolidation		Total	
2008	2007	2008	2007	2008	2007
31.12.	31.12.	31.12.	31.12.	31.12.	31.12.
43,058	52,071	169,278	174,126	1,475,202	1,488,816
105,019	116,567	157,567	157,558	1,680,857	1,537,889
2,646,643	2,496,286	614,564	593,690	14,505,421	14,477,445
55,409	35,227	98,547	25,325	299,182	179,125
67,270	57,711	–	–	938,615	865,758
148,189	146,952	4,561	196,414	807,719	930,821
97,315	88,295	8,251	5,315	430,225	335,422
3,162,903	2,993,109	1,052,768	1,152,428	20,137,221	19,815,276
8,988,523	7,741,902	(2,372)	(2,240)	9,776,147	8,610,554
288,782	615,997	–	–	288,782	616,134
12,440,208	11,351,008	1,050,396	1,150,188	30,202,150	29,041,964
103,672	101,629	–	(1,431)	2,079,168	2,471,585
159,151	255,076	–	–	159,151	255,076
6,151	6,105	–	–	29,733	92,322
115	2,543	–	–	9,928	5,574
1,558,554	1,544,967	–	–	1,860,783	1,807,143
825,477	1,152,705	(290)	(658)	2,801,762	2,525,871
336,508	304,312	(664,942)	(722,819)	859,068	868,872
15,429,836	14,718,345	385,164	425,280	38,001,743	37,068,407

SEGMENTAL REPORT

as at 31 December 2008

Segmentation of technical and other liabilities

Figures in EUR thousand	Non-life reinsurance	
	2008	2007
	31.12.	31.12.
Liabilities		
Loss and loss adjustment expense reserve	15,376,337	15,114,553
Benefit reserve	–	–
Unearned premium reserve	1,250,648	1,148,723
Provisions for contingent commissions	122,923	146,638
Funds held	170,294	186,802
Contracts deposits	91,329	156,829
Reinsurance payable	953,518	427,552
Long-term liabilities	43,144	41,583
Other liabilities in the segment	1,222,087	1,239,046
Total	19,230,280	18,461,726

Life/health reinsurance		Consolidation		Total	
2008	2007	2008	2007	2008	2007
31.12.	31.12.	31.12.	31.12.	31.12.	31.12.
1,555,732	1,440,774	–	(1,439)	16,932,069	16,553,888
5,913,075	6,143,460	–	–	5,913,075	6,143,460
83,208	37,659	–	–	1,333,856	1,186,382
34,073	37,087	–	–	156,996	183,725
398,039	772,352	(2,381)	(2,242)	565,952	956,912
5,055,095	3,511,996	–	–	5,146,424	3,668,825
284,223	714,857	(829)	(1,342)	1,236,912	1,141,067
–	–	1,376,883	1,373,294	1,420,027	1,414,877
1,378,233	1,283,393	(635,381)	(625,001)	1,964,939	1,897,438
14,701,678	13,941,578	738,292	743,270	34,670,250	33,146,574

SEGMENTAL REPORT

as at 31 December 2008

Segmental statement of income

Figures in EUR thousand	Non-life reinsurance	
	2008	2007
	1.1.–31.12.	1.1.–31.12.
Gross written premium	4,987,823	5,189,508
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	4,987,823	5,189,508
Net premium earned	4,276,748	4,497,597
Net investment income	11,114	783,282
thereof		
Deposit interest and expenses	13,208	42,572
Claims and claims expenses	3,028,007	3,359,951
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	915,339	1,016,676
Administrative expenses	148,751	147,642
Other income and expenses	(193,493)	(99,923)
Operating profit/loss (EBIT)	2,272	656,687
Interest on hybrid capital	–	–
Net income before taxes	2,272	656,687
Taxes	178,022	47,191
Net income (loss) from continuing operations	(175,750)	609,496
Net income (loss) from discontinued operations	–	12,131
Net income (loss)	(175,750)	621,627
thereof		
Minority interest in profit or loss	(14,838)	72,104
Group net income (loss)	(160,912)	549,523

life/health reinsurance		Consolidation		Total	
2008	2007	2008	2007	2008	2007
1.1.-31.12.	1.1.-31.12.	1.1.-31.12.	1.1.-31.12.	1.1.-31.12.	1.1.-31.12.
3,134,416	3,082,904	(1,320)	(13,511)	8,120,919	8,258,901
1,320	13,511	(1,320)	(13,511)	–	–
3,133,096	3,069,393	–	–	8,120,919	8,258,901
2,784,877	2,795,333	–	–	7,061,625	7,292,930
245,518	293,850	21,827	44,614	278,459	1,121,746
186,373	177,486	6	50	199,587	220,108
1,674,732	1,672,196	(612)	(1,076)	4,702,127	5,031,071
421,342	397,934	–	–	421,342	397,934
743,394	780,548	(6,244)	(6,692)	1,652,489	1,790,532
70,062	61,194	(2,766)	(4,478)	216,047	204,358
(187)	52,471	(6,331)	(15,327)	(200,011)	(62,779)
120,678	229,782	25,118	41,533	148,068	928,002
–	–	77,442	77,600	77,442	77,600
120,678	229,782	(52,324)	(36,067)	70,626	850,402
35,494	(2,183)	(7,906)	2,444	205,610	47,452
85,184	231,965	(44,418)	(38,511)	(134,984)	802,950
–	–	–	22,954	–	35,085
85,184	231,965	(44,418)	(15,557)	(134,984)	838,035
6,841	44,268	–	–	(7,997)	116,372
78,343	187,697	(44,418)	(15,557)	(126,987)	721,663

Our secondary segmental reporting covers the continuing operations and is based on the regional origin of the investments and gross written premium.

Total investments¹⁾

Figures in EUR thousand	2008	2007
	31.12.	31.12.
Total investments		
Germany	6,172,406	6,252,371
United Kingdom	1,134,915	1,187,499
France	1,628,884	1,117,610
Other	3,167,276	3,251,338
Europe	12,103,481	11,808,818
USA	5,812,077	5,909,163
Other	695,394	589,295
North America	6,507,471	6,498,458
Asia	426,485	384,628
Australia	664,541	659,006
Australasia	1,091,026	1,043,634
Africa	230,475	276,441
Other	204,768	187,925
Total	20,137,221	19,815,276

Gross written premium¹⁾

Figures in EUR thousand	2008	2007
	1.1.–31.12.	1.1.–31.12.
Gross written premium		
Germany	1,140,992	1,385,552
United Kingdom	1,453,402	1,512,164
France	381,205	386,054
Other	1,227,653	1,131,846
Europe	4,203,252	4,415,616
USA	1,732,645	1,879,555
Other	357,869	390,375
North America	2,090,514	2,269,930
Asia	745,202	563,461
Australia	420,381	476,560
Australasia	1,165,583	1,040,021
Africa	266,974	262,427
Other	394,596	270,907
Total	8,120,919	8,258,901

¹⁾ After elimination of internal transactions within the Group across segments

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NOTES

1. Company information

The parent company Hannover Rückversicherung AG ("Hannover Re") and its subsidiaries (collectively referred to as the "Hannover Re Group") transact all lines of non-life and life/health reinsurance. The Group maintains business relations with more than 5,000 insurance companies in about 150 countries. With gross premium of approximately EUR 8.1 billion, Hannover Re is one of the largest reinsurance groups in the world. The Group's global network consists of more than 100 subsidiaries, affiliates, branches and representative offices in around 20 countries. The Group's German business is conducted exclusively by the subsidiary E+S Rück. We employ over 900 staff in Hannover and roughly 1,800 worldwide. The parent company is a joint-stock corporation, the registered office of which is located at Karl-Wiechert-Allee 50, 30625 Hannover, Germany.

Hannover Rückversicherung AG is a subsidiary of Talanx AG, which in turn is wholly owned by HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI).

2. Accounting principles

Hannover Re is obliged to prepare a consolidated financial statement and group management report in accordance with § 290 German Commercial Code (HGB).

Pursuant to EU Regulation (EC) No. 1606/2002, the present consolidated financial statement and group management report of Hannover Re have been drawn up in accordance with the International Financial Reporting Standards (IFRS) that are to be used within the European Union. We have also made allowance for the supplementary regulations applicable pursuant to § 315a Para. 1 German Commercial Code (HGB) and the supplementary provisions of the parent company's Articles of Association as amended on 3 August 2007.

The consolidated financial statement reflects all IFRS in force as at 31 December 2008 as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), application of which was mandatory for the 2008 financial year.

Since 2002 the standards adopted by the International Accounting Standards Board (IASB) have been referred to as "International Financial Reporting Standards (IFRS)"; the standards dating from earlier years still bear the name "International Accounting Standards (IAS)". Standards are cited in our Notes accordingly; in cases where the Notes do not make explicit reference to a particular standard, the term IFRS is used.

In addition, the German Accounting Standards (GAS) adopted by the German Accounting Standards Committee (GASC) have been observed insofar as they do not conflict with currently applicable IFRS.

The declaration of conformity required pursuant to § 161 German Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code has been submitted and made available to the shareholders.

The annual financial statements included in the consolidated financial statement were for the most part drawn up as at 31 December. Pursuant to IAS 27.27 there is no requirement to compile interim accounts for Group companies with diverging reporting dates because their closing dates are no earlier than three months prior to the closing date for the consolidated financial statement.

The annual financial statements of all companies were initially drawn up in compliance with the provisions of the respective national laws and then transformed to IFRS in accordance with standard Group accounting and measurement rules.

The consolidated financial statement was drawn up in euros (EUR), the amounts shown have been rounded to EUR thousands and – provided this does not detract from transparency – to EUR millions. Figures indicated in brackets refer to the previous year.

The present consolidated financial statement was examined by the Supervisory Board, adopted at the meeting of the Supervisory Board held on 10 March 2009 and hence released for publication.

New accounting principles

In November 2006 the IFRIC published IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions". The interpretation provides guidance on the application of IFRS 2 "Share-based Payment" to share-based payments involving an entity's own equity instruments or rights to such equity instruments granted within the group. IFRIC 11 is mandatory for financial years beginning on or after 1 March 2007. Application of the interpretation had no implications for Hannover Re's consolidated financial statement.

In July 2007 the IFRIC published IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". The interpretation provides guidance inter alia for determining the limit on the amount of a surplus in a pension plan that may be recognised as an asset pursuant to IAS 19. Application of the interpretation had no implications for Hannover Re's consolidated financial statement.

On 13 October 2008, in response to the turmoil on international capital markets, the IASB adopted and published the amendments to "IAS 39 & IFRS 7 Reclassification of Financial Assets". By way of the Regulation (EC) No. 1004/2008 the European Commission adopted the amendments in European law on 15 October 2008. The amendments permit, in particular circumstances, reclassifications of (1.) non-derivative financial assets out of the fair value through profit or loss category and (2.) financial assets classified in the available-for-sale category to the loans and receivables category, and provide for additional disclosures in this regard. Hannover Re investigated the implications of the amendments and in view of the scarcely available scope for application did not avail itself of the facilities associated with the amendments as at the balance sheet date.

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

The IASB has issued the following standards, interpretations and amendments to existing standards with possible implications for the consolidated financial statement of Hannover Re, application of which is not yet mandatory for the year under review and which are not being applied early by Hannover Re:

In November 2006 the IASB issued IFRS 8 "Operating Segments", which replaces the previous IAS 14 "Segment Reporting". IFRS 8 requires adoption of the "management approach" for reporting on the economic position of segments. Under this approach, the segmentation and the disclosures for the segments are based on the information used internally by management for evaluating segment performance and deciding on the allocation of resources. IFRS 8 applies to financial years beginning on or after 1 January 2009. Hannover Re does not currently expect the standard to have any influence on the presentation of segments in the consolidated financial statement.

In September 2007 the IASB issued a revised IAS 1 "Presentation of Financial Statements". The revision is aimed at improving users' ability to analyse and compare the information given in financial statements. IAS 1 defines the basic principles for the presentation and structure of the annual financial statement. It also contains minimum requirements for the content of an annual financial statement. The revised standard is applicable to financial years beginning on or after 1 January 2009; early adoption is permitted.

In January 2008 the IASB published the revised versions of IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements". The new provisions primarily cover the recognition of minority interests, measurement issues in connection with successive acquisition, changes in a participating interest with or without a loss of control and adjustments to acquisition costs depending upon future events and their effects on goodwill. The revised IFRS 3 still does not apply to combinations of entities under common control. The amendments are mandatory for financial years beginning on or after 1 July 2009. As at the balance sheet date neither of these revised versions had been ratified by the European Union.

In February 2008 the amendments to IAS 32 and IAS 1 "Puttable Financial Instruments and Obligations arising on Liquidation" were published. The revised version of IAS 32 permits the balance sheet classification of puttable financial instruments as equity in the future under certain conditions. The amendment cannot be applied to the consolidated financial statement, and in particular minority interests in partnerships shall continue to be recognised as a financial liability. The amendment of IAS 1 refers to revised disclosure requirements applicable to puttable financial instruments and obligations arising on liquidation. The application of both standards is mandatory from 1 January 2009 onwards. Hannover Re does not expect the amendments to have any effect on the consolidated financial statement.

In July 2008 the IFRIC published IFRIC 16 "Hedges of a Net Investment in a Foreign Operation". This interpretation provides guidance on possible hedges of a net investment in a foreign operation and on the accounting thereof in an entity's consolidated financial statements. Application of the clarifications is mandatory for financial years beginning on or after 1 October 2008. Hannover Re does not expect application of the interpretation to have any effect on the consolidated financial statement.

3. Accounting policies

3.1 Change in accounting policies

With effect from the second quarter of 2008 onwards Hannover Re made use of the option provided for in the currently valid version of IFRS 3 to recognise outside income changes in shares in fully consolidated group companies with no change of control status. In accordance with IAS 8 the figures for the previous year have been adjusted retrospectively for the sake of comparison. As at 31 December of the previous year this change resulted in a profit reduction of EUR 12.0 million, which was attributable to the changes in shares held in E+S Rück. A reclassification was made in the same amount within retained earnings in the Group shareholders' equity of the previous year. The amount was reclassified from the net income recognised in shareholders' equity to the item "Income and expense directly recognised in equity".

3.2 Summary of major accounting policies

Reinsurance contracts: in March 2004 the IASB published IFRS 4 "Insurance Contracts". The first standard governing the accounting of insurance contracts, it divides the "Insurance Contracts" project into two phases. IFRS 4 represents the outcome of Phase I and serves as a transitional arrangement until the IASB defines the measurement of insurance contracts after completion of Phase II. Underwriting business is to be subdivided into insurance or so-called "investment contracts". Contracts with a significant insurance risk are considered to be insurance contracts, while contracts without significant insurance risk are to be classified as investment contracts. The standard is also applicable to re-insurance contracts. IFRS 4 contains fundamental rules governing specific circumstances, such as the separation of embedded derivatives and unbundling of deposit components. In conformity with these basic rules of IFRS 4 and the IFRS Framework, Hannover Re is availing itself of the option of retaining the previously used accounting policies for underwriting items (US GAAP).

Financial assets: as a basic principle we recognise the purchase and sale of directly held financial assets including derivative financial instruments as at the settlement date.

Financial assets held to maturity are comprised of non-derivative assets that entail fixed or determinable payments on a defined due date and are acquired with the intent and ability to be held until maturity. They are measured at amortised cost. Payment of the corresponding premiums or discounts is spread across the duration of the instruments in the statement of income using the effective interest rate method. Depreciation is taken in the event of permanent impairment. Please refer to our comments on impairments in this section.

Loans and receivables are non-derivative financial instruments that entail fixed or determinable payments on a defined due date and are not listed on an active market or sold at short notice. They are carried at amortised cost; premiums or discounts are deducted or added within the statement of income using the effective interest rate method until the amount repayable becomes due. Depreciation is taken only to the extent that repayment of a loan is unlikely or no longer expected in the full amount. Please refer to our comments on impairments in this section.

Financial assets at fair value through profit or loss consist of securities held for trading and those classified as measured at fair value through profit or loss since acquisition. This refers principally to unsecured debt instruments issued by corporate issuers and derivative financial instruments. Within the scope of the fair value option provided under IAS 39, according to which financial assets may be carried at fair value on first-time recognition subject to certain conditions, all structured securities that would have needed to have been broken down had they been recognised as available for sale or under loans and receivables are also recognised here. Hannover Re makes use of the fair value option solely for selected subportfolios of its assets. In addition, derivative financial instruments that Hannover Re does not recognise as a valuation unit with underlying risks are recognised here. Securities held for trading and securities classified as measured at fair value through profit or loss since acquisition are carried at their fair value on the balance sheet date. If stock market prices are not available for use as fair values, the carrying values are determined using generally acknowledged measurement methods. All unrealised gains or losses from this valuation are recognised in net investment income. The classification of financial assets at fair value through profit or loss is compatible with Hannover Re's risk management strategy and investment strategy, which is oriented extensively towards economic fair value variables.

Establishment of the fair value of financial instruments carried as assets or liabilities: the fair value of a financial instrument corresponds 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, these prices are used. In other cases the fair values are established on the basis of the market conditions prevailing on the balance sheet date. These fair values are calculated using recognised models of mathematical finance. Hannover Re uses a number of different valuation models, the details of which are set out in the following table.

Valuation models

Financial instrument	Pricing method	Parameter	Pricing model
Listed equity options	Listed price	–	–
OTC equity options	Theoretical price	Listing of underlying shares Implicit volatilities Money-market interest rate Dividend yield	Black-Scholes
OTC equity index options	Theoretical price	Listing of underlying shares Implicit volatilities Money-market interest rate Dividend yield	Black-Scholes
Insurance derivatives	Theoretical price	Market values of the cat. bonds Interest-rate curve	Present-value method
Credit default swaps	Theoretical price	Credit spreads Recovery rates Interest-rate curve	Present-value method

Financial assets classified as available for sale are carried at fair value; accrued interest is recognised in this context. We allocate to this category those financial instruments that do not satisfy the criteria for classification as held to maturity, loans and receivables, at fair value through profit or loss, or trading. Unrealised gains and losses arising out of changes in the fair value of securities held as available for sale are recognised – with the exception of currency valuation differences on monetary items – directly in shareholder's equity after deduction of deferred taxes.

The fair value of fixed-income and variable-yield securities is determined primarily by means of prices fixed on publicly quoting markets or exchanges on the basis of "bid" prices. If such financial assets are not quoted on public markets, the fair value is calculated on the basis of the acknowledged effective interest rate method or estimated using other financial assets with similar credit rating, duration and return characteristics. Under the effective interest rate method the current market interest rate levels in the relevant fixed-interest-rate periods are always taken as a basis. The fair value of equities and equity-like financial assets is also calculated primarily on the basis of prices fixed on publicly quoting markets and exchanges.

Impairments: As at each balance sheet date we review our financial assets with an eye to objective, substantial indications of impairment. Permanent impairments on all fixed-income and variable-yield securities are recognised directly in the statement of income. In this context we take as a basis the same indicators as those discussed below for securities with the character of equity. Qualitative case-by-case analysis is also carried out. IAS 39.59 contains a list of objective, substantial indications for impairments of financial assets. In the case of fixed-income securities and loans reference is made, in particular, to the rating of the instrument, the rating of the issuer/borrower as well as the individual market assessment in order to establish whether they are impaired. When held-to-maturity instruments measured at amortised cost as well as loans and receivables are tested for impairment, we examine whether material items – looked at on their own – are impaired. The amount of the probable loss is arrived at from the difference between the book value of the asset and the present value of the expected future earnings flows. The book value is reduced directly by this amount and recognised as an expense. With the exception of value adjustments taken on accounts receivable, we recognize impairments directly on the assets side – without using an adjustment account – separately from the relevant items. If the reasons for the write-down cease to apply, a write-up is made in income up to at most the original amortised cost for fixed-income securities.

With respect to impairments on securities with the character of equity, IAS 39.61 (rev. 2003) states, in addition to the aforementioned principles, that a significant or prolonged decrease in fair value below acquisition cost constitutes objective evidence of impairment. Hannover Re considers securities to be impaired under IAS 39 if their fair value falls significantly, i.e. by at least 20%, or for a prolonged period, i.e. at least nine months, below acquisition cost. In accordance with IAS 39.69 the reversal of impairment losses on equities to the statement of income once impairment has been taken is prohibited, as is adjustment of the cost basis. Impairment is tested in each reporting period using the criteria defined by Hannover Re. If a security is considered to be impaired on the basis of these criteria, IAS 39.68 requires that a value adjustment be recognised in the amount of the fair value less historical cost and less prior value adjustments, meaning that depreciation is taken on the fair value as at the closing date – if available, on the publicly quoted stock exchange price.

Netting of financial instruments: financial assets and liabilities were only netted and recognised in the appropriate net amount where expressly permitted in law (reciprocity; similarity and maturity), in other words if the intention is to offset such items on a net basis and this offsetting can be effected simultaneously.

Other invested assets are for the most part recognised at nominal value. Insofar as such financial assets are not listed on public markets (e.g. participating interests in private equity firms), they are carried at the latest available "net asset value" as an approximation of the fair value.

Investments in associated companies are valued at equity on the basis of the proportionate shareholders' equity attributable to the Group. Under IAS 28.23, which requires the application of the equity method based on the investor's share of the results of operations of the investee, the goodwill apportionable to the associated companies must be recognised together with the investments in associated companies. The year-end result of an associated company relating to the Group's share is included in the net investment income and shown separately. As a general rule, the shareholders' equity and year-end result are taken from the associated company's latest available annual financial statement.

Real estate used by third parties (investment property) is valued at cost less scheduled depreciation and impairment. Straight-line depreciation is taken over the expected useful life – at most 50 years. Under the impairment test the market value of real estate for third-party use (recoverable amount) is determined using acknowledged valuation methods and compared with the carrying value; unscheduled depreciation is taken where necessary. Maintenance costs and repairs are expensed. Value-enhancing expenditures are capitalised if they extend the useful life.

Cash is carried at face value.

Funds held are receivables due to reinsurers from their clients in the amount of their contractually withheld cash deposits; they are recognised at acquisition cost (nominal amount). Appropriate allowance is made for credit risks.

Accounts receivable: the accounts receivable under reinsurance business and the other receivables are carried at nominal value; value adjustments are made where necessary on the basis of a case-by-case analysis. We use adjustment accounts for value adjustments taken on reinsurance accounts receivable, while all other write-downs are booked directly against the underlying position.

Deferred acquisition costs principally consist of commissions and other variable costs directly connected with the acquisition or renewal of existing reinsurance contracts. These acquisition costs are capitalised and amortised over the expected period of the underlying reinsurance contracts. Deferred acquisition costs are regularly tested for impairment.

Reinsurance recoverables on technical reserves: shares of our retrocessionaires in the technical reserves are calculated according to the contractual conditions on the basis of the gross technical reserves. Appropriate allowance is made for credit risks.

Intangible assets: in accordance with IFRS 3 "Business Combinations" scheduled depreciation is not taken on goodwill; instead, unscheduled depreciation is taken where necessary after an annual impairment test. For the purposes of the impairment test, goodwill is to be allocated pursuant to IAS 36 "Impairment of Assets" to so-called "cash generating units" (CGUs). Each CGU to which goodwill is allocated should represent the lowest level on which goodwill is monitored for internal management purposes and may not be larger than a primary or secondary segment. Following allocation of the goodwill it is necessary to determine for each CGU the recoverable amount, defined as the higher of the value in use and the fair value less costs to sell. The recoverable amount is to be compared with the book value of the CGU including goodwill. When the latter exceeds the recoverable amount, an impairment expense is to be recognised. The other intangible assets largely consist of purchased and self-developed software. This is recognised at acquisition cost less scheduled depreciation. The other intangible assets also contain – within the scope of corporate acquisitions – the expected present value of future profits (PVFP) at the time of acquisition of already existing life reinsurance portfolios; amortisation is taken according to the periods of the underlying acquired contracts. Intangible assets are regularly tested for impairment and unscheduled depreciation is taken where necessary.

Deferred tax assets: IAS 12 requires that assets-side deferred taxes be established if assets had to be recognised in a lower amount or liabilities in a higher amount in the consolidated balance sheet than in the tax balance sheet and if these differences will be cancelled out again for tax purposes in the future (so-called temporary differences). Deferred tax assets are also to be recognised on tax loss carry-forwards. Insofar as unrealised losses on securities are carried directly in shareholders' equity (cf. explanatory notes on financial assets held as available for sale), the resulting deferred tax assets are also recognised outside the statement of income. Valuation allowances are made for deferred tax assets as soon as realisation of the receivable no longer appears likely.

Other assets are accounted for at amortised cost.

Own-use real estate is measured in the same way as investment property.

Technical reserves: the technical reserves are shown for gross account in the balance sheet, i.e. before deduction of the share attributable to our reinsurers; cf. here the remarks concerning the corresponding assets. The reinsurers' portion is calculated and accounted for on the basis of the individual reinsurance contracts.

Loss and loss adjustment expense reserves are constituted for payment obligations from reinsurance losses that have occurred but have not yet been settled. They are subdivided into reserves for reinsurance losses reported by the balance sheet date and reserves for reinsurance losses that have already been incurred but not yet reported (IBNR) by the balance sheet date. The loss and loss adjustment expense reserves are based on estimates that may diverge from the actual amounts payable. In reinsurance business a considerable period of time may elapse between the occurrence of an insured loss, notification by the insurer and pro-rata payment of the loss by the reinsurer. For this reason the best estimate of the future settlement amount is carried. With the aid of actuarial methods, the estimate makes allowance for past experience and assumptions relating to the future development. With the exception of a few reserves, future payment obligations are not discounted.

Benefit reserves are comprised of the underwriting reserves for guaranteed claims of ceding companies in life and health reinsurance. Benefit reserves are determined using actuarial methods on the basis of the present value of future payments to cedants less the present value of premium still payable by cedants. The calculation includes assumptions relating to mortality, disability, lapse rates and the future interest rate development. The actuarial bases used in this context allow an adequate safety margin for the risks of change, error and random fluctuation. They correspond to those used in the premium calculation and are adjusted if the original safety margins no longer appear to be sufficient.

Unearned premium is premium that has already been collected but is allocated to future risk periods. In reinsurance business flat rates are sometimes used if the data required for calculation pro rata temporis is not available.

Deferred tax liabilities: in accordance with IAS 12 deferred tax liabilities must be accounted for if assets are to be recognised in a higher amount or liabilities in a lower amount in the consolidated balance sheet than in the tax balance

sheet and if these differences will be cancelled out again in the future for tax purposes (so-called temporary differences).

Long-term liabilities principally consist of subordinated debts that can only be satisfied after the claims of other creditors in the event of liquidation or bankruptcy. They are measured at amortised cost. Liabilities to holders of minority shares in partnerships arising out of long-term capital commitments are measured at the fair value of the redemption amount as at the balance sheet date.

Financial liabilities at fair value through profit or loss: Hannover Re does not make use of the fair value option provided by IAS 39 to classify financial liabilities in this category upon first-time recognition.

Shareholders' equity: the items "common shares" and "additional paid-in capital" are comprised of the amounts paid in by the parent company's shareholders on its shares. In addition to the statutory reserves of the parent company and the allocations from net income, the retained earnings consist of reinvested profits generated by the Hannover Re Group companies in previous periods. What is more, in the event of a retrospective change of accounting policies, the adjustment for previous periods is recognised in the opening balance sheet value of the retained earnings and comparable items of the earliest reported period. Unrealised gains and losses from the fair value measurement of financial instruments held as available for sale are carried in cumulative other comprehensive income under unrealised price gains/losses from investments. Translation differences resulting from the currency translation of separate financial statements of foreign subsidiaries are recognised under gains and losses from currency translation.

Minority interests are shares in the equity of affiliated companies not held by companies belonging to the Group. IAS 1 "Presentation of Financial Statements" requires that minority interests be recognised separately within Group shareholders' equity. The minority interest in profit or loss is shown separately as profit appropriation following the net income ("thereof" note). This item refers mainly to minority interests in E+S Rück and its subsidiaries.

Disclosures about financial instruments: IFRS 7 "Financial Instruments: Disclosures" requires more extensive disclosures according to classes of financial instruments. In this context, the term "class" refers to the classification of financial instruments according to their risk characteristics. A minimum distinction between measurement at amortised cost or at fair value through profit or loss is required here. A more extensive or divergent distinction should, however, be geared to the purpose of the corresponding disclosures in the notes. In contrast, the term "category" is used within the meaning of the measurement categories defined in IAS 39 (held to maturity, loans and receivables, available for sale and financial assets at fair value through profit or loss with the subcategories of trading and designated financial instruments). Essentially, the following classes of financial instruments were established:

- Fixed-income securities
- Equities, equity funds and other variable-yield securities
- Short-term investments
- Other invested assets
- Other financial assets – at fair value through profit or loss
- Funds held and contract deposits (assets)
- Accounts receivable
- Other receivables
- Funds held and contract deposits (liabilities)
- Other liabilities
- Long-term debt
- Subordinated debt
- Other long-term liabilities

This grouping into classes was not, however, solely determinative for the type and structure of each disclosure in the notes. Rather, guided by the underlying business model of reinsurance, the disclosures were made on the basis of the facts and circumstances existing in the financial year and in light of the principle of materiality.

3.3 Major discretionary decisions and estimates

In the consolidated financial statement it is to some extent necessary to make estimates and assumptions which affect the assets and liabilities shown in the balance sheet, the information on contingent claims and liabilities as at the balance sheet date and the disclosure of income and expenses during the reporting period. Key facts and circumstances subject to such assumptions and estimates include, for example, the recoverability of contingent reinsurance liabilities, the valuation of derivative financial instruments as well as assets and liabilities relating to employee benefits. The actual amounts may diverge from the estimated amounts.

In order to measure the "ultimate liability" the expected ultimate loss ratios are calculated in non-life business with the aid of actuarial methods such as the "chain ladder" method. The development until completion of the run-off is projected on the basis of statistical triangles from the original notifications of ceding companies. In this context it is generally assumed that the future rate of inflation of the loss run-off will be analogous to the average rate of the past inflation contained in the data. The more recent underwriting years in actuarial projections are of course subject to greater uncertainty, although this can be considerably reduced with the aid of a variety of additional information on improvements in the rates and conditions of the business written and on loss trends. The amounts arrived at as the difference between the ultimate losses and the reported losses are set aside as the IBNR reserve for losses that have been incurred but are not yet known or have still to be reported.

By analysing a broad range of observable information it is possible to classify losses as major individual loss events. Measurement of the obligations existing in this connection is carried out using a separate process, which is based largely on contract-specific estimates.

For further details, for example concerning the modelling of natural catastrophe scenarios and the assumptions relating to asbestos and pollution risks, the reader is referred to our comments in Section 6 "Management of technical and financial risks". We would further refer to our explanatory remarks on the technical reserves in Section 3.2 "Summary of major accounting policies" and Section 7.2 "Technical assets and liabilities".

In life business too the calculation of reserves and assets is crucially dependent on actuarial projections of the covered business. So-called model points are defined according to the type of business covered. The main distinguishing criteria are the age, sex and (non-)smoker status of the insured, tariff, policy period, period of premium payment and amount of insurance. The portfolio development is simulated for each model point, in which regard the key input parameters are either predefined by the tariff (e.g. allowance for costs, amount of premium, actuarial interest rate) or need to be estimated (e.g. mortality or disability rates, lapse rates). These assumptions are heavily dependent on country-specific parameters and on the sales channel, quality of the cedant's underwriting and claims handling, type of reinsurance and other framework conditions of the reinsurance treaty. The superimposition of numerous model points gives rise to a projection, which incorporates *inter alia* assumptions concerning the portfolio composition and the commencement of covered policies within the year. Such assumptions are estimated at the inception of a reinsurance treaty and subsequently adjusted to the actual projection.

The projections, which cover various model scenarios ("conservative assumptions" versus "best estimate"), constitute the starting point for numerous areas of application encompassing quotation, the determination of carrying values and embedded values as well as contract-specific analyses, e.g. regarding the appropriateness of the recognised reinsurance liabilities ("liability adequacy test"). In this context we would refer the reader to our comments on technical assets and reserves in Section 3.2 "Summary of major accounting policies" and on the "liability adequacy test" in Section 7.2 "Technical assets and liabilities".

In determining the carrying values for certain financial assets it is sometimes necessary to make assumptions in order to calculate fair values. In this regard we would refer the reader to our remarks in Section 3.2 "Summary of major accounting policies" concerning financial assets at fair value through profit or loss and securities held as available for sale. Assumptions concerning the appropriate applicability criteria are necessary when determining the need for impairments on non-monetary financial assets held as available for sale. In this regard we would again refer the reader to our explanatory remarks in Section 3.2 "Summary of major accounting policies".

4. Consolidated companies and consolidation principles

Hannover Rückversicherung AG is the parent company of the Group. The consolidated financial statement includes fourteen (fourteen) German and nineteen (nineteen) foreign companies, as well as three (three) foreign subgroups. Three (three) German and two (three) foreign associated companies were consolidated using the equity method.

In conformity with Item 7.1.4 of the recommendations of the German Corporate Governance Code as amended on 6 June 2008, the following table also lists major participations in unconsolidated third companies.

With regard to the major acquisitions and disposals in the year under review please see our remarks in Section 5 "Major acquisitions, new formations and other corporate changes".

The figures for the capital and capital reserves as well as the result for the last financial year are taken from the local financial statements drawn up by the companies.

Companies included in the consolidated financial statement

Name and registered office of the company (Figures in currency units of 1,000)	Participation in %	Capital and reserves		Result for the last financial year	
Affiliated companies resident in Germany					
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany ¹⁾²⁾	100.0	EUR	2,627,154	EUR	–
Hannover Life Re AG, Hannover/Germany ¹⁾²⁾³⁾	100.0	EUR	621,166	EUR	–
HILSP Komplementär GmbH, Hannover/Germany ¹⁾	100.0	EUR	25	EUR	(3)
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover/Germany ¹⁾	100.0	EUR	22,040	EUR	(443)
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover/Germany ⁴⁾	95.3	EUR	139,331	EUR	666
HAPEP II Holding GmbH, Hannover/Germany ⁴⁾	95.3	EUR	47,756	EUR	685
Hannover Re Euro PE Holdings GmbH & Co. KG, Cologne/Germany ⁴⁾⁵⁾	91.1	EUR	8,599	EUR	(40)
Hannover Re Euro RE Holdings GmbH, Cologne/Germany ⁴⁾	82.1	EUR	4,025	EUR	(37)
Hannover Euro Private Equity Partners III GmbH & Co. KG, Hannover/Germany ⁴⁾	67.3	EUR	49,991	EUR	7,002
HEPEP III Holding GmbH, Hannover/Germany ⁴⁾	67.3	EUR	8,229	EUR	1,369
E+S Rückversicherung AG, Hannover/Germany ¹⁾	64.2	EUR	542,281	EUR	52,000
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Hannover/Germany ⁴⁾	60.4	EUR	60,499	EUR	(1,839)
Hannover Euro Private Equity Partners II GmbH & Co. KG, Hannover/Germany ⁴⁾	57.8	EUR	9,597	EUR	5,177
HEPEP II Holding GmbH, Hannover/Germany ⁴⁾	57.8	EUR	7,604	EUR	5,028

Name and registered office of the company (Figures in currency units of 1,000)	Participation in %	Capital and reserves		Result for the last financial year	
Affiliated companies resident abroad					
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland ⁶⁾	100.0	EUR	–	EUR	–
Hannover Finance (Luxembourg) S.A., Luxembourg/Luxembourg ¹⁾	100.0	EUR	36,486	EUR	(13,181)
Hannover Finance (UK) Limited, Virginia Water/United Kingdom ¹⁾	100.0	GBP	131,119	GBP	(10)
Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda ¹⁾	100.0	EUR	131,355	EUR	9,214
Hannover Life Reassurance Company of America, Orlando/USA ¹⁾	100.0	USD	128,073	USD	(11,357)
Hannover Life Reassurance (Ireland) Ltd., Dublin/Ireland ¹⁾	100.0	EUR	291,689	EUR	(3,030)
Hannover Life Reassurance (UK) Ltd., Virginia Water/United Kingdom ¹⁾	100.0	GBP	43,958	GBP	(4,275)
Hannover Life Re of Australasia Ltd., Sydney/Australia ¹⁾	100.0	AUD	191,844	AUD	39,337
Hannover Re Advanced Solutions Ltd., Dublin/Ireland ⁶⁾	100.0	EUR	–	EUR	–
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda ¹⁾	100.0	EUR	930,790	EUR	86,339
Hannover Reinsurance (Dublin) Ltd., Dublin/Ireland ⁶⁾	100.0	EUR	31	EUR	–
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland ¹⁾	100.0	EUR	430,704	EUR	18,395
Hannover ReTakaful B.S.C. (c), Manama/Bahrain ¹⁾	100.0	BHD	20,138	BHD	515
Hannover Services (UK) Ltd., Virginia Water/United Kingdom ¹⁾	100.0	GBP	650	GBP	(99)
International Insurance Company of Hannover Ltd., Bracknell/United Kingdom ¹⁾	100.0	GBP	104,621	GBP	1,916
Secquaero ILS Fund Ltd., George Town, Grand Cayman/Cayman Islands ¹⁾⁷⁾	100.0	USD	50,214	USD	214
Hannover Finance, Inc., Wilmington/USA ¹⁾⁷⁾	100.0	USD	373,848	USD	(80,076)
Hannover Finance, Inc. compiles its own subgroup financial statement in which the following major company is included:					
Clarendon Insurance Group, Inc., Wilmington/USA ¹⁾⁷⁾	100.0	USD	67,518	USD	(103,399)
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa ¹⁾	100.0	ZAR	156,133	ZAR	33,712
Hannover Reinsurance Group Africa (Pty) Ltd. compiles its own subgroup financial statement in which the following major companies are included:					
Hannover Life Reassurance Africa Ltd., Johannesburg/South Africa ¹⁾	100.0	ZAR	169,724	ZAR	60,091
Hannover Reinsurance Africa Ltd., Johannesburg/South Africa ¹⁾	100.0	ZAR	686,963	ZAR	76,008

Name and registered office of the company (Figures in currency units of 1,000)	Participation in %	Capital and reserves		Result for the last financial year	
Hannover Re Real Estate Holdings, Inc., Orlando/USA ¹⁾	95.2	USD	138,741	USD	(11,498)
Hannover Re Real Estate Holdings, Inc. holds a subgroup in which the following major company is included:					
5115 Sedge Corporation, Chicago/USA ¹⁾	95.2	USD	2,078	USD	200
Penates A, Ltd., Tortola/British Virgin Islands¹⁾⁷⁾					
90.4	USD	105,984	USD	(2,315)	
Kaith Re Ltd., Hamilton/Bermuda¹⁾⁷⁾					
88.0	USD	296	USD	(479)	
Associated companies resident in Germany					
Oval Office Grundstücks GmbH, Hannover/Germany ¹⁾	50.0	EUR	58,198	EUR	1,398
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover/Germany ⁸⁾⁹⁾	32.8	EUR	73,544	EUR	11,638
HANNOVER Finanz GmbH, Hannover/Germany ⁸⁾	25.0	EUR	80,934	EUR	11,441
Associated companies resident abroad					
ITAS Vita S.p.A., Trent/Italy ⁸⁾	34.9	EUR	64,173	EUR	146
WPG CDA IV Liquidation Trust, Grand Cayman/Cayman Islands ¹⁰⁾¹¹⁾	27.3	USD	444	USD	(461)
Participations abroad					
Globe Re Ltd., Hamilton/Bermuda ¹²⁾	15.2	USD	34,729	USD	1,729

¹⁾ Provisional (unaudited) figures²⁾ Year-end result after profit transfer³⁾ Formerly Zweite Hannover Rück Beteiligung Verwaltungs-GmbH⁴⁾ Financial year as at 30 September 2008⁵⁾ Abbreviated financial year from 10 April - 30 September 2008⁶⁾ Company is inactive and does not compile an annual report⁷⁾ IFRS figures⁸⁾ Financial year as at 31 December 2007⁹⁾ Formerly WeHaCo Unternehmensbeteiligungs-AG¹⁰⁾ Company is in liquidation¹¹⁾ Figures as at 31 August 2006¹²⁾ Unaudited US GAAP figures, abbreviated financial year from 30 May - 30 September 2008

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.

Only subsidiaries of minor importance for the assets, financial position and net income of the Hannover Re Group are exempted from consolidation. For this reason thirteen service companies and representative offices abroad, the business object of which is primarily the rendering of services for reinsurance companies within the Group, were not consolidated in the year under review.

The capital consolidation is based on the revaluation method. In the context of the "purchase accounting" method the acquisition costs of the parent company are netted with the proportionate shareholders' equity of the subsidiary at the time when it is first included in the consolidated financial statement after the revaluation of all assets and liabilities. After recognition of all acquired intangible assets that in accordance with IFRS 3 "Business Combinations" are to be accounted for separately from goodwill, the difference between the revalued shareholders' equity of the subsidiary and

the purchase price is recognised as goodwill. Under IFRS 3 scheduled amortisation is not taken on goodwill. Instead, unscheduled amortisation is taken where necessary on the basis of annual impairment tests. Immaterial and negative goodwill are recognised in the statement of income in the year of their occurrence.

Minority interests in shareholders' equity are reported separately within Group shareholders' equity in accordance with IAS 1 "Presentation of Financial Statements". The minority interest in profit or loss, which forms part of net income and is shown separately after net income as a "thereof" note, amounted to -EUR 8.0 million (EUR 116.4 million) as at 31 December 2008.

Minority shares in partnerships are reported under long-term liabilities in accordance with the applicable version of IAS 32.

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

Debt consolidation

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

Consolidation of expenses and profit

The effects of business transactions within the Group were eliminated.

Consolidation of special purpose entities

Securitisation of reinsurance risks

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

Since November 2000 Hannover Re had held voting equity interests in an amount of 33.3% in the special purpose entity Mediterranean Re PLC for the securitisation of reinsurance risks in France and Monaco. The securitisation ended as per the contractual agreement on 18 November 2005. The bonds issued as security were repaid in full to investors. The additional paid-in capital was repaid to the partners. The special purpose entity was liquidated effective 5 February 2008.

Under a transaction designated "K5" Hannover Re uses the capital market to securitise reinsurance risks. The transaction was increased to USD 540.0 million in January 2008 and had a volume of EUR 386.3 million (EUR 360.2 million) as at the balance sheet date. The securitisation was placed with institutional investors in North America, Europe and Asia. The portfolio assembled for the securitisation consists of non-proportional reinsurance treaties in the natural catastrophe, aviation and marine lines, including offshore business. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is used for the transaction. The planned term of the transaction runs until 31 December 2008. In accordance with SIC 12 Kaith Re Ltd. is included in the consolidated financial statement.

In the previous year Hannover Re placed on the capital market a protection cover on its worldwide natural catastrophe business in an amount of USD 200.0 million with a term of two years. It provides Hannover Re with aggregate excess of loss coverage. The special purpose entity Kepler Re, a separate cell within Kaith Re Ltd., is used for the transaction. The volume as at the balance sheet date was EUR 143.1 million (EUR 135.9 million). The underlying portfolio consists of the natural catastrophe business retained under the existing "K5" securitisation. The cover attaches upon occurrence of an aggregated 83-year-event for "K5" and is fully utilised upon occurrence of a 250-year accumulation. Within this spread the outside investors in this and the "K5" transaction combined assume 90% of the "K5" losses, while the remaining 10% remain with Hannover Re. Hannover Re does not bear the majority of the economic benefits or risks arising out of this company's activities through any of its business relations with the special purpose entity.

In the previous year the Hannover Re Group also transferred risks from reinsurance recoverables to the capital market. By way of this securitisation in a nominal amount of EUR 95.0 million, which has a term of five years, Hannover Re reduces the default risk associated with reinsurance recoverables. The portfolio of recoverables underlying the transaction has a nominal value of EUR 1.0 billion and is comprised of exposures to retrocessionaires. The securities serving as collateral are issued through the special purpose entity Merlin CDO I B.V. A payment to Hannover Re is triggered by the insolvency of one or more retrocessionaires as soon as Hannover Re's contractually defined cumulative deductible of EUR 60.0 million over the term of the contract is exceeded. In the months of May and November 2008 Hannover Re purchased securitisations issued by Merlin with a nominal value of altogether EUR 10.5 million on the secondary market, which it holds in its asset portfolio. Hannover Re does not derive the majority of the economic benefits or risks arising out of the special purpose entity's activities through any of its business relations.

In June 2008 Hannover Re completed the first transaction as part of its extended Insurance-Linked Securities (ILS) activities. Property catastrophe risks of a number of US cedants were pooled and transferred to the capital market in several tranches. A special purpose entity named Globe Re was established in Bermuda for this transaction; it is capitalised at USD 133.0 million. Globe Re is funded through the issue of an equity tranche of USD 33.0 million and a further USD 100.0 million in bonds split into various rating categories. The term of the transaction is one year. Hannover Re has a stake of USD 5.0 million – or 15.2% – in the equity tranche. Hannover Re does not exercise a controlling influence over the special purpose entity through any of its business relations. Pursuant to IAS 28 "Investments in Associates" Globe Re is to be carried as an investment at cost or amortised cost and is recognised under other invested assets.

As a means of transferring peak exposures deriving from natural disasters to the capital market, Hannover Re issued a catastrophe ("CAT") bond that can be traded on a secondary market. The CAT bond, which has a volume of USD 150.0 million and a term of 3 years, was placed with institutional investors from Europe and North America by Eurus Ltd., a special purpose entity domiciled in the Cayman Islands. In the third quarter of 2008 Hannover Insurance-Linked Securities GmbH & Co. KG purchased catastrophe bonds issued by Eurus Ltd. with a nominal value of altogether EUR 6.0 million on the secondary market, which it holds in its asset portfolio. Hannover Re does not exercise a controlling influence over the special purpose entity through any of its business relations.

Investments

Within the scope of asset management activities Hannover Re has participated in numerous special purpose entities since 1988, 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 Re (Bermuda) Ltd. and Hannover Insurance-Linked Securities GmbH & Co. KG – in a number of special purpose entities for the securitisation of catastrophe risks by taking up certain capital market securities known as "disaster bonds" (or "CAT bonds"). Since Hannover Re does not exercise a controlling influence in any of these transactions either there is no consolidation requirement.

5. Major acquisitions, new formations and other corporate changes

5.1 Acquisitions and new formations

On 9 April 2008 the Cologne-based Hannover Re Euro PE Holdings GmbH & Co. KG commenced business operations. Hannover Re and E+S Rück hold interests of 75% and 25% respectively in the company. Payment of the limited partner's share in an amount of altogether EUR 4.5 million was made in the second quarter. The company's business object is to build, hold and manage a portfolio of assets.

On 19 May 2008 the Shanghai-based Hannover Rückversicherung AG Shanghai Branch commenced business operations as a permanent establishment of Hannover Re. The business object of the branch is the writing of life and health reinsurance business.

On 23 May 2008 the Seoul-based Hannover Rückversicherung AG Korea Branch commenced business operations as a permanent establishment of Hannover Re. The business object of the branch is the writing of life and health reinsurance business.

Effective 29 May 2008 Hannover Re participated as the first investor in Secquaero ILS Fund Ltd., which is domiciled in the Cayman Islands. The fund in question is a so-called "Seed Money Fund", the business object of which is to underwrite, hold and sell insurance-linked securitisations. As at the balance sheet date Hannover Re had invested altogether USD 50 million in this fund by way of several tranches. Hannover Re will consolidate this fund until such time as other investors hold the majority stake in the fund.

In the context of the sale of the interest held by Hannover Re in ITAS Assicurazioni S.p.A., a portion of the purchase price was paid by the purchaser in the form of shares in E+S Rück. The stake of 1.41% in the common shares of E+S Rück received in this way was transferred to Hannover Rück Beteiligung Verwaltungs-GmbH (HRBV) on 30 December 2008 by way of a capital increase for a non-cash contribution. Upon closing of the transaction HRBV held 64.19% of the shares in E+S Rück. Please see our explanatory remarks in Section 5.2 "Disposals and discontinued operations".

5.2 Disposals and discontinued operations

Effective 3 March 2008 HRBV, which is wholly owned by Hannover Re, reached agreement with a third party outside the Group on the sale of 1% of its stake in E+S Rück – by way of a share reduction without a change of control status – in order to intensify the business relations. In the capital consolidation as at the balance sheet date this transaction was recognised directly in equity. Please see our explanatory remarks in Section 3.1 "Change in accounting policies".

Effective 30 December 2008 Hannover Re sold its interest of 43.7% in ITAS Assicurazioni S.p.A. at book value. The proceeds from the sale totalled altogether EUR 26.4 million and were rendered in the form of a cash component amounting to EUR 7.4 million and a transfer of E+S Rück shares held by the purchaser worth EUR 19.0 million. Hannover Re transferred these shares to HRBV by way of a capital increase for a non-cash contribution. Please see our explanatory remarks in Section 5.1 "Acquisitions and new formations".

After Hannover Re had already paid out the paid-in capital of WRH Offshore High Yield Partners L.P. in the 2007 financial year and during the third quarter of 2008 by way of two distribution resolutions, the company's application for cancellation was filed on 17 December 2008. Deconsolidation of the company gave rise to a loss of altogether EUR 13.6 million, of which EUR 12.1 million was attributable to Hannover Re.

In the 2006 financial year Hannover Re reached agreement on the sale of its American subgroup Praetorian Financial Group, Inc., New York (PFG), to an Australian insurance group. Effective 31 May 2007 beneficial ownership of the assets and liabilities belonging to the subgroup classified in the previous periods as discontinued operations was transferred. They were therefore no longer recognised as at the balance sheet date. In compliance with IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations", we recognise the profit or loss of PFG in the consolidated statement of income for the previous period after tax in a separate line.

The profit or loss and net cash flows of the discontinued operations for the comparative period of the previous year are presented in the following tables and broken down into their major components.

Major items in the statement of income of the discontinued operations

Figures in EUR thousand	2008	2007
Gross written premium	–	287,114
Ceded written premium	–	318,152
Net change in gross unearned premium	–	178,494
Net premium earned	–	147,456
Net investment income	–	20,444
Net underwriting result	–	11,430
Other income and expenses	–	(7,075)
Operating profit/loss (EBIT)	–	24,799
Interest on hybrid capital	–	2,283
Net income before taxes	–	22,516
Taxes	–	11,048
Acquirer's share of current income from discontinued operations	–	12,833
Group share of current income from discontinued operations	–	11,468
Income/loss from deconsolidation (after taxes)	–	23,617
Net income	–	35,085

Statement of cash flows from the discontinued operations

Figures in EUR thousand	2008	2007
Cash flow from operating activities	–	172,834
Cash flow from investing activities	–	(18,125)
Change in cash and cash equivalents	–	154,709

5.3 Further corporate changes

Effective 1 January 2008 Hannover Rückversicherung AG, Bahrain Branch, which had received a corresponding licence in June 2007 from the Central Bank of Bahrain (CBB), commenced business operations alongside the already existing subsidiary Hannover ReTakaful B.S.C. (c), which had been established in 2006.

Effective 1 January 2008 the company name of Hannover Rückversicherung AG Succursale Française pour la Réassurance Vie, a branch of Hannover Re, was changed to Hannover Rückversicherung AG Succursale Française and the object of its business was expanded to include non-life reinsurance activities for the markets of France, Belgium and Luxembourg. The service company Hannover Re Gestion de Réassurance France S.A. was also merged into the new composite branch with effect from the same date.

Effective 1 January 2008 Hannover Re and E+S Rück, which were equal partners in GbR Hannover Rückversicherung AG/E+S Rückversicherung AG-Grundstücksgesellschaft (GbR), liquidated the company. The partnership assets of GbR were divided equally between the former partners by way of de facto splitting. The transaction had no implications for the consolidated financial statement as at 31 December 2008.

With effect from 10 January 2008 the majority interest in Hannover Re has been held in an unchanged amount (50.22%) exclusively by Talanx AG, into which both HDI Verwaltungs-Service GmbH and Zweite HDI Beteiligungs-gesellschaft mbH were merged with legal force on the same date.

In the previous year Hannover Re acquired the 50% stake held by E+S Rück in Hannover Life Re of Australasia Ltd., Sydney, and thus held all shares in the company; full allowance was made for transaction costs. All intercompany profits arising out of this transaction were eliminated. Effective 31 March 2008 Hannover Re transferred its shares in the company at book value by way of a capital increase for a non-cash contribution to the former Zweite Hannover Rück Beteiligung Verwaltungs-GmbH, all shares of which were held by Hannover Re. Effective 1 July 2008 Zweite Hannover Rück Beteiligung Verwaltungs-GmbH was converted to Hannover Life Re AG, the registered office of which is in Hanover. The change in corporate form came into effect upon entry in the commercial register on 7 August 2008.

6. Management of technical and financial risks

6.1 Quantitative risk management using the internal capital model

Hannover Re's risk management makes use of appropriate quantitative simulation models. The purpose of risk quantification – using the internal capital model – is *inter alia* to calculate the risk capital and determine the diversification effect. We also use the model to perform scenario analyses.

In determining our capital requirement we proceed on the assumption that an AA rating is equivalent to a default probability of 0.03%. The breakdown of the risk capital is as follows:

Internal capital model¹⁾

Figures in EUR million	2008	2007
Risk		
Technical risk in non-life reinsurance	3,559.2	3,593.8
Technical risk in life and health reinsurance	663.2	662.5
Investment risk	1,730.4	1,709.7
Diversification effect	2,415.8	2,356.8
Hannover Re Group	3,537.1	3,609.2

¹⁾ for the 99.97% VaR

As part of our holistic approach to risk management across all business groups, we take into account numerous relevant scenarios. In addition, we analyse extreme scenarios, determine their effect on key balance sheet variables and performance indicators, evaluate them in relation to the planned figures and identify alternative courses of action.

Market scenarios

Figures in EUR million	Effect on forecast shareholders' equity	
	2008	2007
Rise in the overall interest rate curve, from 200 basis points for the three-month interest rate to 100 basis points for the 10-year interest rate (with a linear interpolation between the two)	(480.3)	(485.8)
Parallel upward shift in the overall interest rate curve by 100 basis points	(423.7)	(401.3)
Decline of 35% in equities	(6.0)	(584.8)
European currency crisis (1992) ¹⁾	(295.2)	(262.3)
Property crash associated with interest rate rise ¹⁾	(492.7)	(401.3)
Stock market crash (2000/2001) ¹⁾	4.1	(697.4)

¹⁾ Stress associated with the risk factors for these scenarios as specified by the Swiss Solvency Test

Stress tests for natural catastrophes after retrocessions

Figures in EUR million	Effect on forecast net income	
	2008	2007
100-year loss California earthquake	(260.2)	(222.9)
100-year loss European windstorm	(203.3)	(109.8)
100-year loss US windstorm	(279.4)	(291.5)
100-year loss Japanese windstorm	(97.7)	(95.1)
100-year loss Tokyo earthquake	(217.6)	(243.2)

6.2 Technical risks in non-life reinsurance

The underreserving of claims constitutes a significant technical risk. Loss reserves are determined using actuarial methods, primarily based on information provided by our cedants, and supplemented as necessary by additional reserves established on the basis of our own loss assessments. Especially in liability business, reserves are also set aside for claims that have been incurred but not yet reported (IBNR) owing to the long run-off periods for such claims. The additional IBNR reserve established by the Hannover Re Group amounted to EUR 3,236.2 million in the year under review. The IBNR reserve is calculated on a differentiated basis according to risk categories and regions. All in all, the anticipated ultimate loss ratios are calculated in 76 subsegments. The correct measurement of loss reserves for asbestos- and pollution-related claims is a highly complex matter since decades may elapse between causation of the loss and reporting of the claim. Hannover Re's exposure to asbestos-related claims and pollution damage is comparatively slight. The adequacy of these reserves is normally measured using the so-called "survival ratio". This ratio expresses how many years the reserves would cover if the average level of paid claims over the past three years were to continue. At the end of the year under review our survival ratio stood at 25.0 years.

Reserves for asbestos-related claims and pollution damage

	2008			2007		
	Individual loss reserves in EUR million	IBNR reserves in EUR million	Survival ratio in years	Individual loss reserves in EUR million	IBNR reserves in EUR million	Survival ratio in years
Asbestos-related claims/ pollution damage	23.0	127.2	25.0	26.5	119.2	26.2

Run-off triangles are another tool used to verify our assumptions. Such triangles show the changes over time in the reserves as a consequence of paid claims and in the recalculation of the reserves that are to be established as at each balance sheet date. Adequacy is monitored using actuarial methods (cf. here our explanatory remarks on technical reserves in Section 7.2 "Technical assets and liabilities").

The following catastrophe losses and major claims were of relevance to our company in the financial year:

Catastrophe losses and major claims

Figures in EUR million	Catastrophe losses and major claims in 2008	
	Gross	Net
Snow- and ice-storm in China, 10 January – 15 February	16.2	16.2
Flooding in Queensland/Australia, 16 – 20 January	7.1	2.3
Flooding in Queensland/Australia, 12 – 16 February	6.4	2.2
Winter storm "Emma", 1 – 2 March	17.8	13.3
Earthquake in China, 12 May	8.4	8.3
Hail in southern Germany ("Hilal"), 28 May – 3 June	55.7	55.2
Flooding in the US, 28 May – 20 June	10.0	7.2
Hailstorms in southern Germany, 22 – 23 June	12.2	12.0
Hailstorms in Slovenia, 15 August	5.4	5.4
Hurricane "Gustav", 29 August – 2 September	24.9	18.1
Hurricane "Ike", 4 – 12 September	392.8	222.1
	556.9	362.3
Industrial fire claim in the US, 5 – 6 January	8.1	8.1
Shipping accident in Brazil, 30 January	12.1	4.7
Industrial fire claim in the US, 18 February	10.7	10.7
Industrial fire claim in South Africa, 25 February	5.3	1.0
Industrial fire claim in Korea, 3 March	5.1	5.1
Industrial fire claim in Brazil, 6 March	7.5	3.6
Fraud claim in Japan, 12 March	6.6	6.6
Satellite failure, 15 March	5.2	5.2
Industrial fire claim in the US, 1 June	5.5	5.5
Energy claim in Australia, 3 June	13.2	10.3
Aviation claim in Spain, 20 August	9.6	8.7
Industrial fire claim in France/UK, 11 September	6.3	6.3
Industrial fire claim in Germany, 12 September	8.9	8.9
Industrial fire claim in Italy, 13 October	10.8	10.8
	114.9	95.5
Total	671.8	457.8

The combined ratio is tracked over time in non-life reinsurance in order to monitor the risk of losses exceeding premiums:

Combined and catastrophe loss ratio over the past ten years

Figures in %	2008 ²⁾	2007 ²⁾	2006 ²⁾	2005	2004	2003 ¹⁾	2002 ¹⁾	2001 ¹⁾	2000 ¹⁾	1999 ¹⁾
Combined ratio (non-life reinsurance)	95.4	99.7	100.8	112.8	97.2	96.0	96.3	116.5	107.8	111.1
Thereof catastrophe losses ³⁾	10.7	6.3	2.3	26.3	8.3	1.5	5.2	23.0	3.7	11.4

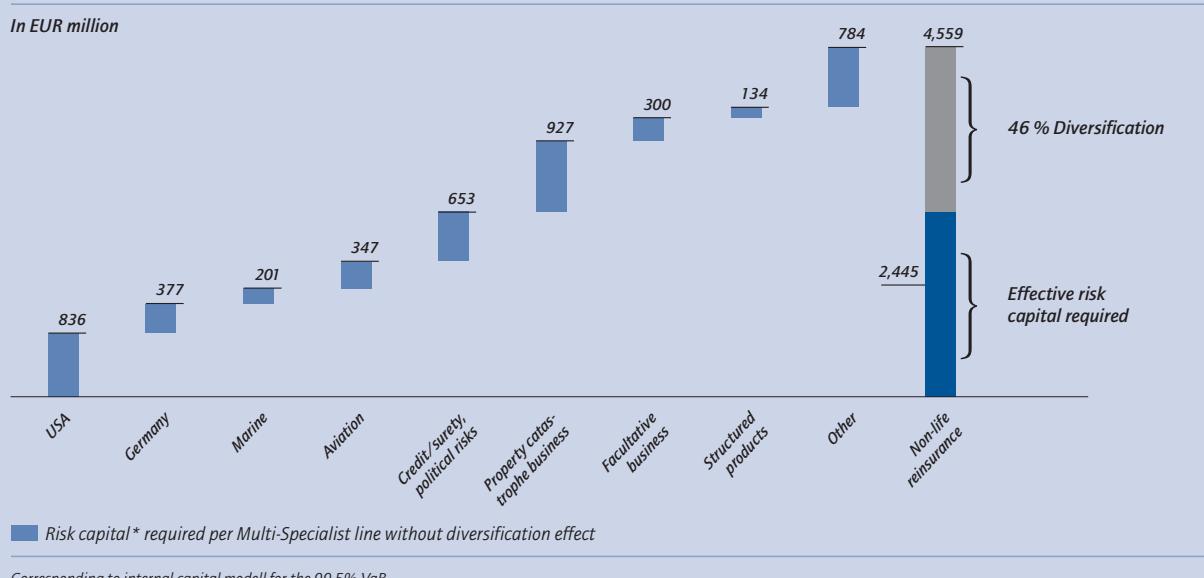
¹⁾ Based on figures reported in accordance with US GAAP

²⁾ Figures from 2006 onwards in accordance with new segmentation

³⁾ Natural catastrophes and other man-made major losses > EUR 5 million gross for the share of the Hannover Re Group as a percentage of net premium earned

As part of a holistic analysis of technical risks, the risk deriving from the accepted new business is considered in addition to the reserving risk. The risk capital for the premium and reserving risk per line of business is set out in the chart below. Risk spreading across lines of business is referred to as diversification. In this way we are able to enhance the efficiency of the allocated capital while at the same time reducing the required equity resources. Depending upon the capital required by our business segments and lines and their contribution to diversification, we define the cost of capital to be generated for each business unit.

Diversification effect within the non-life reinsurance business group



Within the scope of accumulation control for natural catastrophe risks, the Executive Board defines the appetite for assuming natural hazards risks on the basis of the risk strategy derived from the overall corporate strategy. This specification of the risk appetite takes place once a year and thus constitutes a crucial basis for our underwriting approach in this segment.

For the purpose of risk limitation, maximum underwriting limits (capacities) are stipulated for various extreme loss scenarios and return periods in light of profitability criteria. Adherence to these limits is constantly monitored by Group Risk Management. The Risk Committee, Executive Board and the body responsible for managing non-life reinsurance are regularly updated on the extent to which these capacities are utilised. The limits for the 100- and 250-year aggregate annual loss as well as the utilisation thereof were as follows:

Natural catastrophes and annual aggregate loss

Figures in EUR million	Limit 2008	Actual utilisation (July 2008)
All natural catastrophe risks, net exposure		
100-year aggregate annual loss	864	93%
250-year aggregate annual loss	1.123	91%

Furthermore, we establish the portfolio risk for various scenarios (e.g. hurricanes in the US, windstorms in Europe, earthquakes in the US) in the form of probability distributions. The range of tools used for accumulation control is supplemented by the progressive inclusion of realistic extreme loss scenarios.

6.3 Technical and financial risks in life and health reinsurance

A key tool of our risk management in the area of life and health reinsurance is the European Embedded Value (EEV). The EEV is a ratio used to evaluate life insurance and reinsurance business. It is comprised of the value of in-force business and the corresponding capital. The value of in-force business is determined as the present value of the future shareholders' earnings from worldwide life and health reinsurance business after appropriate allowance for all risks underlying this business. Since the 2006 financial year the EEV has been calculated on a basis that is consistent with the market. Going forward, the Market Consistent Embedded Value (MCEV) will be determined on the basis of the principles published by the CFO Forum in June 2008. The MCEV will be published on our website at the same time as the quarterly financial report on the first quarter of 2009.

Based on the latest available data published on 6 May 2008, the following table shows the EEV and its sensitivity to selected scenarios in comparison with the corresponding figures for the previous year.

Sensitivity analysis of the European Embedded Value (EEV)¹⁾

Figures in EUR million	2007	2006	EEV ²⁾
EEV (base value)	2,483.9	2,089.5	
Interest rate curve -100 basis points	-0.8%	+0.8%	
Fair value of equities and real estate -10%	+0.0%	-0.1%	
Value of local currencies +5% ³⁾	-0.7%	-0.9%	
Costs -10%	+0.8%	+0.8%	
Lapse -10%	+0.4%	-0.8%	
Mortality -5%	+7.8%	+10.9%	

¹⁾ More extensive information is provided in the EEV reports for 2006 and 2007 published on our website. The presentation is based on the principles for publication of the EEV which were published for the first time in May 2004 and subsequently further expanded in September 2005 by the CFO Forum, an international organisation of Chief Financial Officers from major insurance and reinsurance enterprises

²⁾ Before consolidation, without minority interests

³⁾ For contracts in foreign currencies

The moderate change in the EEV under the scenarios set out above is in line with our expectation and reflects our portfolio's high degree of diversification. The consolidated EEV before minority interests amounted to EUR 1,715.1 million (EUR 1,527.6 million) as at 31 December 2007, an increase of 12.3% (16.3%) compared to the corresponding figure for the previous year. Regarding the change relative to the previous year, please see our publication "European Embedded Value Report 2007". The operating embedded value earnings totalled EUR 280.0 million (EUR 185.6 million), while the value of new business stood at EUR 106.4 million (EUR 64.2 million). Leaving aside non-recurring special effects, the development relative to the previous year's figures was in line with our expectations.

6.4 Market risks

The overriding principle guiding our investment strategy is capital preservation while giving adequate consideration to the security, liquidity, mix and spread of the assets. Risks in the investment sector consist primarily of market, credit, spread and liquidity risks. The most significant market price risks are share price, interest rate and currency risks.

The "value at risk" (VaR) is a vital tool used for monitoring and managing market price risks. The VaR is determined on the basis of historical data, e.g. for the volatility of the fair values and the correlation between risks. As part of these calculations a decline in the fair value of our portfolio is simulated with a given probability and within a certain period. The VaR of the Hannover Re Group determined in accordance with these principles specifies the decrease in the fair value of our total portfolio that with a probability of 95% will not be exceeded within ten trading days.

The VaR is calculated using a multi-factor model designed by APT (Advanced Portfolio Technologies). The data basis consists of all asset classes of the investment portfolios. The APT model distinguishes between three different perspectives on the expected volatility:

- Total risk: annualised volatility (expected volatility of the portfolio)
- Systematic risk: expected volatility (can be explained by model factors)
- Specific risk: residual (cannot be explained by model factors)

The model takes into account the following market risk factors:

- Interest rate risk
- Credit spread risk
- Systematic equity risk
- Specific equity risk
- Commodity risk
- Option-specific risk

Time series of selected representative market parameters (equity prices, yield curves, spread curves, exchange rates, commodity prices and macro-economic variables) serve as the database for the APT model. All correlations between these time series are reduced to up to 25 main components, which for their part are by definition linearly independent. All asset positions can be mapped in this multidimensional space. Inexplicable volatilities of individual securities make up the residual, from which the specific risk of the security is derived.

Normal market scenarios are used to calculate the Value at Risk. In addition, stress tests are conducted in order to be able to map extreme scenarios as well. In this context, the loss potentials are simulated on the basis of already occurred or notional extreme events.

Value at Risk¹⁾ in the Hannover Re Group



¹⁾ VaR upper limit according to Hannover Re's investment guidelines: 2.5%

In order to monitor interest rate risks and share price risks we also use stress tests that estimate the loss potential under extreme market conditions as well as sensitivity and duration analyses that complement our range of risk management tools. Interest rate risks refer to an unfavourable change in the value of financial assets held in the portfolio due to changes in the market interest rate level. Declining market yields lead to increases and rising market yields to decreases in the fair value of fixed-income securities portfolios. One of the central objectives of our strategy in this regard is to match cash flows on the assets and liabilities sides as closely as possible. Quantitative support for this strategy is provided by Hannover Re's internal capital model as well as a broad diversity of value at risk calculations. In addition, tightly defined tactical duration ranges are in place, within which asset managers can position themselves opportunistically according to their market expectations. The parameters for these ranges are directly linked to our risk-carrying capacity.

Scenarios for changes in the fair value of our securities

2008	Scenario	Portfolio change based on fair value in EUR million
Fixed-income securities	Yield increase +50 basis points	(345.8)
	Yield increase +100 basis points	(683.5)
	Yield decrease -50 basis points	355.9
	Yield decrease -100 basis points	720.1
	Fair value as at 31.12.2008	18,056.2

Share price risks derive from unfavourable changes in the value of equities and equity or index derivatives due, for example, to downward movements on particular stock indices. We spread these risks through systematic diversification across various sectors and regions.

Scenarios for changes in the fair value of our securities

2008	Scenario	Portfolio change based on fair value in EUR million
Equity securities	Share prices +10%	2.3
	Share prices +20%	4.5
	Share prices -10%	(2.3)
	Share prices -20%	(4.5)
	Fair value as at 31.12.2008	22.6

Currency risks are of considerable importance to an internationally operating reinsurance enterprise that writes a significant proportion of its business in foreign currencies. These risks are, however, largely neutralised since we systematically adhere to the principle of matching currency coverage.

Further information on the risk concentrations of our investments can be obtained from the tables on the rating structure of fixed-income securities as well as on the currencies in which investments are held. Please see our comments in Section 7.1 "Investments including income and expenses".

We use short-call and long-put options as well as swaps to partially hedge portfolios, especially against price, exchange and interest rate risks. In the year under review we also used derivative financial instruments to optimise our portfolio in light of risk/return considerations. The contracts are concluded solely with first-class counterparties and compliance with the standards defined in the investment guidelines is strictly controlled in order to avoid risks – especially credit risks – associated with the use of such transactions.

As a consequence of the crisis on international financial markets we took a number of further risk-minimising measures in the second half of the year under review. In this regard please see our explanatory remarks on market risks in the risk report on page 66 et seq.

6.5 Credit risks

Bad debt risks in reinsurance are of relevance to our company because the business that we accept is not always fully retained, but instead portions are retroceded as necessary. Our retrocession partners are therefore carefully selected in light of credit considerations. This is also true of our broker relationships, under which risks may occur *inter alia* through the loss of the premium paid by the cedant to the broker or through double payments of claims. The associated risks are therefore minimised with the aid of a number of mechanisms. For example, all broker relationships are reviewed once a year with an eye to criteria such as the existence of professional indemnity insurance, payment performance and proper contract implementation.

Hannover Re counters the risk of default on reinsurance recoverables by carefully selecting its partners with the aid of an expertly staffed Security Committee. The Security Committee continuously monitors the credit status of retrocessionaires and approves measures where necessary to secure receivables. The Group Protections unit is responsible for the Hanover Re Group's ongoing cession management. This process is supported by our "Cession Limits" Web-based risk management application. This assists with the Group's cession management by specifying cession limits for the individual retrocessionaires participating in protection cover programmes and determining 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 account not only of the minimum ratings of the rating agencies Standard & Poor's (S&P) and A. M. Best but also internal and external (e.g. market information from brokers) expert assessments.

The key ratios for management of our bad debt risk are as follows:

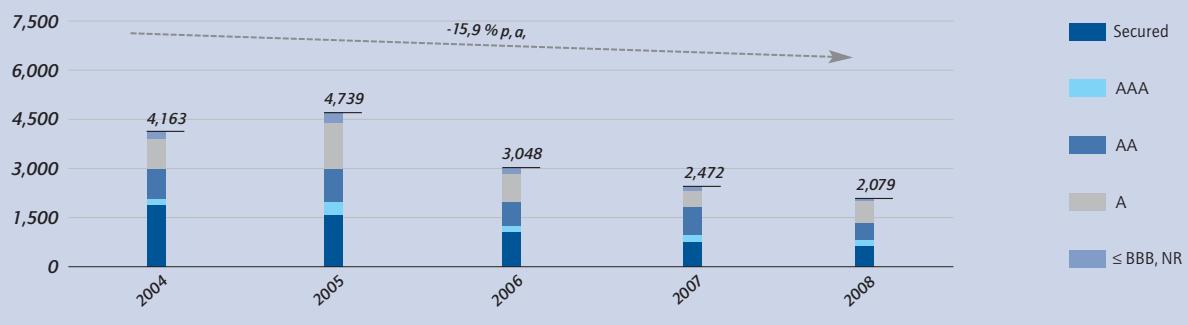
- 95.5% of our retrocessionaires have an investment grade rating (AAA to BBB), and 95.3% thereof are rated "A" or better.
- Since 2004 we have reduced the level of recoverables by altogether 50.0%.
- 30.3% of our recoverables from reinsurance business are secured by deposits or letters of credit. What is more, for the majority of our retrocessionaires we also function as reinsurer, meaning that in principle recoverables can potentially be set off against our own liabilities.
- In terms of the Hannover Re Group's major companies, EUR 290.3 million (10.4%) of our accounts receivable from reinsurance business totalling EUR 2,801.8 million were older than 90 days as at the balance sheet date.
- The average default rate over the past three years was 0.3%.

Retrocession, that is to say the passing on of portions of our assumed risks, gives rise to claims that we hold against our retrocessionaires. These reinsurance recoverables – i.e. the reinsurance recoverables on unpaid claims – amounted to EUR 2,079.2 million (EUR 2,471.6 million) as at the balance sheet date.

The following chart shows the development of reinsurance recoverables on unpaid claims:

Reinsurance recoverables as at the balance sheet date

Figures in EUR million



The chart shows the high quality of security backing our reinsurance recoverables. It also provides insight into the ratings of our retrocessionaires.

The retention, i.e. the portion of assumed risks that we do not retrocede, developed as follows in recent years:

Retention as a percentage of gross written premium

in %	2008	2007	2006	2005 ¹⁾	2004 ¹⁾
Hannover Re Group	89.1	87.4	76.3	79.2	77.6
Non-life reinsurance	88.9	85.3	72.4	85.9	83.0
Life and health reinsurance	89.3	90.8	85.4	92.8	90.2

¹⁾ Figures for 2004 – 2005 before new segmentation

The ratios shown below constitute further key tools for the monitoring and management of the credit risks associated with our entire business operations.

Key ratios

	2008	2007	2006	2005	2004
Solvency margin ¹⁾	66.7%	72.6%	68.8%	61.1%	55.1%
Debt leverage ²⁾	41.3%	35.0%	39.1%	45.8%	36.5%
Interest coverage ³⁾	1.9x	12.0x	10.5x	1.2x	8.0x
Reserves/premium ⁴⁾	312.4%	291.3%	305.2%	304.8%	274.0%
Combined ratio (non-life reinsurance)	95.4%	99.7%	100.8%	112.8%	97.2%

¹⁾ (Shareholders' equity + minority interests + hybrid capital) / net written premium

²⁾ Hybrid capital / (shareholders' equity + minority interests)

³⁾ EBIT / interest on hybrid capital

⁴⁾ Net reserves / net premium earned (Group)

For further remarks on technical and other assets which are unadjusted but considered overdue as at the balance sheet date as well as on significant unscheduled depreciation taken in the year under review please see Section 7.2 "Technical assets and liabilities" and Section 7.12 "Other assets and liabilities".

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

Rating structure of our fixed-income securities¹⁾

	Government bonds		Securities issued by semi-governmental entities		Corporate bonds		Asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	91.0	5,105.8	59.9	2,763.8	5.1	239.4	78.6	2,367.7
AA	2.3	130.0	34.1	1,572.3	20.2	939.3	13.7	414.1
A	4.3	241.3	5.1	237.4	54.9	2,553.1	1.8	54.1
BBB	2.2	123.6	0.7	30.5	14.4	668.4	2.4	71.5
< BBB	0.2	12.3	0.2	10.2	5.4	252.5	3.5	106.1
Total	100.0	5,613.0	100.0	4,614.2	100.0	4,652.7	100.0	3,013.5

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

On a fair value basis EUR 2,482.9 million of the corporate bonds held by our company were issued by entities in the financial sector. Of this amount, EUR 1,749.5 million was attributable to banks. The vast majority of these bank bonds (almost 90%) were rated "A" or better.

Against the backdrop of the US real estate crisis and credit crunch, it should be noted that our investment portfolio does not contain any directly written credit derivatives. We did not write any off-balance sheet risks through structured transactions with special purpose entities. Of our total portfolio of asset-backed securities, more than 88% were attributable to mortgage bonds, municipal bonds and collateralised debt obligations as at the balance sheet date, 5% were comprised of commercial mortgage-backed securities and 4% consisted of residential mortgage-backed securities.

The latter items, which also encompass lower-quality mortgage loans, had a fair value of altogether EUR 31.0 million as at the balance sheet date; the underlyings for these securities were in part subprime assets. The write-downs taken on this portfolio amounted to EUR 15.7 million. Similarly, the value adjustments prompted by insolvencies at financial institutions remained within comparatively modest bounds. The failures of Lehman Brothers, Washington Mutual and Bradford & Bingley caused write-downs of EUR 28.1 million. Of this amount, EUR 25.6 million was apportionable to fixed-income securities and EUR 2.5 million to equity and equity-related securities.

In addition, we would refer the reader to our comments in the risk report on risk-minimising measures taken as a consequence of the crisis on international financial markets on page 66 et seq.

6.6 Liquidity risks

We counter the liquidity risk by means of regular liquidity planning and a liquid asset structure. In this way we ensure that Hannover Re is able to make the necessary payments at all times. We manage the liquidity risk inter alia by allocating a liquidity code to every security. Adherence to the limits defined in our investment guidelines for each liquidity class is subject to daily control. The spread of investments across the various liquidity classes is specified in the monthly investment reports and controlled by limits. The proportion of investment holdings that can be liquidated on any trading day without a mark-down was almost 60% as at the balance sheet date, a reflection of the high liquidity of our portfolio. Last but not least, active liquidity management in terms of portfolio regrouping and the continuing high level of diversification has helped us to safeguard our unqualified ability to meet our payment obligations at all times in periods of financial crisis.

Weighting of major asset classes¹⁾

in %	Parameter as per investment guidelines	2008	2007
Bonds (direct holdings and investment funds)	At least 50.0	89.0	79.1
Listed equities (direct holdings and investment funds)	At most 17.5	0.1	10.1
Real estate	At most 5.0	0.1	0.1

¹⁾ Calculated on a fair value basis

For basic qualitative statements, e.g. regarding organisation of our risk management or assessment of the risk situation, please see the risk report contained in the management report.

7. Notes on the individual items of the balance sheet and statement of income

7.1 Investments including income and expenses

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 also encompass investments in associated companies, own-use real estate, investment property, other invested assets, short-term investments, cash and funds held/contract deposits.

In the case of financial assets that are not traded on an active market, the fair value is determined using a measurement method (e.g. effective interest rate method). The value determined in this way at time of acquisition can, however, diverge from the actual cost of acquisition. The resulting measurement difference constitutes a theoretical "day-one profit/loss". As at the balance sheet date this produced only an insignificant loss.

For further explanation please see Section 3.2 "Summary of major accounting policies".

Maturities of the fixed-income and variable-yield securities

Figures in EUR thousand	2008		2007	
	Cost or amortised cost ¹⁾	Fair value	Cost or amortised cost	Fair value
Held to maturity				
Due in one year	12,087	9,803	34,241	32,885
Due after one through two years	29,736	30,260	1,705	1,662
Due after two through three years	197,804	206,450	34,779	34,363
Due after three through four years	255,693	267,561	194,052	195,724
Due after four through five years	297,477	304,497	251,385	254,908
Due after five through ten years	673,498	728,460	962,695	966,897
Due after ten years	8,907	8,978	9,959	10,396
Total	1,475,202	1,556,009	1,488,816	1,496,835
Loans and receivables				
Due in one year	71,859	72,140	32,710	33,086
Due after one through two years	136,024	136,654	68,132	67,068
Due after two through three years	82,013	83,086	131,788	127,981
Due after three through four years	9,898	9,873	113,524	109,759
Due after four through five years	198,037	203,531	19,496	19,417
Due after five through ten years	970,241	996,374	1,037,707	1,002,324
Due after ten years	212,785	209,757	134,532	136,201
Total	1,680,857	1,711,415	1,537,889	1,495,836
Available for sale				
Due in one year ²⁾	3,496,170	3,473,225	2,921,871	2,917,572
Due after one through two years	1,947,238	1,966,672	1,407,784	1,403,733
Due after two through three years	1,725,197	1,751,528	1,214,907	1,196,631
Due after three through four years	1,217,321	1,239,933	1,273,380	1,276,467
Due after four through five years	1,867,138	1,933,328	1,377,471	1,372,244
Due after five through ten years	4,021,163	4,059,484	3,854,813	3,813,167
Due after ten years	1,344,802	1,296,606	1,796,485	1,763,484
Total	15,619,029	15,720,776	13,846,711	13,743,298
Financial assets at fair value through profit or loss				
Due in one year	68,553	65,907	66,784	66,784
Due after one through two years	4,788	4,991	29,087	29,087
Due after two through three years	71,132	70,476	–	–
Due after three through four years	641	626	–	–
Due after four through five years	56,687	58,560	–	–
Due after five through ten years	34,675	34,529	34,133	35,089
Due after ten years	23,373	19,439	27,187	27,780
Total	259,849	254,528	157,191	158,740

¹⁾ Including accrued interest²⁾ Including short-term investments and cash

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

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

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

Figures in EUR thousand		2008				
		Cost or amortised cost	gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity						
Fixed-income securities						
Government debt securities of EU member states		41,342	3,181	–	641	45,164
US treasury notes		341,902	64,196	–	2,775	408,873
Other foreign government debt securities		14,268	969	–	22	15,259
Debt securities issued by semi-governmental entities		432,412	21,532	886	8,797	461,855
Corporate securities		384,156	6,033	14,518	9,142	384,813
Asset-backed securities		234,601	1,390	1,090	5,144	240,045
Total		1,448,681	97,301	16,494	26,521	1,556,009

Figures in EUR thousand		2007				
		Cost or amortised cost	gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity						
Fixed-income securities						
Government debt securities of EU member states		49,589	–	827	760	49,522
US treasury notes		322,776	20,604	–	2,628	346,008
Other foreign government debt securities		18,315	121	52	26	18,410
Debt securities issued by semi-governmental entities		426,857	9,617	2,887	8,694	442,281
Corporate securities		410,476	3,595	12,911	10,562	411,722
Asset-backed securities		232,997	–	9,241	5,136	228,892
Total		1,461,010	33,937	25,918	27,806	1,496,835

The carrying amount of the investments held to maturity is arrived at from the cost or amortised cost plus accrued interest..

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

Figures in EUR thousand		2008			
		Cost or amortised cost	gains	Unrealised losses	Accrued interest
Loans and receivables					Fair value
Government debt securities of EU member state		29,410	1,228	–	407
Debt securities issued by semi-governmental entities		300,795	7,069	1,045	4,174
Corporate securities		545,536	12,509	3,005	9,410
Asset-backed securities		527,288	20,094	6,292	7,916
Other		209,102	–	–	46,819
Total		1,612,131	40,900	10,342	68,726
Figures in EUR thousand		2007			
		Cost or amortised cost	gains	Unrealised losses	Accrued interest
Loans and receivables					Fair value
Government debt securities of EU member state		29,327	80	975	563
Debt securities issued by semi-governmental entities		248,616	22	11,583	3,403
Corporate securities		558,914	1,455	18,794	11,575
Asset-backed securities		427,704	2,904	15,162	7,952
Other		215,606	–	–	34,229
Total		1,480,167	4,461	46,514	57,722

The carrying amount of the loans and receivables is arrived at from the cost or amortised cost plus accrued interest.

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

	2008				
	Cost or amortised cost	gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	2,565,205	74,577	2,000	46,936	2,684,718
US treasury notes	1,831,104	136,650	7	15,269	1,983,016
Other foreign government debt securities	471,278	21,667	1,022	7,694	499,617
Debt securities of semi-governmental entities	3,654,452	156,244	12,446	61,737	3,859,987
Corporate securities	3,219,639	43,884	192,436	64,724	3,135,811
Asset-backed securities	2,222,092	32,488	121,628	41,675	2,174,627
From investment funds	179,356	11,663	45,963	–	145,056
	14,143,126	477,173	375,502	238,035	14,482,832
Equity securities					
Shares	19,711	1,830	734	–	20,807
From investment funds	1,897	82	197	–	1,782
	21,608	1,912	931	–	22,589
Short-term investments	806,718	76	–	925	807,719
Total	14,971,452	479,161	376,433	238,960	15,313,140

The carrying amounts of the fixed-income securities and equity securities classified as available for sale as well as the short-term investments allocated to this category correspond to their fair values including accrued interest.

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

	Figures in EUR thousand		2007		
	Cost or amortised cost	gains	losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	901,704	4,112	5,851	16,732	916,697
US treasury notes	1,526,131	46,316	175	17,660	1,589,932
Other foreign government debt securities	376,357	2,266	2,471	3,265	379,417
Debt securities of semi-governmental entities	3,148,956	37,330	31,213	50,896	3,205,969
Corporate securities	3,384,791	26,302	117,316	64,942	3,358,719
Asset-backed securities	2,201,889	18,982	49,708	36,101	2,207,264
From investment funds	842,933	13,547	45,534	8,111	819,057
	12,382,761	148,855	252,268	197,707	12,477,055
Equity securities					
Shares	701,961	84,757	23,583	–	763,135
From investment funds	1,107,388	129,867	–	–	1,237,255
	1,809,349	214,624	23,583	–	2,000,390
Short-term investments	929,976	–	–	845	930,821
Total	15,122,086	363,479	275,851	198,552	15,408,266

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

Figures in EUR thousand	2008		
	Fair value before accrued interest	Accrued interest	Fair value
Financial assets at fair value through profit or loss			
Fixed-income securities			
Other foreign government debt securities	2,577	–	2,577
Debt securities of semi-governmental entities	7,767	332	8,099
Corporate securities	176,237	3,730	179,967
Asset-backed securities	63,880	5	63,885
	250,461	4,067	254,528
Other financial assets			
Derivatives	44,654	–	44,654
	44,654	–	44,654
Total	295,115	4,067	299,182

Figures in EUR thousand	2007		
	Fair value before accrued interest	Accrued interest	Fair value
Financial assets at fair value through profit or loss			
Fixed-income securities			
Debt securities of semi-governmental entities	9,844	331	10,175
Corporate securities	146,280	1,631	147,911
Asset-backed securities	654	–	654
	156,778	1,962	158,740
Other financial assets			
Derivatives	20,385	–	20,385
	20,385	–	20,385
Total	177,163	1,962	179,125

The carrying amounts of the financial assets allocated to this category correspond to their fair values including accrued interest.

Under financial assets at fair value through profit or loss Hannover Re recognised as at the balance sheet date the derivative financial instruments originally allocated to this item in an amount of EUR 44.7 million (EUR 20.4 million) as well as fixed-income securities amounting to EUR 254.5 million (EUR 158.7 million) designated in this category. The growth in the portfolio of fixed-income securities at fair value through profit or loss in an amount of EUR 95.8 million derived largely from the commencement of investment activities in the year under review by two Group companies whose business object is to build, hold and manage portfolios of insurance-linked securities. Analysis of the portfolio indicated that the changes in the fair value of these financial assets were not due to changes in their rating.

We additionally use an internal rating method to back up this analysis. Our internal rating system is based on the corresponding credit ratings of securities assigned by the agencies Standard & Poor's and Moody's and in each case reflects the lowest of the available ratings.

For further information please see the explanatory remarks on derivative financial instruments in this section.

Investment income

Figures in EUR thousand	2008	2007
Real estate	1,460	1,653
Dividends	43,333	40,656
Interest income on investments	736,629	759,187
Other income	48,364	57,524
Ordinary investment income	829,786	859,020
Profit or loss on shares in associated companies	4,199	11,028
Realised gains on investments	379,202	244,046
Realised losses on investments	492,756	69,735
Unrealised gains and losses on investments	(119,718)	(18,771)
Impairments/depreciation on real estate	514	545
Impairments on equity securities	356,052	34,242
Impairments on fixed-income securities	96,941	26,603
Impairments on participating interests and other financial assets	26,913	10,592
Other investment expenses	41,421	51,968
Net income from assets under own management	78,872	901,638
Interest income on funds withheld and contract deposits	336,554	259,921
Interest expense on funds withheld and contract deposits	136,967	39,813
Total investment income	278,459	1,121,746

Carrying amounts before impairment

Figures in EUR thousand	2008		2007	
	Carrying amount before impairment	Impairment	Carrying amount before impairment	Impairment
Fixed-income securities – held to maturity	1,475,202	–	1,488,816	–
Fixed-income securities – loans and receivables	1,680,857	–	1,537,889	–
Fixed-income securities – available for sale	14,579,773	96,941	12,503,658	26,603
Equity securities – available for sale	378,641	356,052	2,034,632	34,242
Participating interests and other invested assets	811,334	26,913	688,549	10,592
Total	18,925,807	479,906	18,253,544	71,437

The unscheduled impairments of EUR 479.9 million (EUR 71.4 million) were predominantly attributable to assets classified as available for sale. Of the impairments taken on fixed-income securities of EUR 96.9 million (EUR 26.6 million), an amount of EUR 15.7 million (EUR 9.6 million) related to structured products connected with the crisis on the US housing market in respect of which Hannover Re identified a risk of default. The impairments on fixed-income securities were taken largely on structured assets and determined on the basis of a case-by-case analysis. In this context consideration was given not only to pure changes in the fair value of the securities, but also to qualitative criteria. The fair value of the underlying instruments totalled EUR 77.7 million (EUR 66.8 million) as at 31 December 2008. They accounted for accrued interest of EUR 0.5 million (EUR 0.1 million) as at the balance sheet date. In addition, an impairment loss of EUR 356.1 million (EUR 34.2 million) was recognised on equities whose fair value had fallen significantly or for a prolonged period below acquisition cost. The portfolio did not contain any overdue, unadjusted assets as at the balance sheet date since overdue securities are written down immediately.

For further explanatory remarks on the impairment criteria please see Section 3.2 "Summary of major accounting policies".

Interest income on investments

Figures in EUR thousand	2008	2007
Fixed-income securities – held to maturity	59,748	66,680
Fixed-income securities – loans and receivables	52,749	45,898
Fixed-income securities – available for sale	551,848	558,477
Financial assets – at fair value through profit or loss	8,808	12,284
Other	63,476	75,848
Total	736,629	759,187

The net gains and losses on investments held to maturity, loans and receivables and the available-for-sale portfolio shown in the following table are composed of interest income, realised gains and losses and impairments. In the case of the fixed-income securities at fair value through profit or loss designated in this category and the other financial assets, which include the technical derivatives, changes in unrealised gains and losses are also recognised.

Making allowance for the other investment expenses of EUR 41.4 million (EUR 52.0 million), net income from assets under own management of altogether EUR 78.9 million (EUR 901.6 million) was recognised in the year under review.

Net gains and losses on investments

Figures in EUR thousand		2008				
	Ordinary investment income ¹⁾	Realised gains and losses	Impairments	Unrealised gains and losses	Net income from assets under own management ²⁾	Net exchange profit or loss
Held to maturity						
Fixed-income securities	65,107	–	–	–	65,107	553
Loans and receivables						
Fixed-income securities	52,900	177	–	–	53,077	4,433
Available for sale						
Fixed-income securities	564,564	87,010	96,941	–	554,633	51,686
Equity securities	41,424	(285,230)	356,052	–	(599,858)	–
Other invested assets	56,868	(625)	26,913	–	29,330	405
Short-term investments	42,333	742	–	–	43,075	(75,747)
At fair value through profit or loss						
Fixed-income securities	8,602	(2,159)	–	(73,263)	(66,820)	1,072
Other financial assets	2,436	85,123	–	26,202	113,761	–
Other	(249)	1,408	514	(72,657)	(72,012)	168
Total	833,985	(113,554)	480,420	(119,718)	120,293	(17,430)

¹⁾ Including income from associated companies, for reconciliation with the consolidated statement of income

²⁾ Excluding other investment expenses

Net gains and losses on investments

Figures in EUR thousand	2007					
	Ordinary investment income ¹⁾	Realised gains and losses	Impairments	Unrealised gains and losses	Net income from assets under own management ²⁾	Net exchange profit or loss
Held to maturity						
Fixed-income securities	74,991	(305)	–	–	74,686	28
Loans and receivables						
Fixed-income securities	46,015	934	–	–	46,949	(1,909)
Available for sale						
Fixed-income securities	572,600	(22,483)	26,603	–	523,514	2,980
Equity securities	38,169	160,366	34,242	–	164,293	–
Other invested assets	67,251	34,279	10,592	(32)	90,906	790
Short-term investments	52,496	–	–	–	52,496	(17,949)
At fair value through profit or loss						
Fixed-income securities	10,458	3,745	–	438	14,641	(671)
Other financial assets	1,412	(3)	–	(9,862)	(8,453)	–
Other	6,656	(2,222)	545	(9,315)	(5,426)	(250)
Total	870,048	174,311	71,982	(18,771)	953,606	(16,981)

¹⁾ Including income from associated companies, for reconciliation with the consolidated statement of income²⁾ Excluding other investment expenses

Valuation of the available-for-sale portfolio affecting shareholders' equity

Figures in EUR thousand	2008	2007
Changes in the other comprehensive income from fair value measurement and transactions	Other comprehensive income from investments	
Allocation to gains/losses from the fair-value measurement of the available-for-sale portfolio	347,041	103,639
Transfer of gains/losses from the fair-value measurement of the available-for-sale portfolio to the result for the period	(360,132)	(48,513)
Total	(13,091)	55,126

Rating structure of fixed-income securities

Figures in EUR thousand		2008								
		AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity		724,534	343,951	333,878	72,838	–	–	–	–	1,475,202
Fixed-income securities – loans and receivables		410,388	568,548	640,766	53,009	161	21	–	7,964	1,680,857
Fixed-income securities – available-for-sale		9,336,958	2,131,355	2,042,753	728,040	38,772	104,787	55,316	44,851	14,482,832
Fixed-income securities – at fair value through profit or loss		4,863	11,828	68,541	40,072	101,670	23,325	4,229	–	254,528
Total fixed-income securities		10,476,743	3,055,682	3,085,938	893,960	140,603	128,133	59,545	52,815	17,893,419
Derivatives		–	(5,028)	7,908	(7,899)	115	(1,803)	(18)	(25,911)	(32,636)
Total fixed-income securities incl. derivatives		10,476,743	3,050,654	3,093,846	886,061	140,718	126,330	59,527	26,904	17,860,783

Figures in EUR thousand		2007								
		AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity		708,730	319,476	379,793	80,817	–	–	–	–	1,488,816
Fixed-income securities – loans and receivables		316,530	570,013	599,189	43,687	161	20	–	8,289	1,537,889
Fixed-income securities – available-for-sale		6,753,511	2,953,584	1,849,507	493,561	27,020	244,497	7,417	147,958	12,477,055
Fixed-income securities – at fair value through profit or loss		1,445	26,143	32,559	37,821	26,649	30,715	–	3,408	158,740
Total fixed-income securities		7,780,216	3,869,216	2,861,048	655,886	53,830	275,232	7,417	159,655	15,662,500
Derivatives		–	(701)	8,908	(1,555)	(1,138)	(41)	(1)	(979)	4,493
Total fixed-income securities incl. derivatives		7,780,216	3,868,515	2,869,956	654,331	52,692	275,191	7,416	158,676	15,666,993

The maximum credit risk of the items shown here corresponds to their carrying amounts.

Investments were held in the following currencies:

Figures in EUR thousand		2008								
		AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
Fixed-income securities – held to maturity		10,054	27,570	819,602	29,821	–	577,247	10,908	–	1,475,202
Fixed-income securities – loans and receivables		–	139	1,530,599	16,189	–	127,702	–	6,228	1,680,857
Fixed-income securities – available-for-sale		679,117	325,065	5,746,278	1,119,426	92,903	6,009,523	163,126	347,394	14,482,832
Fixed-income securities – at fair value through profit or loss		–	–	66,518	–	–	164,860	23,150	–	254,528
Equity securities – available-for-sale		1,916	1,266	15,393	2,855	–	602	557	–	22,589
Other financial assets – at fair value through profit or loss		–	–	40,740	–	–	3,914	–	–	44,654
Other invested assets		–	–	439,864	29	–	497,870	852	–	938,615
Short-term investments, cash		63,181	20,335	159,208	56,893	23,747	730,012	52,060	132,508	1,237,944
Total investments and cash		754,268	374,375	8,818,202	1,225,213	116,650	8,111,730	250,653	486,130	20,137,221

Figures in EUR thousand		2007								
		AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
Fixed-income securities – held to maturity		12,136	32,717	841,003	39,073	–	544,911	18,976	–	1,488,816
Fixed-income securities – loans and receivables		–	7,095	1,415,113	21,155	–	67,034	–	27,492	1,537,889
Fixed-income securities – available-for-sale		706,327	386,111	4,404,086	1,184,578	61,008	5,257,713	168,690	308,542	12,477,055
Fixed-income securities – at fair value through profit or loss		–	–	39,821	–	–	118,919	–	–	158,740
Equity securities – available-for-sale		13,939	3,160	1,517,465	8,561	–	434,455	20,290	2,520	2,000,390
Other financial assets – at fair value through profit or loss		–	–	20,385	–	–	–	–	–	20,385
Other invested assets		–	–	372,331	1,182	–	489,065	3,180	–	865,758
Short-term investments, cash		43,198	24,881	245,128	69,007	25,407	725,038	59,836	73,748	1,266,243
Total investments and cash		775,600	453,964	8,855,332	1,323,556	86,415	7,637,135	270,972	412,302	19,815,276

The maximum credit risk of the items shown here corresponds to their carrying amounts.

Derivative financial instruments

Derivatives are financial instruments, the fair value of which is derived from an underlying instrument such as equities, bonds, indices or currencies. We use derivative financial instruments to a limited extent in order to hedge parts of our portfolio against interest rate and market price risks, optimise returns or realise intentions to buy/sell. In this context we take special care to limit the risks, select first-class counterparties and adhere strictly to the standards defined by investment guidelines.

The fair values of the derivative financial instruments were determined on the basis of the market information available at the balance sheet date and using the effective interest rate method. If the underlying transaction and the derivative are not carried as one unit, the derivative is recognised under other financial assets at fair value through profit or loss or under the other liabilities.

In the course of the year put options and short positions on call options were entered into on stock indices. All positions were liquidated by no later than November 2008. The transactions gave rise to realised gains of EUR 85.1 million.

Derivative financial instruments in connection with reinsurance

A small number of treaties in life and health reinsurance meet criteria which require application of the prescriptions in IFRS 4.7 to 4.9 governing embedded derivatives. These accounting regulations require that certain derivatives embedded in reinsurance contracts be separated from the underlying insurance contract ("host contract"), reported separately at fair value in accordance with IAS 39 and recognised under investments. Fluctuations in the fair value of the derivative components are to be recognised in income in subsequent periods.

Within the scope of the accounting of "modified coinsurance" and "coinsurance funds withheld" (Modco) reinsurance treaties, under which securities deposits are held by the ceding companies and payments rendered on the basis of the income from certain securities of the ceding company, the interest-rate risk elements are clearly and closely related to the underlying reinsurance arrangements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio.

Hannover Re calculates the fair value of the embedded derivatives in Modco treaties using the market information available on the valuation date on the basis of a "credit spread" method. Under this method the derivative is valued at zero on the date when the contract commences and its value then fluctuates over time according to changes in the credit spreads of the securities. The derivative had a negative value of EUR 89.1 million (EUR 13.0 million) as at the balance sheet date and was recognised under other liabilities. The charge to investment income from the derivative amounted to altogether EUR 72.1 million (EUR 20.0 million) before tax as at the balance sheet date. This development can be attributed principally to the sustained widening of the credit spreads in the year under review – especially in the fourth quarter.

The derivative components of another group of contracts in the area of life and health reinsurance were measured on the basis of stochastic considerations. The measurement produced a positive derivative value of EUR 11.1 million (EUR 12.7 million) on the balance sheet date. The derivative was recognised under other financial assets at fair value through profit or loss. The valuation resulted in a charge against investment income of EUR 1.5 million (EUR 0.7 million) as at 31 December 2008.

Pursuant to IAS 39.9 the "Eurus" transaction gives rise to a derivative, the fair value of which as at 31 December 2008 was EUR 3.9 million (-EUR 2.9 million) and which we recognised under other financial assets at fair value through profit or loss as at the balance sheet date. Measurement resulted in an improvement of EUR 6.9 million in investment income (previous year: charge to investment income of EUR 3.0 million) in the year under review. We would refer the reader to the explanatory remarks in Section 4 "Consolidated companies and consolidation principles" regarding the securitisation of reinsurance risks.

The "Merlin" transaction also gives rise to a derivative, the fair value of which as at the balance sheet date was EUR 29.6 million (EUR 5.8 million) and which we recognised under other financial assets at fair value through profit or loss. Measurement of this derivative resulted in an increase in investment income of EUR 23.8 million (EUR 5.8 million) in the year under review. We would refer the reader to the explanatory remarks in Section 4 "Consolidated companies and consolidation principles" regarding the securitisation of reinsurance risks.

All in all, application of the standards governing the carrying of derivatives in connection with the technical account led to recognition of assets totalling EUR 44.7 million (EUR 18.5 million) as well as recognition of liabilities from the derivatives resulting from technical items in an amount of EUR 91.2 million (EUR 15.9 million) as at the balance sheet date. Increases in investment income amounting to EUR 30.7 million (EUR 5.8 million) as well as charges to income of EUR 76.7 million (EUR 23.7 million) were brought to account from derivatives in connection with the technical account in the year under review.

Associated companies

Investments in associated companies

Figures in EUR thousand	2008	2007
Net book value at 31 December of the previous year	170,839	166,646
Currency translation at 1 January	(756)	(271)
Balance at 1 January of the year under review	170,083	166,375
Additions	356	–
Disposals	28,545	94
Adjustment recognised in income	(11,412)	3,819
Adjustment recognised outside income	(1,962)	743
Currency translation at 31 December	160	(4)
Net book value at 31 December of the year under review	128,680	170,839

Public price listings are not available for companies valued at equity. The net book value of associated companies includes goodwill in the amount of EUR 17.9 million (EUR 21.6 million). For further details of our major participating interests please see Section 4 "Consolidated companies and consolidation principles".

The recognised disposals of EUR 28.5 million include the sale of ITAS Assicurazioni S.p.A., Trento, Italy. In this regard and for further information on our major participating interests please see Section 5 "Major acquisitions, new formations and other corporate changes".

Real estate

Real estate is divided into real estate for own use and third-party use (investment property). The real estate in the portfolio which is used to generate income is shown under the investments. Real estate is valued at cost of acquisition less scheduled depreciation with useful lives of at most 50 years. Own-use real estate is recognised under other assets.

Income and expenses from rental agreements are included in the investment income.

Development of investment property

Figures in EUR thousand	2008	2007
Gross book value at 31 December of the previous year	41,370	42,215
Currency translation at 1 January	431	(957)
Gross book value after currency translation at 1 January of the year under review	41,801	41,258
Additions	7,028	166
Disposals	–	58
Reclassification	(3,571)	–
Currency translation at 31 December	–	4
Gross book value at 31 December of the year under review	45,258	41,370
Cumulative depreciation at 31 December of the previous year	24,408	24,236
Currency translation at 1 January	148	(302)
Cumulative depreciation after currency translation at 1 January of the year under review	24,556	23,934
Depreciation		
scheduled	514	545
Disposals	–	57
Reclassification	(1,444)	–
Currency translation at 31 December	14	(14)
Cumulative depreciation at 31 December of the year under review	23,640	24,408
Net book value at 31 December of the previous year	16,962	17,979
Net book value at 1 January of the year under review	17,245	17,324
Net book value at 31 December of the year under review	21,618	16,962

In addition, we held indirect real estate investments for the first time in the year under review in an amount of EUR 3.9 million.

The fair value of investment property amounted to EUR 23.9 million (EUR 21.3 million) as at the balance sheet date. The market value of the real estate was determined using the discounted cash flow method.

Other invested assets

The other invested assets consisted largely of participating interests in partnerships measured at fair value in an amount of EUR 622.6 million (EUR 528.2 million). The amortised cost of these participations amounted to EUR 504.6 million (EUR 385.2 million); in addition, unrealised gains of EUR 135.8 million (EUR 155.1 million) and unrealised losses of EUR 17.8 million (EUR 12.1 million) were recognised from these participations.

Short-term investments

This item comprises investments with a maturity of up to one year.

7.2 Technical assets and liabilities

Technical assets

The retrocessionaires' portions of the technical provisions are based on the contractual agreements of the underlying reinsurance treaties. For further details please refer to our comments on the technical provisions in this section as well as to the explanatory remarks in Section 6 "Management of technical and financial risks".

SFAS 60 "Accounting and Reporting by Insurance Enterprises" requires that acquisition costs be capitalised as assets and amortised via the statement of income in proportion to the earned premium.

In the case of reinsurance treaties for unit-linked life insurance policies classified as "universal life-type contracts" pursuant to SFAS 97, the capitalised acquisition costs are amortised on the basis of the estimated gross profit margins from the reinsurance treaties, making allowance for the period of the insurance contracts. A discount rate based on the interest for medium-term government bonds was applied to such contracts. In the case of annuity policies with a single premium payment, these values refer to the expected policy period or period of annuity payment.

In life and health reinsurance the deferred acquisition costs associated with life and annuity policies with regular premium payments are determined in light of the period of the contracts, the expected surrenders, the lapse expectancies and the anticipated interest income.

In non-life reinsurance acquisition costs directly connected with the acquisition or renewal of contracts are deferred for the unearned portion of the premium.

Development of deferred acquisition costs

Figures in EUR thousand	2008	2007
Net book value at 31 December of the previous year	1,807,143	1,980,102
Currency translation at 1 January	(100,923)	(94,434)
Balance at 1 January of the year under review	1,706,220	1,885,668
Changes in consolidated group	(77)	–
Additions	538,673	408,643
Amortisations	411,062	491,650
Portfolio entries/exports	12,551	(128)
Currency translation at 31 December	14,478	4,610
Net book value at 31 December of the year under review	1,860,783	1,807,143

For further explanatory remarks please see Section 3.2 "Summary of major accounting policies".

The age structure of the accounts receivable which were unadjusted but considered overdue as at the balance sheet date is presented below:

Age structure of overdue accounts receivable

Figures in EUR thousand	2008		2007	
	Three months to one year	More than one year	Three months to one year	More than one year
Accounts receivable	55,986	79,077	92,345	64,535

Within the scope of our management of receivables we expect to receive payment of accounts receivable within three months of the date of creation of the debit entry – a period for which we also make allowance in our risk analysis. Please see our comments in Section 6.5 "Credit risks".

The default risks associated with accounts receivable under reinsurance business are determined and recognised on the basis of case-by-case analysis.

The value adjustments on accounts receivable that we recognise in adjustment accounts changed as follows in the year under review:

Value adjustments on accounts receivable

Figures in EUR thousand	2008	2007
Changes in value adjustments		
Cumulative value adjustments at 31 December of the previous year	127,733	76,626
Currency translation	(2,011)	5,839
Cumulative value adjustments after currency translation	129,744	70,787
Value adjustments in the year under review	46,949	52,534
Write-ups	26,203	18,709
Allocation/reversal	(24,917)	23,121
Cumulative value adjustments at 31 December of the year under review	125,573	127,733
Gross book value of accounts receivable at 31 December of the year under review	2,927,335	2,653,604
Value adjustments	125,573	127,733
Net book value of accounts receivable at 31 December of the year under review	2,801,762	2,525,871

In addition, we took specific value adjustments on reinsurance recoverables on unpaid claims in the year under review. We would refer the reader to the corresponding remarks on the loss and loss adjustment expense reserve in this section.

With regard to the credit risks resulting from technical assets we would also refer the reader to our comments in Section 6 "Management of technical and financial risks".

Technical reserves

In order to show the net technical provisions remaining in the retention the following table compares the gross provisions with the corresponding retrocessionaires' shares shown as assets.

Technical provisions

Figures in EUR thousand	2008			2007		
	Gross	Retro	Net	Gross	Retro	Net
Loss and loss adjustment expense reserve	16,932,069	2,079,168	14,852,901	16,553,888	2,471,585	14,082,303
Benefit reserve	5,913,075	159,151	5,753,924	6,143,460	255,076	5,888,384
Unearned premium reserve	1,333,856	29,733	1,304,123	1,186,382	92,322	1,094,060
Other technical provisions	156,996	9,928	147,068	183,725	5,574	178,151
Total	24,335,996	2,277,980	22,058,016	24,067,455	2,824,557	21,242,898

The loss and loss adjustment expense reserves are in principle calculated on the basis of the information supplied by ceding companies. Additional IBNR reserves are established for losses that have been incurred but not as yet reported.

Technical provisions were discounted at interest rates of between 6.5% and 8.5% (6.5% and 8.2%) with respect to a certain group of contracts relating to the Hannover Re Advanced Solutions division. The interest rates are determined by the contractual agreements. The period from inception to expiry of such contracts is at least four years. The discounted amount totalled EUR 0.2 million (EUR 3.3 million). The discounted provisions as at year-end 2008 amounted to EUR 4.2 million (EUR 25.9 million).

The development of the loss and loss adjustment expense reserve is shown in the following table. Commencing with the gross reserve, the change in the reserve after deduction of the reinsurers' portions is shown in the year under review and the previous year.

Loss and loss adjustment expense reserve

Figures in EUR thousand	2008			2007		
	Gross	Retro	Net	Gross	Retro	Net
Net book value at 31 December of the previous year	16,553,888	2,471,585	14,082,303	17,596,325	3,048,496	14,547,829
Currency translation at 1 January	(84,534)	44,227	(128,761)	(1,189,614)	(265,602)	(924,012)
Reserve at 1 January of the year under review	16,469,354	2,515,812	13,953,542	16,406,711	2,782,894	13,623,817
Incurred claims and claims expenses (net) ¹⁾						
Year under review	4,039,386	451,563	3,587,823	3,704,393	329,803	3,374,590
Previous years	1,202,333	65,689	1,136,644	2,065,334	421,135	1,644,199
	5,241,719	517,252	4,724,467	5,769,727	750,938	5,018,789
Less:						
Claims and claims expenses paid (net)						
Year under review	(1,079,533)	(386,532)	(693,001)	(1,675,688)	(135,737)	(1,539,951)
Previous years	(3,817,633)	(550,663)	(3,266,970)	(3,988,628)	(971,697)	(3,016,931)
	(4,897,166)	(937,195)	(3,959,971)	(5,664,316)	(1,107,434)	(4,556,882)
Change in consolidated group	3,867	2,609	1,258	–	–	–
Specific value adjustment for retrocessions	–	20,212	(20,212)	–	(27,061)	27,061
Portfolio entries / exits	(9,337)	–	(9,337)	(4,094)	291	(4,385)
Currency translation at 31 December	123,632	902	122,730	45,860	17,835	28,025
Net book value at 31 December of the year under review	16,932,069	2,079,168	14,852,901	16,553,888	2,471,585	14,082,303

¹⁾ Including expenses recognised directly in shareholders' equity

In the year under review specific value adjustments on retrocessions, i.e. on the reinsurance recoverables on unpaid claims, were on balance established in an amount of EUR 20.2 million (previous year: reversal of EUR 27.1 million). Consequently, cumulative specific value adjustments of EUR 46.7 million (EUR 26.4 million) were recognised in these reinsurance recoverables as at the balance sheet date.

The total amount of the net reserve before specific value adjustments, to which the following remarks apply, was EUR 14,806.2 million (EUR 14,055.9 million) as at the balance sheet date.

The table below shows the net loss reserve (loss and loss adjustment expense reserve) for non-life reinsurance in the years 1998 to 2008 as well as the run-off of the reserve (so-called run-off triangle).

To some extent the loss and loss adjustment expense reserves are inevitably based upon estimations that entail an element of uncertainty. The difference between the previous year's and current estimates is reflected in the net run-off result. In addition, owing to the fact that the period of some reinsurance treaties is not the calendar year or because they are concluded on an underwriting-year basis, it is frequently impossible in reinsurance business to make an exact allocation of claims expenditures to the current financial year and the previous year. Consequently, the development of earlier years – and especially the immediately preceding year – may be distorted. In our assessment, therefore, informative analyses can only be performed after the elapse of at least two years.

The development of the euro relative to the most relevant foreign currencies is also a significant influencing factor in this context. In particular, despite the opposing effects of other major foreign currencies, the appreciation of +5.0% in the US dollar against the euro compared to the previous year led to a slight increase in the loss and loss adjustment expense reserve on a euro basis.

The run-off triangles show the run-off of the reserve established as at each balance sheet date, this reserve comprising the provisions constituted in each case for the current and preceding occurrence years. The run-off of the reserve for individual occurrence years is not shown in this regard, but rather the run-off of the reserve constituted annually in the balance sheet as at the balance sheet date.

Net loss reserve and its run-off

Figures in EUR million	1998 31.12.	1999 31.12.	2000 31.12.	2001 31.12.	2002 31.12.	2003 31.12.	2004 31.12.	2005 31.12.	2006 31.12.	2007 31.12.	2008 31.12.
Loss and loss adjustment expense reserve (from balance sheet)	5,913.1	7,012.5	8,482.0	12,182.7	12,863.4	13,462.2	13,120.7	14,295.9	13,279.8	12,718.2	13,354.1
Cumulative payments for the year in question and previous years											
One year later	1,448.3	1,583.3	2,108.2	2,242.2	2,118.1	3,622.7	4,495.8	3,051.1	2,664.8	2,476.2	
Two years later	2,230.6	2,497.7	3,111.9	3,775.1	5,024.4	7,322.2	6,611.0	5,072.2	4,389.8		
Three years later	2,711.7	3,226.2	4,174.2	6,032.1	7,764.8	8,780.2	7,590.1	6,204.5			
Four years later	3,186.5	3,897.6	5,745.1	8,588.5	8,909.0	9,518.8	8,356.3				
Five years later	3,561.1	5,119.7	7,581.3	9,399.8	9,467.1	10,101.6					
Six years later	4,341.1	6,146.0	8,114.1	9,786.1	9,896.7						
Seven years later	4,816.5	6,509.9	8,405.2	10,122.4							
Eight years later	5,122.7	6,785.1	8,610.9								
Nine years later	5,311.4	6,915.0									
Ten years later	5,409.6										
Loss and loss adjustment expense reserve (net) for the year in question and previous years plus payments made to date on the original reserve											
End of year	5,913.1	7,012.5	8,482.0	12,182.7	12,863.4	13,462.2	13,120.7	14,295.9	13,279.8	12,718.2	13,354.1
One year later	6,363.0	7,525.6	9,421.6	11,604.4	11,742.7	13,635.5	14,433.1	13,074.2	12,365.8	12,171.4	
Two years later	6,539.5	7,750.5	8,878.0	10,477.4	11,844.8	14,236.6	13,532.6	12,366.0	11,868.5		
Three years later	6,512.1	7,311.6	8,186.1	10,743.8	12,373.3	13,596.5	13,061.2	11,977.1			
Four years later	6,232.7	6,769.4	8,354.1	11,543.6	11,730.7	13,307.4	12,770.8				
Five years later	5,772.0	6,820.9	9,102.6	11,051.2	11,666.2	13,122.5					
Six years later	5,694.2	7,368.0	8,755.6	11,164.1	11,686.0						
Seven years later	6,036.4	7,142.1	8,864.3	11,219.1							
Eight years later	5,841.2	7,212.2	8,935.7								
Nine years later	5,860.7	7,267.8									
Ten years later	5,901.8										
Net run-off result of the loss reserve	(41.1)	(55.6)	(71.4)	(55.0)	(19.9)	184.9	290.4	388.9	497.9	546.7	
Of which currency exchange rate differences	(13.0)	(19.1)	(17.1)	27.8	30.8	10.4	(1.9)	14.6	33.1	24.5	
Net run-off result excluding currency exchange rate differences	(54.0)	(74.7)	(88.5)	(27.1)	10.9	195.3	288.5	403.5	530.9	571.3	
As percentage of original loss reserve	(0.9)	(1.0)	(1.0)	(0.2)	0.1	1.5	2.2	3.3	4.3	4.5	

Duration of the technical reserves

IFRS 4.38 in conjunction with 4.39(d) requires information which helps to clarify the amount and timing of cash flows expected from reinsurance contracts. In the following tables we have shown the future maturities of the technical reserves and broken them down by the expected remaining durations. As part of our duration analysis we have directly deducted the deposits put up as security for these reserves, since the cash inflows and outflows from these deposits are to be allocated directly to the ceding companies. For further explanation of the recognition and measurement of the reserves please see Section 3.2 "Summary of major accounting policies".

Maturities of the technical reserves

Figures in EUR thousand	2008					
	Loss and loss adjustment expense reserves			Benefit reserve		
	Gross	Retro	Net	Gross	Retro	Net
Due in one year	4,550,519	632,338	3,918,181	140,488	2,335	138,153
Due after one through five years	6,548,143	871,076	5,677,067	211,262	35,046	176,216
Due after five through ten years	2,346,469	243,109	2,103,360	308,077	2,154	305,923
Due after ten through twenty years	1,869,407	190,691	1,678,716	481,841	4,403	477,438
Due after twenty years	985,265	54,036	931,229	423,293	3,182	420,111
	16,299,803	1,991,250	14,308,553	1,564,961	47,120	1,517,841
Deposits	632,266	134,666	497,600	4,348,114	112,031	4,236,083
Total	16,932,069	2,125,916	14,806,153	5,913,075	159,151	5,753,924

Figures in EUR thousand	2007					
	Loss and loss adjustment expense reserves			Benefit reserve		
	Gross	Retro	Net	Gross	Retro	Net
Due in one year	4,273,520	784,908	3,488,612	96,918	1,149	95,769
Due after one through five years	6,102,419	965,745	5,136,674	204,984	6,561	198,423
Due after five through ten years	2,040,895	267,452	1,773,443	311,282	32,723	278,559
Due after ten through twenty years	1,884,577	261,773	1,622,804	602,423	10,077	592,346
Due after twenty years	1,496,619	62,866	1,433,753	375,428	5,750	369,678
	15,798,030	2,342,744	13,455,286	1,591,035	56,260	1,534,775
Deposits	755,858	155,280	600,578	4,552,425	198,816	4,353,609
Total	16,553,888	2,498,024	14,055,864	6,143,460	255,076	5,888,384

The average duration of the loss and loss adjustment expense reserves was 5.5 years (6.1 years), or 5.7 years (6.4 years) after allowance for the corresponding retrocession shares. The benefit reserve had an average duration of 14.2 years (13.2 years) – or 14.4 years (13.3 years) on a net basis.

The average duration of the reserves is determined using actuarial projections of the expected future payments. A payment pattern is calculated for each homogenous category of our portfolio – making allowance for the business sector, geographical considerations, treaty type and the type of reinsurance – and applied to the outstanding liabilities for each underwriting year and run-off status.

The payment patterns are determined with the aid of actuarial estimation methods and adjusted to reflect changes in payment behaviour and outside influences. The calculations can also be distorted by major losses, and these are therefore considered separately using reference samples or similar losses. The payment patterns used can be compared year for year by contrasting the projected payments with the actual amounts realised.

Liabilities in liability and motor reinsurance traditionally have long durations, sometimes in excess of 20 years, while liabilities in property business are settled within the first ten years.

The benefit reserve is established for life, annuity, personal accident and health reinsurance contracts. Based on the duration of these contracts, long-term reserves are constituted for life and annuity policies and predominantly short-term reserves are set aside for health and personal accident business.

The benefit reserve is calculated on the basis of the following parameters:

1. interest income;
2. lapse rates;
3. mortality and morbidity rates.

The values for the first two components differ according to the country concerned, product type, investment year etc. The mortality and morbidity rates used are chosen on the basis of national tables and the insurance industry standard. Empirical values for the reinsured portfolio, where available, are also taken into consideration. In this context insights into the gender, age and smoker structure are incorporated into the calculations, and allowance is also made for factors such as product type, sales channel and the frequency of premium payment by policyholders.

At the inception of every reinsurance contract, assumptions about the three parameters are made and locked in for the purpose of calculating the benefit reserve. At the same time, safety / fluctuation loadings are built into each of these components. In order to ensure at all times that the originally chosen assumptions continue to be adequate throughout the contract, checks are made on a regular – normally annual – basis in order to determine whether these assumptions need to be adjusted ("unlocked").

The benefit reserve is established in accordance with the principles set out in SFAS 60. The provisions are based on the Group companies' information regarding mortality, interest and lapse rates.

Development of the benefit reserve

Figures in EUR thousand	2008			2007		
	Gross	Retro	Net	Gross	Retro	Net
Net book value at 31 December of the previous year	6,143,460	255,076	5,888,384	6,109,154	447,537	5,661,617
Currency translation at 1 January	(483,382)	(3,106)	(480,276)	(324,136)	(3,763)	(320,373)
Reserve at 1 January of the year under review	5,660,078	251,970	5,408,108	5,785,018	443,774	5,341,244
Changes	454,040	32,698	421,342	436,704	38,770	397,934
Portfolio entries / exits	(147,315)	(125,628)	(21,687)	(58,727)	(227,707)	168,980
Currency translation at 31 December	(53,728)	111	(53,839)	(19,535)	239	(19,774)
Net book value at 31 December of the year under review	5,913,075	159,151	5,753,924	6,143,460	255,076	5,888,384

The unearned premium reserve derives from the deferral of ceded reinsurance premium. The unearned premium is determined by the period during which the risk is carried and established in accordance with the information supplied by ceding companies. In cases where no information was received, the unearned premium was estimated using suitable methods. Premium paid for periods subsequent to the date of the balance sheet was deferred from recognition within the statement of income.

Development of unearned premium reserve

Figures in EUR thousand	2008			2007		
	Gross	Retro	Net	Gross	Retro	Net
Net book value at 31 December of the previous year	1,186,382	92,322	1,094,060	1,581,034	339,096	1,241,938
Currency translation at 1 January	(16,191)	(499)	(15,692)	(131,539)	(32,980)	(98,559)
Reserve at 1 January of the year under review	1,170,191	91,823	1,078,368	1,449,495	306,116	1,143,379
Changes in consolidated group	1,866	1,328	538	–	–	–
Changes	113,480	(59,193)	172,673	(298,490)	(227,511)	(70,979)
Portfolio entries / exits	31,608	94	31,514	(664)	(108)	(556)
Currency translation at 31 December	16,711	-4,319	21,030	36,041	13,825	22,216
Net book value at 31 December of the year under review	1,333,856	29,733	1,304,123	1,186,382	92,322	1,094,060

The adequacy of the technical liabilities arising out of our reinsurance treaties is reviewed as at each balance sheet date. As part of the adequacy test for technical liabilities the anticipated future contractual payment obligations are compared with the anticipated future income. Hannover Re adopts the "loss recognition" method set out under US GAAP. Should the result of the test indicate that the anticipated future income will not be sufficient to fund future payments, the entire shortfall is recognised in income by first writing off capitalised acquisition costs corresponding to the shortfall. Any remaining difference is constituted as an additional provision.

7.3 Funds held/contract deposits and contracts without sufficient technical risk

IFRS 4 in conjunction with SFAS 113 "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts" requires insurance contracts that transfer a significant technical risk from the ceding company to the reinsurer to be differentiated from those under which the risk transfer is of merely subordinate importance. Hannover Re adopts the same approach in its recognition of funds held / contract deposits by separating funds held under insurance contracts with a significant risk transfer from contract deposits in respect of which the risk transfer is of subordinate importance.

Funds held

Funds held under insurance contracts that satisfy the requirements of both IFRS 4 and SFAS 113 in relation to the risk transfer from the ceding company to the reinsurer are recognised under this item.

The funds held by ceding companies totalling EUR 9,776.1 million (EUR 8,610.6 million) represent the cash and securities deposits furnished by our company to our cedants that do not trigger any cash flows and cannot be used by cedants without our consent. The durations of these deposits are matched to the corresponding provisions. In the event of default on such a deposit our reinsurance commitment is reduced to the same extent. The rise in funds held by ceding companies was attributable principally to increased new business in the area of non-traditional life reinsurance.

The funds held under reinsurance treaties totalling EUR 566.0 million (EUR 956.9 million) represent the cash and securities deposits furnished to our company by our retrocessionaires that do not trigger any cash flows and cannot be used without the consent of our retrocessionaires. The durations of these deposits are matched to the corresponding shares of the reinsurers in the technical provisions. If such a share no longer exists the corresponding funds held are reduced to the same extent.

Contract deposits

Hannover Re reports contract deposits under insurance contracts that satisfy the test of a significant risk transfer to the reinsurer as required by IFRS 4 but fail to meet the risk transfer required by US GAAP under the items "Contract deposits". Since the risk transfer under these transactions is of subordinate importance, these contracts were recognised using the "deposit accounting" method and hence eliminated from the technical account. The compensation elements for risk assumption booked to income under these contracts were netted under other income/expenses. The payment flows resulting from these contracts were reported in the cash flow statement under operating activities. The balances were shown as contract deposits on the assets and liabilities sides of the balance sheet, the fair values of which corresponded approximately to their book values.

The contract deposits on the assets side fell by EUR 327.3 million in the year under review from EUR 616.1 million to EUR 288.8 million. The decrease was attributable principally to the expiry of certain contracts in the area of non-traditional life reinsurance.

The contract deposits on the liabilities side increased by EUR 1,477.6 million in the year under review from EUR 3,668.8 million to EUR 5,146.4 million. The contract deposits item on the liabilities side encompasses balances deriving from non-traditional life insurance contracts that are to be carried as liabilities. The rise was due principally to growth in new business in the area of non-traditional life reinsurance.

7.4 Goodwill; present value of future profits on acquired life reinsurance portfolios

In accordance with IFRS 3 "Business Combinations" scheduled amortisation was not taken on goodwill. Goodwill was subject to an impairment test.

Development of goodwill

Figures in EUR thousand	2008	2007
Net book value at 31 December of the previous year	45,438	152,639
Currency translation at 1 January	(2,026)	(12,440)
Net book value at 1 January of the year under review	43,412	140,199
Corporate changes	(579)	–
Additions	–	6,785
Disposals	–	108,653
Currency translation at 31 December	–	7,107
Net book value at 31 December of the year under review	42,833	45,438

Goodwill

As at the balance sheet date this item principally included the goodwill from the acquisition of E+S Rückversicherung AG. For further information on the method used to test impairment the reader is referred to our explanatory remarks in Section 3.2 "Summary of major accounting policies".

Of the disposals recognised in the previous year, an amount of EUR 107.5 million was attributable to the sale of Praetorian Financial Group.

Development of the present value of future profits (PVFP) on acquired life reinsurance portfolios

Figures in EUR thousand	2008	2007
Net book value at 31 December of the previous year	2,911	5,102
Currency translation at 1 January	(683)	(324)
Net book value at 1 January of the year under review	2,228	4,778
Disposal	–	18
Amortisation	487	1,886
Currency translation at 31 December	82	37
Net book value at 31 December of the year under review	1,823	2,911

The PVFP, the period of amortisation of which is 15 years, is recognised under other assets. For further information please refer to our explanatory notes on intangible assets in Section 3.2 "Summary of major accounting policies".

7.5 Taxes and deferred taxes

Deferred tax assets and liabilities are booked in accordance with IAS 12 for tax reductions and additional tax charges expected in subsequent financial years, insofar as they result from different valuations of individual balance sheet items. In principle, such valuation differences may arise between the national tax balance sheet and the national commercial balance sheet, the uniform consolidated balance sheet and the national commercial balance sheet as well as from tax loss carry-forwards and tax credits. Deferred tax assets and liabilities were not constituted on temporary differences in conjunction with interests in subsidiaries and associated companies.

In July 2007 the German Federal Council approved the Business Tax Reform Act 2008. Among other things, this led to a reduction in tax rates for corporations domiciled in Germany effective 1 January 2008. Consequently, the tax expenditure for the previous year recognised non-recurring income from this revaluation in an amount of EUR 191.5 million for the parent company Hannover Re and E+S Rückversicherung AG.

Deferred taxes at the Group level were booked using the Group tax rate of 32%.

Breakdown of actual and deferred income taxes:

Income tax

Figures in EUR thousand	2008	2007
Actual tax for the year under review	181,395	219,727
Actual tax for other periods	30,298	54,991
Deferred taxes due to temporary differences	13,216	(46,377)
Deferred taxes from loss carry-forwards	(18,269)	12,364
Change in deferred taxes due to changes in tax rates	(1,030)	(193,253)
Recognised tax expenditure	205,610	47,452

Domestic/foreign breakdown of recognised tax expenditure/income

Figures in EUR thousand	2008	2007
Current taxes		
Germany	159,797	214,538
Outside Germany	51,895	60,180
Deferred taxes		
Germany	(4,124)	(282,152)
Outside Germany	(1,958)	54,886
Total	205,610	47,452

The following table presents a breakdown of the deferred tax assets and liabilities into the balance sheet items from which they are derived.

Deferred tax assets and deferred tax liabilities of all Group companies

Figures in EUR thousand	2008	2007
Deferred tax assets		
Tax loss carry-forwards	88,809	74,422
Loss and loss adjustment expense reserves	138,699	244,360
Benefit reserve	223,418	147,626
Other provisions	54,227	46,495
Accounts receivable	84,280	83,232
Funds held	513	–
Valuation differences relating to investments	50,077	35,670
Contract deposits	1,465	34,108
Other valuation differences	27,835	21,550
Value adjustments	(120,177)	(109,732)
Total	549,146	577,731
Deferred tax liabilities		
Loss and loss adjustment expense reserves	2,388	3,655
Benefit reserve	22,386	53,456
Other technical/non-technical provisions	10,778	15,054
Equalisation reserve	680,915	679,732
Funds held	3,675	13,924
Deferred acquisition costs	389,580	367,847
Accounts receivable / reinsurance payable	119,698	113,018
Valuation differences relating to investments	128,380	96,642
Other valuation differences	13,789	7,351
Total	1,371,589	1,350,679
Deferred tax liabilities	822,443	772,948

Value adjustments on deferred tax assets were recognised separately for the first time in the year under review. The figures for the previous year were adjusted accordingly.

The actual and deferred taxes recognised directly in shareholders' equity at the end of the financial year amounted to -EUR 53.5 million (EUR 2.5 million). They resulted from items that were charged or credited directly to equity.

Please refer to Section 3.2 "Summary of major accounting policies" regarding the recognition and measurement of deferred tax assets and liabilities.

The following table presents a reconciliation of the expected expense for income taxes with the actual provision for income taxes reported in the statement of income. The pre-tax result is multiplied by the Group tax rate in order to calculate the Group's expected expense for income taxes. The Group tax rate used is rounded to take account of the corporate income tax rate including the German reunification charge levied on corporate income tax as well as trade earnings tax.

Reconciliation of the expected expense for income taxes with the actual expense

Figures in EUR thousand	2008	2007
Profit before income taxes	70,626	850,402
Expected tax rate	32%	40%
Expected expense for income taxes	22,600	340,161
Changes in tax rates	(1,023)	(193,253)
Taxation differences affecting foreign subsidiaries	(44,909)	(73,906)
Non-deductible expenses	132,251	39,143
Tax-exempt income	45,712	(74,328)
Tax expense not attributable to the reporting period	31,793	56,073
Utilisation of previously adjusted loss carry-forwards	–	(61,309)
Other	19,186	14,871
Actual expense for income taxes	205,610	47,452

Availability of capitalised loss carry-forwards

Unused tax loss carry-forwards of EUR 292.0 million (EUR 230.3 million) existed as at the balance sheet date. Making allowance for local tax rates, EUR 249.6 million (EUR 210.2 million) thereof was not capitalised since realisation is not sufficiently certain.

In addition, available tax credits of EUR 20.3 million (EUR 17.2 million) were not capitalised.

Availability of loss carry-forwards and tax credits that have not been capitalised

Figures in EUR thousand	One to five years	Six to ten years	More than ten years	Unlimited	Total
Loss carry-forwards	–	–	138,667	110,941	249,608
Tax credits	–	–	–	20,300	20,300
Total	–	–	138,667	131,241	269,908

7.6 Staff and expenditures on personnel

Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group was 1,790 (1,922). The decrease in the workforce was attributable to the disposal of North American Risk Services, Inc., Wilmington/USA, a subsidiary of Hannover Finance, Inc., Wilmington/USA, in the first quarter of 2008.

As at the balance sheet date altogether 1,812 (1,825) staff were employed by the Hannover Re Group, with 963 (907) employed in Germany and 849 (918) working for the consolidated Group companies abroad.

Personnel information	2008				2007		
	31.03.	30.06.	30.09.	31.12.	Average	31.12.	Average
Number of employees (excluding board members)	1,744	1,781	1,790	1,812	1,790	1,825	1,922

The nationalities of the workforce as at the balance sheet date were as follows:

Nationality of employees	2008						
	German	USA	South African	UK	Irish	Other	
Number of employees	903	218	152	129	21	389	1,812

Expenditures on personnel

The expenditures on insurance business, claims expenses (claims settlement) and expenditures on the administration of investments include the following personnel expenditures:

Figures in EUR thousand	2008	2007
a) Wages and salaries		
aa) Expenditures on insurance business	101,065	98,396
ab) Expenditures on the administration of investments	10,115	8,015
	111,180	106,411
b) Social security contributions and expenditure on provisions and assistance		
ba) Social security contributions	15,261	13,397
bb) Expenditures for pension provision	12,644	11,686
bc) Expenditures for assistance	2,059	1,727
	29,964	26,810
Total	141,144	133,221

7.7 Provisions for pensions and other post-employment benefit obligations

Pension commitments are given in accordance with the relevant version of the pension plan as amended. The 1968 pension plan provides for retirement, disability, widows' and orphans' benefits. The pension entitlement is dependent on length of service; entitlements under the statutory pension insurance scheme are taken into account. The pension plan was closed to new participants with effect from 31 January 1981.

On 1 April 1993 (1 June 1993 in the case of managerial staff) the 1993 pension plan came into effect. This pension plan provides for retirement, disability and surviving dependants' benefits. The scheme is based upon annual determination of the pension contributions, which at 1% up to the assessment limit in the statutory pension insurance scheme and 2.5% above the assessment limit of the pensionable employment income are calculated in a range of 0.7% to 1% and 1.75% to 2.5% respectively depending upon the company's performance. The pension plan closed as at 31 March 1999.

From 1997 onwards it has been possible to obtain pension commitments through deferred compensation. Following the merger with Gerling-Konzern Lebensversicherungs-AG, Cologne, the employee-funded commitments included in the provisions for accrued pension rights are protected by an insurance contract with HDI-Gerling Lebensversicherung AG, Cologne, at unchanged conditions.

As at 1 July 2000 the 2000 pension plan came into force for the entire Group. Under this plan, new employees included in the group of beneficiaries are granted an indirect commitment from HDI Unterstützungskasse. The pension plan provides for retirement, disability and surviving dependants' benefits.

Effective 1 December 2002 Group employees have an opportunity to accumulate additional old-age provision at unchanged conditions by way of deferred compensation through membership of HDI-Gerling Pensionskasse AG. The benefits provided by HDI-Pensionskasse AG are guaranteed for its members and their surviving dependants and comprise traditional pension plans with bonus increases as well as unit-linked hybrid annuities.

In addition to these pension plans, managerial staff and members of the Executive Board, in particular, enjoy individual commitments as well as commitments given under the benefits plan of the Bochumer Verband.

Provisions for pensions are established in accordance with IAS 19 "Employee Benefits" (rev. 2004) using the projected unit credit method. The pension plans are defined benefit plans. The basis of the valuation is the estimated future increase in the rate of compensation of the pension beneficiaries. The benefit entitlements are discounted by applying the capital market rate for highest-rated securities. The commitments to employees in Germany predominantly comprise benefit obligations financed by the Group companies. The pension plans are unfunded. Amounts carried as liabilities are recognised under other liabilities. The provisions for pensions in Germany and abroad were calculated on the basis of uniform standards defined by Talanx AG and subject to local economic conditions.

Provisions for pensions are established in accordance with actuarial principles and are based upon the commitments made by the Hannover Re Group for retirement, disability and widows' benefits. The amount of the commitments is determined according to length of service and salary level.

The calculation of the provisions for pensions is based upon the following assumptions:

Measurement assumptions

in %	2008			2007		
	Germany	USA	Australia	Germany	USA	Australia
Discount rate	6.00	6.25	4.17	5.50	6.20	5.70
Projected long-term yield on plan assets	–	7.50	7.00	–	7.50	7.00
Rate of compensation increase	3.00	–	4.50	3.00	–	5.00
Indexation	2.25	3.00	3.00	1.75	3.00	3.50

The change in the projected benefit obligation of the pension commitments as well as their breakdown into plans that are unfunded or are wholly or partially funded was as follows:

Change in the projected benefit obligation

Figures in EUR thousand	2008	2007
Projected benefit obligation at the beginning of the year under review	79,135	77,400
Current service cost for the year under review	2,789	2,722
Interest cost	4,009	3,654
Deferred compensation	13	632
Actuarial gain/loss	(2,940)	(3,450)
Currency translation	(1,246)	(160)
Benefits paid during the year	(1,852)	(1,662)
Business combinations, divestitures and other activities	–	70
Plan curtailments	–	(71)
Projected benefit obligation at the end of the year under review	79,908	79,135

Funding of the defined benefit obligation

Figures in EUR thousand	2008	2007
Projected benefit obligation from unfunded plans	78,759	70,710
Projected benefit obligation from wholly or partially funded plans (before deduction of fair value of plan assets)	1,149	8,425
Projected benefit obligation at the end of the year under review	79,908	79,135
Fair value of plan assets	7,051	9,372
Funded status (present value of earned benefit entitlements less fund assets)	72,857	69,763

The fair value of the plan assets developed as follows:

Change in plan assets

Figures in EUR thousand	2008	2007
Fair value at the beginning of the year under review	9,372	7,302
Expected return on plan assets	544	577
Actuarial gain/loss	(1,830)	(281)
Currency translation	(1,265)	(190)
Employer contributions	287	1,843
Contributions paid by plan participants	13	132
Benefits paid during the year	(70)	(11)
Fair value of plan assets	7,051	9,372

The structure of the asset portfolio underlying the plan assets was as follows:

Portfolio structure of plan assets

As % of plan assets	2008	2007
Equities	7	7
Other	93	93
Total	100	100

The fair value of plan assets as at the balance sheet date included amounts totalling EUR 1.4 million (EUR 1.5 million) for own financial instruments.

The actual losses on plan assets amounted to –EUR 1.1 million in the year under review, compared with actual gains on plan assets of EUR 0.2 million in the previous year.

The following table presents a reconciliation of the funded status – calculated from the difference between the defined benefit obligations and the plan assets – with the provision for pensions recognised as at the balance sheet date:

Reconciliation of the net provision for pensions

Figures in EUR thousand	2008	2007
Defined benefit obligations at the end of the year under review	79,908	79,135
Fair value of plan assets at the end of the year under review	7,051	9,372
Funded status	72,857	69,763
Unrealised actuarial gain/loss	(650)	(2,662)
Net provisions for pensions at 31 December of the year under review	72,207	67,101

The recognised provision for pensions developed as follows in the year under review:

Change in the provisions for pensions

Figures in EUR thousand	2008	2007
Net provisions for pensions at 31 December of the previous year	67,101	64,559
Currency translation	(130)	24
Expense for the year under review	7,367	5,930
Deferred compensation	–	500
Reclassification	–	70
Amounts paid during the year	(348)	(2,021)
Benefits paid during the year	(1,783)	(1,651)
Other	–	(310)
Net provisions for pensions at 31 December of the year under review	72,207	67,101

The components of the net periodic pension cost for benefit plans were as follows:

Net periodic pension cost

Figures in EUR thousand	2008	2007
Current service cost for the year under review	2,789	2,731
Interest cost	4,054	3,669
Expected return on plan assets	607	598
Recognised actuarial gain/loss	(1,116)	(60)
Effect of plan curtailments or settlements	(15)	(68)
Total	7,367	5,930

In determining the actuarial gains and losses to be recognised in the statement of income the corridor method provided for as an option in IAS 19 continued to be applied even after the amendments to the standard.

The net periodic pension cost was recognised in the consolidated statement of income in amounts of EUR 5.8 million (EUR 3.8 million) under administrative expenses, EUR 0.6 million (EUR 1.4 million) under other expenses and EUR 1.0 million (EUR 0.7 million) under other investment expenses.

Actuarial gains of EUR 0.1 million (EUR 0.4 million) were recognised as at the balance sheet date in other comprehensive income.

The following amounts were recognised for the current and previous reporting periods under the accounting of defined benefit plans:

Amounts recognised

Figures in EUR thousand	2008	2007
Present value of defined benefit obligation	79,908	79,135
Fair value of plan assets	7,051	9,372
Surplus / (deficit) in the plan	(72,857)	(69,763)
Experience adjustments on plan liabilities	(649)	(3,410)
Experience adjustments on plan assets	–	(374)

In the current financial year Hannover Re expects payments of EUR 6.5 million (EUR 6.2 million) under the pension plans set out above.

Defined contribution plans

In addition to the defined benefit plans, some Group companies have defined contribution plans that are based on length of service and the employee's income or level of contributions. The expense recognised for these obligations in the year under review in accordance with IAS 19.46 was EUR 2.6 million (EUR 2.9 million), of which only a minimal amount was due to obligations to members of staff in key positions.

7.8 Debt and subordinated capital

On 31 March 1999 Hannover Finance, Inc., Wilmington/USA, issued subordinated debt in the form of a floating-rate loan in the amount of USD 400.0 million with a term of 30 years. The due date of the loan is 31 March 2029. It may be redeemed by the issuer no earlier than 31 March 2009. In order to hedge against the risk of interest rate changes associated with this loan, the company purchased interest rate swaps in 1999 in the same amount which expire on 31 March 2009. In this way, the interest rate is converted from a floating rate to a fixed rate for a period ending commensurate with the first opportunity to redeem the loan. In February 2004 and May 2005 Hannover Re bought back portions of the debt amounting to USD 380.0 million, equivalent to altogether 95% of the total volume. The interest rate swaps were closed out in the second quarter of 2006. Under a contract dated 1 June 2007 Hannover Finance, Inc. repurchased the subordinated debt in an amount of USD 380.0 million from Hannover Re. Effective 17 July 2007 the interests in the loan amounting to USD 380.0 million were cancelled and have not been traded on the capital market since that date. The remaining portions of the debt totalling USD 20.0 million are held by investors outside the Group and carry a coupon of LIBOR +80 basis points until 31 March 2009. Hannover Re intends to exercise the call option granted in the loan terms which provides for early repurchase of the debt at nominal value effective 31 March 2009.

In order to safeguard the sustained financial strength of the Hannover Re Group, Hannover Re issued additional subordinated debt. In February 2004 subordinated debt in the amount of EUR 750.0 million was placed through Hannover Finance (Luxembourg) S.A., a wholly owned subsidiary of Hannover Re, on the European capital markets. The bond was placed predominantly with institutional investors. The bond was priced at a spread of 163 basis points over the 10-year mid-swap rate and has a final maturity of 20 years. It may be redeemed by Hannover Re after 10 years at the earliest and at each coupon date thereafter. If the bond is not called at the end of the tenth year, the coupon will step up to a floating-rate yield of quarterly EURIBOR +263 basis points.

In May 2005 Hannover Re issued further subordinated debt in the amount of EUR 500.0 million through its subsidiary Hannover Finance (Luxembourg) S.A. As part of the transaction, holders of Hannover Re's EUR 350.0 million subordinated debt placed in 2001 were offered an opportunity to exchange their existing issue for holdings in the new bond, which has a term of 30 years and may be called in prior to maturity by the issuer after 10 years. Participation in the

exchange was nominally EUR 211.9 million, corresponding to EUR 240.5 million of the new bond issue. The cash component of the new bond in the amount of nominally EUR 259.5 million was placed predominantly with institutional investors in Europe. The remaining volume of the bond issued in 2001 after the exchange was unchanged at EUR 138.1 million.

Debt and subordinated capital

Figures in EUR thousand		2008		
		Cost or amortised cost	Fair value measurement	Accrued interest and rent
Debt and subordinated capital				
Debt		43,087	–	43
Subordinated loans		1,376,883	(369,578)	57,914
Other long-term liabilities		57	–	–
Total		1,420,027	(369,578)	57,957
				1,108,406

Figures in EUR thousand		2007		
		Cost or amortised cost	Fair value measurement	Accrued interest and rent
Debt and subordinated capital				
Debt		41,555	–	183
Subordinated loans		1,373,294	(59,803)	58,098
Other long-term liabilities		28	–	–
Total		1,414,877	(59,803)	58,281
				1,413,355

The carrying amount of this item corresponds to cost or amortised cost.

The aggregated fair value of the extended subordinated loans is based on quoted, active market prices. If such price information was not available, fair value was determined on the basis of the recognised effective interest rate method or estimated using other financial assets with similar rating, duration and return characteristics. Under the effective interest rate method the current market interest rate levels in the relevant fixed-interest-rate periods are always taken as a basis.

Net gains and losses from debt and subordinated capital

Figures in EUR thousand		2008	
		Ordinary income / expenses	Amortisation
Debt		(2,706)	–
Subordinated loans		(77,442)	(2,870)
Total		(80,148)	(2,870)
			Net result
			(83,018)

Figures in EUR thousand		2007	
		Ordinary income / expenses	Amortisation
Debt		(3,312)	–
Subordinated loans		(77,600)	(2,841)
Total		(80,912)	(2,841)
			Net result
			(83,753)

The ordinary expenses include interest expenses of EUR 77.4 million (EUR 77.6 million) resulting predominantly from the subordinated debt with coupons of between 5.0% and 6.25% placed through Hannover Finance (Luxembourg) S.A. in the years from 2001 to 2005. In addition, interest expenditures from the remaining portions of the floating-rate loan issued by Hannover Finance, Inc., Wilmington/USA are recognised here.

Other financial facilities

In order to protect against possible future major losses Hannover Re took out a new credit line of EUR 500.0 million in 2004 in the form of a syndicated loan. The facility has a term of five years and ends in August 2009. It has not been used to date.

In addition, facilities exist with various financial institutions for letters of credit, including two syndicated guarantee facilities each in the amount of USD 2.0 billion from 2005 and 2006. 50% of the first of these lines matures in January 2010 and the other 50% in January 2012, while the second line matures in January 2013. For further information on the letters of credit provided please see our explanatory remarks in Section 9.2 "Contingent liabilities and commitments".

Maturities of financial liabilities

	2008						
	Less than three months	Three months to one year	One to five years	Five to ten years	Ten to twenty years	More than twenty years	No maturity
Other liabilities ¹⁾	60,094	58,166	426	–	–	–	5,061
Debt	106	15,058	19,838	8,085	–	–	–
Subordinated loans	–	–	–	–	746,043	152,072	478,768
Other long-term liabilities	2	5	50	–	–	–	–
Total	60,202	73,229	20,314	8,085	746,043	152,072	483,829

¹⁾ excluding derivatives

	2007						
	Less than three months	Three months to one year	One to five years	Five to ten years	Ten to twenty years	More than twenty years	No maturity
Other liabilities ¹⁾	74,766	84,644	14	–	–	–	6,345
Debt	–	11,427	22,215	7,913	–	–	–
Subordinated loans	–	–	–	–	745,907	151,229	476,158
Other long-term liabilities	–	28	–	–	–	–	–
Total	74,766	96,099	22,229	7,913	745,907	151,229	482,503

¹⁾ excluding derivatives

7.9 Shareholders' equity and minority interests

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

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

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

Authorised capital of up to EUR 60,299 thousand is available with a time limit of 31 May 2009.

New individual registered shares may be issued on one or more occasions for contributions in cash or kind. Of the total amount, up to EUR 1,000 thousand may be used to issue employee shares.

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

Management of capital

The preservation and consistent enhancement of its capital is a key strategic objective for Hannover Re. As part of its approach to capital management Hannover Re considers the policyholders' surplus over and above the shareholders' equity recognised in the balance sheet. The policyholders' surplus is defined as the sum total of

- shareholders' equity excluding minority interests, composed of the common shares, additional paid-in capital, other comprehensive income and retained earnings,
- minority interests and
- hybrid capital used as an equity substitute, which encompasses our subordinated debt.

The policyholders' surplus totalled EUR 4,708.4 million (EUR 5,295.1 million) as at the balance sheet date.

The chart below illustrates the development of the policyholders' surplus over the last five reporting years:

Development of policyholders' surplus

in EUR million



¹⁾ Hybrid capital: +EUR 750 million
-USD 380 million repurchase
-EUR 118 million repayment

²⁾ Hybrid capital: +EUR 500 million new issue
-EUR 212 million exchange

Hannover Re uses "Intrinsic Value Creation" (IVC) as its central value-based management tool. For more information on this concept as well as the objectives and principles in accordance with which we conduct our enterprise management and capital management the reader is referred to our remarks on value-based management on page 52 et seq. of this report.

Hannover Re satisfies the capital expectations of the rating agencies that assess the Group's financial strength. Some Group companies are subject to additional national capital and solvency requirements. All Group companies met the applicable local minimum capital requirements in the year under review. The parent company ensures that the local minimum capital requirements applicable to subsidiaries are always satisfied in accordance with the official requirements defined by insurance regulators.

7.10 Treasury shares

IAS 1 requires separate disclosure of treasury shares in shareholders' equity. By a resolution of the Annual General Meeting of Hannover Rückversicherung AG adopted on 6 May 2008, the company was authorised until 31 October 2009 to acquire treasury shares of up to 10% of the share capital existing on the date of the resolution. As part of this year's employee share option plan Hannover Re acquired altogether 13,984 treasury shares in the course of the fourth quarter of 2008 and delivered them to eligible employees at preferential conditions. These shares are blocked until 30 November 2012. The company was no longer in possession of treasury shares as at the balance sheet date.

7.11 Earnings per share

Basic and fully diluted earnings per share

	2008			2007		
	Result (in EUR thousand)	No. of shares	Per share (in EUR)	Result (in EUR thousand)	No. of shares	Per share (in EUR)
Group net income	(126,987)	–	–	721,663	–	–
Weighted average of issued shares	–	120,594,783	–	–	120,597,134	–
Earnings per share	(126,987)	120,594,783	(1.05)	721,663	120,597,134	5.98
from continuing operations	(126,987)	120,594,783	(1.05)	686,578	120,597,134	5.69
from discontinued operations	–	120,594,783	–	35,085	120,597,134	0.29

Due to the reduction in the interest held in E+S Rück in the third quarter of the 2007 financial year – which was recognised retrospectively in equity – the Group net income for the comparable period of the previous year decreased by altogether EUR 12.0 million. As a result, both the earnings per share and the earnings per share from continuing operations for the previous period had to be reduced by EUR 0.10 per share. For further details please see our comments in Section 3.1 "Change in accounting policies".

Neither in the year under review nor in the previous reporting period were there any dilutive effects. On account of this year's employee share option plan Hannover Re acquired treasury shares in the course of the fourth quarter of 2008 and sold them to the eligible employees. The weighted average of shares in circulation during the reporting period was therefore insignificantly lower than in the previous year. For further details please see our comments in Section 7.10 "Treasury shares".

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

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

Dividend per share

Dividends and bonus dividends of EUR 277.4 million (EUR 193.0 million) were paid in the year under review for 2007.

On the occasion of the Annual General Meeting to be held on 5 May 2009 it will be proposed that a dividend should not be distributed for the 2008 financial year. The dividend proposal does not form part of this consolidated financial statement.

7.12 Other assets and liabilities

Other assets

Figures in EUR thousand	2008	2007
Own-use real estate	42,019	40,758
Other receivables	3,547	2,589
Present value of future profits on acquired life reinsurance portfolios	1,823	2,911
Fixtures, fittings and equipment	26,302	25,781
Other assets	1,034	4,684
Other intangible assets	61,310	56,390
Tax refund claims	26,823	23,304
Receivables from affiliated companies	153	861
Insurance for pension commitments	45,459	43,556
Other	51,795	43,444
Total	260,265	244,278

The portfolio of own-use real estate was measured at cost of purchase less scheduled straight-line depreciation over useful lives of 10 to 50 years. The fair values were calculated using the discounted cash flow method.

Effective 1 July 2003 Hannover Re took out insurance for pension commitments. The commitments involve deferred annuities with regular premium payment under a group insurance policy. In accordance with IAS 19 they were carried as a separate asset at fair value as at the balance sheet date in an amount of EUR 45.5 million (EUR 43.6 million).

Development of fixtures, fittings and equipment

Figures in EUR thousand	2008	2007
Gross book value at 31 December of the previous year	95,352	83,344
Currency translation at 1 January	(6,244)	(3,182)
Gross book value after currency translation	89,108	80,162
Change in consolidated group	233	–
Additions	11,774	16,399
Disposals	11,981	908
Reclassification	(130)	–
Currency translation at 31 December	106	(301)
Gross book value at 31 December of the year under review	89,110	95,352
Cumulative depreciation at 31 December of the previous year	69,571	59,612
Currency translation at 1 January	(4,986)	(2,167)
Cumulative depreciation after currency translation	64,585	57,445
Disposals	11,118	347
Depreciation		
scheduled	9,497	12,953
Currency translation at 31 December	(156)	(480)
Cumulative depreciation at 31 December of the year under review	62,808	69,571
Net book value at 31 December of the previous year	25,781	23,732
Net book value at 31 December of the year under review	26,302	25,781

With regard to the measurement of fixtures, fittings and equipment, the reader is referred to our explanatory notes on the other assets in Section 3.2 "Summary of major accounting policies".

Development of other intangible assets

Figures in EUR thousand	2008	2007
Gross book value at 31 December of the previous year	155,429	141,242
Currency translation at 1 January	(739)	(1,765)
Gross book value after currency translation	154,690	139,477
Change in consolidated group	497	–
Additions	14,382	16,390
Disposals	1,543	455
Currency translation at 31 December	(2,067)	17
Gross book value at 31 December of the year under review	165,959	155,429
Cumulative depreciation at 31 December of the previous year	99,039	96,212
Currency translation at 1 January	(233)	(98)
Cumulative depreciation after currency translation	98,806	96,114
Disposals	44	–
Write-ups	–	40
Depreciation		
scheduled	5,893	2,965
Currency translation at 31 December	6	–
Cumulative depreciation at 31 December of the year under review	104,649	99,039
Net book value at 31 December of the previous year	56,390	45,030
Net book value at 31 December of the year under review	61,310	56,390

As at the balance sheet date the item included EUR 7.9 million (EUR 0.1 million) for self-provided software and EUR 39.9 million (EUR 11.7 million) for purchased software. Scheduled depreciation is taken over useful lives of three to ten years.

The additions can be broken down into EUR 4.9 million (EUR 13.4 million) for purchased software and EUR 9.1 million (EUR 2.8 million) for advance payments on self-provided software.

The age structure of the other receivables which were unadjusted but considered overdue as at the balance sheet date is presented below:

Age structure of overdue other receivables

Figures in EUR thousand	2008			2007		
	Less than three months	Three months to one year	More than one year	Less than three months	Three months to one year	More than one year
Other receivables	–	–	–	198	1,818	6,571
Accrued interest	–	–	–	8	–	–
Total	–	–	–	206	1,818	6,571

The overdue other receivables of Hannover Finance, Inc., recognised here in the previous year were settled in the year under review.

Value adjustments were taken on other receivables in an amount of EUR 3.8 million (EUR 0.2 million) in the year under review on the basis of specific impairment analyses.

Credit risks may result from other financial assets that were not overdue or adjusted as at the balance sheet date. In this regard, the reader is referred in general to our comments in Section 6 "Management of technical and financial risks".

Other liabilities

Figures in EUR thousand	2008		2007
Liabilities from derivatives	91,680		15,892
Interest	60,052		63,283
Deferred income	15,977		18,682
Costs of the annual financial statements	5,670		3,033
Liabilities to trustees	–		8,494
Liabilities due to affiliated companies	5,849		552
Provisions arising out of employment relationships	28,582		29,521
Direct minority interests in partnerships	33,919		28,011
Other	77,454		109,569
Total	319,183		277,037

The liabilities from derivatives of EUR 91.7 million (EUR 15.9 million) consist principally of the embedded derivatives recognised separately from the underlying insurance contract at fair value pursuant to IAS 39. Please see our remarks on derivative financial instruments in Section 7.1 "Investments including income and expenses".

The other liabilities include sundry non-technical provisions of EUR 57.6 million (EUR 67.4 million), which developed as shown in the following table.

Development of sundry non-technical provisions

Figures in EUR thousand	Balance at 31.12.2007	Currency translation at 1 January	Balance at 1 January of the year under review
Provisions for			
Audits and costs of publishing the annual financial statements	3,033	(186)	2,847
Consultancy fees	1,965	(7)	1,958
Suppliers' invoices	5,664	(212)	5,452
Partial retirement arrangements and early retirement obligations	5,193	(16)	5,177
Holiday entitlements and overtime	2,781	(128)	2,653
Anniversary bonuses	1,435	–	1,435
Management bonuses	20,112	(411)	19,701
Other	27,181	(422)	26,759
Total	67,364	(1,382)	65,982

Changes in consolidated group	Additions	Utilisation	Release	Currency translation at 31 December	Balance at 31.12.2008
29	5,117	2,275	55	7	5,670
–	1,262	1,130	227	(16)	1,847
31	7,730	4,025	562	(223)	8,403
–	1,471	577	134	(26)	5,911
73	3,300	2,282	8	(30)	3,706
–	326	–	–	–	1,761
–	13,843	16,168	140	(32)	17,204
201	4,338	6,148	11,977	(98)	13,075
334	37,387	32,605	13,103	(418)	57,577

7.13 Technical statement of income

Technical result

Figures in EUR thousand	2008	2007
Gross written premium	8,120,919	8,258,901
Ceded written premium	886,621	1,036,950
Change in unearned premium	(113,480)	298,490
Change in ceded unearned premium	(59,193)	(227,511)
Net premium earned	7,061,625	7,292,930
Other technical income	7,294	1,130
Total net technical income	7,068,919	7,294,060
Claims and claims expenses paid	3,959,971	4,556,882
Change in loss and loss adjustment expense reserve	742,156	474,189
Claims and claims expenses	4,702,127	5,031,071
Change in benefit reserve	420,918	398,232
Premium refund	(424)	298
Net change in benefit reserve	421,342	397,934
Commissions	1,788,833	1,671,783
Change in deferred acquisition costs	124,164	(83,007)
Change in provision for contingent commissions	(28,728)	4,220
Other acquisition costs	11,676	12,571
Other technical expenses	12,166	20,081
Administrative expenses	216,047	204,358
Net technical result	69,620	(130,965)

With regard to the claims and claims expenses as well as the change in the benefit reserve the reader is also referred to Section 7.2 "Technical assets and liabilities". The change in the benefit reserve relates exclusively to the life and health reinsurance segment.

The administrative expenses amounted to altogether 3.1% (2.8%) of net premium earned.

Other technical income

Figures in EUR thousand	2008	2007
Other technical income (gross)	8,168	1,816
Reinsurance recoverables	874	686
Other technical income (net)	7,294	1,130

Commissions and brokerage, change in deferred acquisition costs

Figures in EUR thousand	2008	2007
Commissions paid (gross)	2,048,951	1,857,719
Reinsurance recoverables	260,118	185,936
Change in deferred acquisition costs (gross)	199,213	(164,087)
Reinsurance recoverables	75,049	(81,080)
Change in provision for contingent commissions (gross)	(31,429)	(65)
Reinsurance recoverables	(2,701)	(4,285)
Commissions and brokerage, change in deferred acquisition costs (net)	1,635,941	1,759,010

Other technical expenses

Figures in EUR thousand	2008	2007
Other technical expenses (gross)	12,209	20,034
Reinsurance recoverables	43	(47)
Other technical expenses (net)	12,166	20,081

7.14 Other income/expenses

Figures in EUR thousand	2008	2007
Other income		
Exchange gains	52,381	80,058
Income from contracts recognised in accordance with the deposit accounting method	25,654	75,383
Other interest income	3,513	2,154
Income from services	7,128	7,849
Reversals of impairments on receivables	32,960	47,686
Sundry income	42,955	27,509
	164,591	240,639
Other expenses		
Exchange losses	155,420	58,932
Other interest expenses	17,346	70,781
Depreciation	9,781	14,372
Expenses for services	6,366	7,591
Expenses for the company as a whole	43,362	37,044
Separate value adjustments	78,589	54,700
Sundry expenses	53,738	59,998
	364,602	303,418
Total	(200,011)	(62,779)

Of the separate value adjustments, an amount of EUR 47.8 million (EUR 52.5 million) was attributable to accounts receivable, EUR 27.0 million (EUR 2.0 million) to reinsurance recoverables on unpaid claims and EUR 3.8 million (EUR 0.2 million) to other receivables.

8. Related party disclosures

8.1 Transactions with related parties

IAS 24 defines related parties *inter alia* as parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself. In the year under review the following significant business relations existed with related parties.

Since 10 January 2008 HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover, has held a majority interest in Hannover Re solely through Talanx AG, Hannover, into which both HDI Verwaltungs-Service GmbH, Hannover, and Zweite HDI Beteiligungsgesellschaft mbH, Hannover, were merged on the same date.

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

Protection Reinsurance Intermediaries AG grants Hannover Re and E+S Rück a preferential position as reinsurers when it comes to placing reinsurance cessions of the Talanx Group's primary insurers (Group cedants). Under these arrangements, Hannover Re and E+S Rück are given the opportunity to write any desired share of placed reinsurance cessions provided this does not jeopardise overall placement in the interest of 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. Under certain conditions Hannover Re and E+S Rück are required to assume from Protection Re portions of the Group cedants' reinsurance cessions not placed on the global market. This agreement entered into force on 1 January 2003 and may be terminated at four months' notice effective 30 June of any year.

Major reinsurance relationships with related parties in the year under review are listed in the following table.

Business assumed and ceded in Germany and abroad

Related parties	Premium	2008 Underwriting result
Business assumed		
ASPECTA Assurance International AG	20,386	3,140
ASPECTA Assurance International Luxembourg S.A.	35,003	3,833
ASPECTA Lebensversicherung AG	118,717	12,891
CiV Lebensversicherung AG	43,571	(6,120)
CiV Versicherung AG	14,768	8,175
HDI Asekuracja Towarzystwo Ubezpieczen S.A.	22,071	15,171
HDI Assicurazioni S.p. A.	16,787	5,635
HDI Direkt Versicherung AG	565	(18,186)
HDI-Gerling Firmen und Privat Versicherung AG	12,824	6,241
HDI-Gerling Industrie Versicherung AG	166,279	(4,710)
HDI-Gerling Lebensversicherung AG	23,074	(1,446)
HDI-Gerling Verzekeringen N.V.	30,870	(1,548)
HDI HANNOVER International España, Cia. de Seguros y Reaseguros S.A.	22,740	679
HDI Hannover Versicherung AG	10,236	2,035
HDI Sigorta A.S.	24,955	(6,287)
Magyar Posta Biztosító Részvénnytársaság	7,459	(1,410)
Postbank Lebensversicherung AG	48,428	(2,432)
Other companies	19,658	7,388
	638,391	23,049
Business ceded		
HDI-Gerling Industrie Versicherung AG	(1,226)	(1,084)
Other companies	-	7
Total	637,165	21,972

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. Every reinsurance treaty subject to internal retrocession is allocated to a pool. The assuming company participates in this pool with a fixed percentage share. Some individual retrocessions exist alongside the pools.

Since the 2005 financial year Hannover Re had held participation certificates of HDI Haftpflichtverband der Deutschen Industrie V.a.G. in an amount of EUR 18.5 million with a coupon of 7.25%; they became due on 1 October 2008. The participation certificates were recognised under the portfolio of fixed-income securities held to maturity. The term of the participation certificates was limited to the end of the 2007 financial year. Repayment was made on the due date.

In the 2007 financial year Hannover Re (Bermuda) Ltd. extended a loan due on 31 May 2012 with a coupon of 4.98% to Talanx AG, the volume of which as at the balance sheet date was EUR 51.5 million (EUR 51.5 million). The carrying amount includes accrued interest of EUR 1.5 million (EUR 1.5 million). This instrument was recognised under other invested assets.

The Group companies E+S Rück, Hannover Finance (Luxembourg) S.A., Hannover Reinsurance (Ireland) Ltd. and Hannover Re (Bermuda) Ltd. invested in an amount of altogether EUR 153.9 million in a bearer debenture of Talanx AG with a term until 8 July 2013 and a coupon of 5.43%. The carrying amount of the instrument, which is recognised under fixed-income securities held to maturity, was EUR 154.9 million and included accrued interest of EUR 3.9 million (EUR 3.9 million) as at the balance sheet date.

As at 31 December 2008 Hannover Reinsurance (Ireland) Ltd. recognised loan receivables due from Aspecta Lebensversicherung AG and Aspecta Assurance International Luxembourg S.A. in an amount of altogether EUR 255.9 million (EUR 249.8 million). The loans result from a group of reinsurance contracts for which Talanx AG had furnished guarantees, which in 2007 were transferred to Hannover Reinsurance (Ireland) Ltd. In accordance with IAS 39 the contracts in question were classified as financial instruments with the character of loans and receivables measured at amortised cost, and the corresponding changes in income are recognised in ordinary investment income.

Under articles of partnership dated 7 December 2007 HAPEP II Komplementär GmbH, Hannover – as general partner – and AmpegaGerling Asset Management GmbH, Cologne – as limited partner with the power to conduct business – established Hannover Re Euro PE Holdings GmbH & Co. KG, Cologne. Additional limited partners are Hannover Re and E+S Rück. Please see our remarks in Section 5.1 "Acquisitions and new formations".

As part of long-term lease arrangements companies belonging to the Hannover Re Group rented out business premises in 2008 to HDI Direkt Versicherung AG and Protection Reinsurance Intermediaries AG, both based in Hannover. IT and management services were also performed for the latter under service contracts.

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

Companies belonging to the Talanx Group granted the Hannover Re Group insurance protection *inter alia* in the areas of public liability, fire, group accident and business travel collision insurance.

Talanx AG took out directors' and officers' (D&O) insurance for Praetorian Financial Group, Inc., New York, on behalf of the Hannover Re Group. The insurance premiums were billed to Hannover Re, which the latter on-debited to Hannover Finance, Inc.

In addition, 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. We gave an account of these transactions with regard to Hannover Re and E+S Rück in the corresponding dependent company reports pursuant to § 312 Stock Corporation Act (AktG).

8.2 Remuneration and shareholdings of the management boards of the parent company

With regard to this information please see in general the remuneration report included as part of our Corporate Governance report, in particular page 187 et seq.

The remuneration report is based on the recommendation of the German Corporate Governance Code and contains information which also forms part of the notes to the 2008 consolidated financial statement as required by IAS 24 "Related Party Disclosures". In addition, we took into account the more specific provisions of DRS 17 "Reporting on the Remuneration of Members of Governing Bodies". Under German commercial law, too, this information includes data specified as mandatory for the notes (§ 314 HGB) and the management report (§ 315 HGB). These details are discussed as a whole in the remuneration report. Consequently, we have not provided any further explanation in the notes or management report.

8.3 Share-based payment

With effect from 1 January 2000 the Executive Board of Hannover Re, with the consent of the Supervisory Board, introduced a virtual stock option plan that provides for the granting of stock appreciation rights to certain managerial staff. The content of the stock option plan is based solely on the Conditions for the Granting of Stock Appreciation Rights. All the members of the Group's management are eligible for the award of stock appreciation rights. Exercise of the stock appreciation rights does not give rise to any entitlement to the delivery of Hannover Re stock, but merely to payment of a cash amount linked to the performance of the Hannover Re share. Recognition of transactions involving stock appreciation rights with cash settlement is governed by the requirements of IFRS 2 "Share-based Payment".

Stock appreciation rights were first granted for the 2000 financial year and are awarded separately for each subsequent financial year (allocation year), provided the performance criteria defined in the Conditions for the Granting of Stock Appreciation Rights are satisfied.

The internal performance criterion is achievement of the target performance defined by the Supervisory Board, which is expressed in terms of the diluted earnings per share calculated in accordance with IAS 33 "Earnings Per Share" (EPS). If the target EPS is surpassed or undershot, the provisional basic number of stock appreciation rights initially granted is increased or reduced accordingly to produce the EPS basic number. The external performance criterion is the development of the share price in the allocation year. The benchmark used in this regard is the (weighted) ABN Amro Rothschild Global Reinsurance Index. This index encompasses the performance of listed reinsurers worldwide. Depending upon the outperformance or underperformance of this index, the EPS basic number is increased – albeit by at most 400% of the EPS basic number – or reduced – although by no more than 50% of the EPS basic number.

The maximum period of the stock appreciation rights is ten years, commencing at the end of the year in which they are awarded. Stock appreciation rights which are not exercised by the end of the 10-year period lapse. Stock appreciation rights may only be exercised after a waiting period and then only within four exercise periods each year. For 40% of the stock appreciation rights (first tranche of each allocation year) the waiting period is two years; for each additional 20% of the stock appreciation rights (tranches two to four of each allocation year) the waiting period is extended by one year. Each exercise period lasts for ten trading days, in each case commencing on the sixth trading day after the date of publication of the quarterly report of Hannover Rückversicherung AG.

Upon exercise of a stock appreciation right the amount paid out to the entitled party is the difference between the basic price and the current market price of the Hannover Re share at the time of exercise. In this context, the basic price corresponds to the arithmetical mean of the closing prices of the Hannover Re share on all trading days of the first full calendar month of the allocation year in question. The current market price of the Hannover Re share at the time when stock appreciation rights are exercised is determined by the arithmetical mean of the closing prices of the Hannover Re share on the last twenty trading days prior to the first day of the relevant exercise period.

The amount paid out is limited to a maximum calculated as a quotient of the total volume of compensation to be granted in the allocation year and the total number of stock appreciation rights awarded in the year in question.

In the event of cancellation of the employment relationship or termination of the employment relationship as a consequence of a termination agreement or a set time limit, a holder of stock appreciation rights is entitled to exercise all such rights in the first exercise period thereafter. Stock appreciation rights not exercised in this period and those in respect of which the waiting period has not yet expired shall lapse. Retirement, disability or death of the member of management shall not be deemed to be termination of the employment relationship for the purpose of exercising stock appreciation rights.

The allocations for the years 2000, 2002 to 2004 as well as 2006 and 2007 gave rise to the following commitments in the 2008 financial year. No allocations were made for 2001 or 2005:

Stock appreciation rights of Hannover Re

	Allocation year					
	2007	2006	2004	2003	2002	2000
Award date	28.03.2008	13.03.2007	24.03.2005	25.03.2004	11.04.2003	21.06.2001
Period	10 years	10 years	10 years	10 years	10 years	10 years
Waiting period	2 years	2 years	2 years	2 years	2 years	2 years
Basic price (in EUR)	34.97	30.89	27.49	24.00	23.74	25.50
Participants in year of issue	110	106	109	110	113	95
Number of rights granted	926,565	817,788	211,171	904,234	710,429	1,138,005
Fair Value at 31.12.2008 (in EUR)	2.45	2.86	4.48	3.62	3.43	1.73
Maximum value (in EUR)	10.79	10.32	24.62	8.99	8.79	5.49
Number of rights existing at 31.12.2008	926,565	805,931	161,146	135,159	10,607	8,028
Provisions at 31.12.2008 (in EUR million)	0.79	1.63	0.69	0.50	0.04	0.01
Amounts paid out in the 2008 financial year (in EUR million)	–	–	0.01	1.06	0.82	0.00
Expense in the 2008 financial year (in EUR million)	0.79	(0.06)	(0.77)	(0.13)	0.04	(0.03)*

* Although the maximum amount was reached some participants did not exercise all stock appreciation rights

In the 2008 financial year the waiting period expired for 100% of the stock appreciation rights awarded in 2000 and 2002, 80% of those awarded in 2003 and 60% of those awarded in 2004. 93,747 stock appreciation rights from the 2002 allocation year, 121,117 stock appreciation rights from the 2003 allocation year and 1,699 stock appreciation rights from the 2004 allocation year were exercised. The total amount paid out stood at EUR 1.89 million.

The stock appreciation rights of Hannover Re have developed as follows:

Development of the stock appreciation rights of Hannover Re

Number of options	Allocation year					
	2007	2006	2004	2003	2002	2000
Granted in 2001	–	–	–	–	–	1,138,005
Exercised in 2001	–	–	–	–	–	–
Lapsed in 2001	–	–	–	–	–	–
Number of options at 31.12.2001	–	–	–	–	–	1,138,005
Granted in 2002	–	–	–	–	–	–
Exercised in 2002	–	–	–	–	–	–
Lapsed in 2002	–	–	–	–	–	40,770
Number of options at 31.12.2002	–	–	–	–	–	1,097,235
Granted in 2003	–	–	–	–	710,429	–
Exercised in 2003	–	–	–	–	–	–
Lapsed in 2003	–	–	–	–	23,765	110,400
Number of options at 31.12.2003	–	–	–	–	686,664	986,835
Granted in 2004	–	–	–	904,234	–	–
Exercised in 2004	–	–	–	–	–	80,137
Lapsed in 2004	–	–	–	59,961	59,836	57,516
Number of options at 31.12.2004	–	–	–	844,273	626,828	849,182
Granted in 2005	–	–	211,171	–	–	–
Exercised in 2005	–	–	–	–	193,572	647,081
Lapsed in 2005	–	–	6,397	59,834	23,421	25,974
Number of options at 31.12.2005	–	–	204,774	784,439	409,835	176,127
Granted in 2006	–	–	–	–	–	–
Exercised in 2006	–	–	–	278,257	160,824	153,879
Lapsed in 2006	–	–	14,511	53,578	22,896	10,467
Number of options at 31.12.2006	–	–	190,263	452,604	226,115	11,781
Granted in 2007	–	817,788	–	–	–	–
Exercised in 2007	–	–	12,956	155,840	110,426	3,753
Lapsed in 2007	–	8,754	13,019	38,326	10,391	–
Number of options at 31.12.2007	–	809,034	164,288	258,438	105,298	8,028
Granted in 2008	926,565	–	–	–	–	–
Exercised in 2008	–	–	1,699	121,117	93,747	–
Lapsed in 2008	–	3,103	1,443	2,162	944	–
Number of options at 31.12.2008	926,565	805,931	161,146	135,159	10,607	8,028
Exercisable at 31.12.2008	–	–	93,991	10,574	10,607	8,028

The existing stock appreciation rights are valued on the basis of the Black/Scholes option pricing model.

The calculations were based on the price of the Hannover Re share of EUR 21.91 as at 19 December 2008, expected volatility of 34.54% (historical volatility on a five-year basis), a dividend yield of 0.00% and risk-free interest rates of 1.96% for the 2000 allocation year, 2.37% for the 2002 allocation year, 2.56% for the 2003 allocation year, 2.74% for the 2004 allocation year, 3.06% for the 2006 allocation year and 3.20% for the 2007 allocation year.

The average fair value of each stock appreciation right was EUR 1.73 for the 2000 allocation year, EUR 3.43 for the 2002 allocation year, EUR 3.62 for the 2003 allocation year, EUR 4.48 for the 2004 allocation year, EUR 2.86 for the 2006 allocation year and EUR 2.45 for the 2007 allocation year.

On this basis the aggregate provisions for the 2008 financial year amounted to EUR 3.7 million (EUR 5.7 million).

8.4 Mortgages and loans

Employees who are not members of the Executive Board or Supervisory Board were granted mortgages and mortgage loans to finance residential property. These loans are all secured by a first charge on property. Bad debt losses did not exist and are not anticipated.

9. Other notes

9.1 Lawsuits

In the context of the acquisition of Lion Insurance Company, Trenton/USA, by Hannover Finance, Inc., Wilmington/USA – a subsidiary of Hannover Re –, a legal dispute exists with the former owners of Lion Insurance Company regarding the release of a trust account in amount of around USD 13 million that serves as security for liabilities of the former owners in connection with a particular business segment.

With the exception of the aforementioned proceedings, no significant court cases were pending during the year under review or as at the balance sheet date – with the exception of proceedings within the scope of ordinary insurance and reinsurance business activities.

9.2 Contingent liabilities and commitments

Hannover Re has secured by subordinated guarantee a subordinated debt in the amount of USD 400.0 million issued in the 1999 financial year by Hannover Finance, Inc., Wilmington/USA. In February 2004 and May 2005 Hannover Re bought back portions of the subordinated debt in an amount of altogether USD 380.0 million, leaving USD 20.0 million still secured by the guarantee. For further details please see Section 7.8 "Debt and subordinated capital".

Hannover Re has placed three subordinated debts on the European capital markets through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured by subordinated guarantee both the debt issued in 2001, the volume of which now stands at EUR 138.1 million, and the debts from financial years 2004 and 2005 in amounts of EUR 750.0 million and EUR 500.0 million respectively. For further details please see Section 7.8 "Debt and subordinated capital".

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

In July 2004 Hannover Re and the other shareholders sold the participation that they held through Willy Vogel Beteiligungsgesellschaft mbH in Willy Vogel AG. In order to secure the guarantees assumed under the purchase agreement, Hannover Re and the other shareholders jointly gave the purchaser a directly enforceable guarantee limited to a total amount of EUR 7.1 million. Furthermore, in the event of a call being made on the guarantee Hannover Re and the other shareholders agreed that settlement would be based upon the ratio of participatory interests.

As security for technical liabilities to our US clients, we have established a master trust in the United States. As at the balance sheet date this master trust amounted to EUR 2,352.8 million (EUR 2,088.3 million). The securities held in the master trust are shown as available-for-sale investments. In addition, we extended further collateral to our cedants in an amount of EUR 269.3 million (31 December 2007: EUR 328.7 million) through so-called "single trust funds".

As part of our business activities we hold collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the Group's major companies was EUR 1,388.8 million (31 December 2007: EUR 1,235.1 million) as at the balance sheet date.

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 of the letters of credit as at the balance sheet date was EUR 2,470.9 million (EUR 2,150.0 million).

For liabilities in connection with participating interests in real estate companies and real estate transactions Hannover Re Real Estate Holdings has furnished the usual collateral under such transactions to various banks, the amount of which totalled EUR 85.5 million as at the balance sheet date.

Outstanding capital commitments with respect to special investments exist on the part of the Group in an amount of EUR 291.1 million (EUR 235.2 million). These primarily involve as yet unfulfilled payment obligations from participations entered into in private equity funds and venture capital firms.

Within the scope of a novation agreement regarding a life insurance contract we assumed contingent reinsurance commitments with respect to due date and amount. Hannover Re decided to exercise its right of novation early and assume the contract as at 31 December 2008. The payment of EUR 28.1 million due as a consequence of exercise of the right of novation encompasses both the repurchase of the estimated reinsurance commitment amounting to EUR 10.3 million and EUR 17.8 million in expected discounted repayments plus interest for the years 2009 to 2011.

By way of declarations dated 11 and 20 November 2008 E+S Rück participated in a counter-guarantee given by the insurance industry in a maximum amount of EUR 8.5 billion for the guarantee put up by the Federal Republic of Germany as part of a rescue package for Hypo Real Estate Holding AG, Munich, and its subsidiaries ("HRE Group"). In this connection the Federal Republic of Germany guarantees repayment of capital and interest to the German Bundesbank, which is to extend a loan to the HRE Group, as well as to the holders of newly issued debentures, through which further funds are to be made available to the HRE Group. The insurance industry assumes a portion of this guarantee amount put up by the federal government through the aforementioned counter-guarantee. The participating insurers are liable severally, but not jointly. E+S Rück's interest in this counter-guarantee is limited to a nominal amount of EUR 11.1 million (rounded).

9.3 Long-term commitments

Following the termination of the German Aviation Pool with effect from 31 December 2003, our participation consists of the run-off of the remaining contractual relationships.

Several Group companies are members of the association for the reinsurance of pharmaceutical risks and the association for the insurance of German nuclear reactors. In the event of one of the other pool members failing to meet its liabilities, an obligation exists to take over such other member's share within the framework of the quota participation.

9.4 Rents and leasing

Leased property

Future leasing commitments

Figures in EUR thousand	Payments
2009	3,362
2010	3,294
2011	2,773
2012	2,016
2013	1,468
Subsequent years	6,157

Operating leasing contracts produced expenditures of EUR 2.7 million (EUR 3.5 million) in the year under review.

Rented property

Altogether, non-cancellable contracts will produce the rental income shown below in subsequent years.

Rental income

Figures in EUR thousand	Payments to be received
2009	1,447
2010	1,375
2011	588
2012	588
2013	588
Subsequent years	—

Rental income totalled EUR 1.5 million (EUR 1.7 million) in the year under review.

The rental income resulted principally from the renting out of a property by Hannover Real Estate Holdings. This non-cancellable transaction has a remaining term of two years with an option to renew for a further five years.

9.5 Currency translation

Items in the annual financial statements of Group subsidiaries were measured in the currencies of the economic environment in which the subsidiary in question primarily operates. These currencies are referred to as functional currencies. The euro is the reporting currency in which the consolidated financial statement is prepared.

Foreign currency items in the individual companies' statements of income are converted into the respective functional currency at the average rates of exchange. 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. In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" differences from the currency translation of financial statements of foreign Group companies must be recognised in the consolidated financial statement as a separate item in shareholders' equity. Currency translation differences resulting from long-term loans or lendings without specified maturity between Group companies are similarly recognised outside the statement of income in a separate item of shareholders' equity.

Transactions in foreign currencies reported in Group companies' individual financial statements are converted into the reporting currency at the transaction rate. In accordance with IAS 21 the recognition of exchange differences on translation is guided by the nature of the underlying balance sheet item.

Exchange differences from the translation of monetary assets and liabilities are recognised directly in the statement of income.

Currency translation differences from the translation of non-monetary assets measured at fair value via the statement of income are recognised with the latter as profit or loss from fair value measurement changes.

Exchange differences from non-monetary items – such as equity securities – classified as available for sale are initially recognised outside income in a separate item of shareholders' equity and only booked to income when such non-monetary items are settled.

Key exchange rates

1 EUR corresponds to:	Mean rate of exchange on the balance sheet date		Average rate of exchange	
	31.12.2008	31.12.2007	2008	2007
AUD	2.0257	1.6775	1.7437	1.6385
BHD	0.5312	0.5530	0.5563	0.5176
CAD	1.7160	1.4440	1.5561	1.4700
CNY	9.6090	10.7400	10.2693	10.4308
GBP	0.9600	0.7346	0.7985	0.6861
HKD	10.8323	11.4760	11.4733	10.7171
KRW	1,775.0000	1,377.0000	1,602.6923	1,274.6923
MYR	4.8700	4.8652	4.9064	4.7131
SEK	10.9150	9.4350	9.6662	9.2458
USD	1.3977	1.4716	1.4739	1.3743
ZAR	13.1698	10.0300	11.9514	9.6499

9.6 Fee paid to the auditor

Total fees of EUR 6.6 million (EUR 6.5 million) were incurred for accountants' services throughout the Hannover Re Group worldwide in the year under review. They were principally comprised of auditing and tax consultancy fees.

Of this total amount, EUR 2.2 million (EUR 1.5 million) was attributable to the fee paid to the appointed auditor of the consolidated financial statement as defined by § 318 German Commercial Code (HGB). The amount includes a fee of EUR 2.0 million (EUR 1.2 million) for the auditing of the financial statement, EUR 0.1 million (EUR 0.2 million) for tax consultancy services and EUR 0.1 million (EUR 0.1 million) for consultancy and other services performed for the parent or subsidiary companies.

9.7 Events after the balance sheet date

As notified in a press release dated 23 February 2009, the acquisition announced on 23 January 2009 of a significant US individual life reinsurance portfolio under a reinsurance and asset purchase transaction with Scottish Re Group Limited, Hamilton, Bermuda, has been completed. Hannover Re will assume all technical liabilities associated with the business and will in turn receive assets to fund those liabilities from Scottish Re. In addition to assuming the business, Hannover Re will acquire the policy administration systems of Scottish Re as well as other assets supporting the US mortality reinsurance business. The acquisition includes all operating assets required to administer the business. Hannover Re will also employ part of Scottish Re's staff, thus ensuring operational continuity and a transfer of know-how. In 2009 this business is estimated to generate a premium volume of around USD 1.2 billion. The acquisition of the portfolio will be accretive to the Hannover Re's Group net income from 2009. The transaction has been approved by the competent regulatory authorities.

Winter storm "Klaus", which moved across southern France and northern Spain at the end of January, caused insured damage of around EUR 1.0 billion. In this connection Hannover Re anticipates a net burden of losses in the order of EUR 70 million.

Responsibility statement

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

Hannover, 4 March 2009

Executive Board



Zeller



Arrago



Dr. Becke



Gräber



Dr. König



Dr. Pickel



Wallin

We have audited the consolidated financial statements prepared by the Hannover Rückversicherung AG, Hannover, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Para 1 HGB and supplementary provisions of the articles of incorporation are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hannover, 5 March 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft

(formerly KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft)

Husch
Wirtschaftsprüfer

Dr. Dahl
Wirtschaftsprüfer

REPORT BY THE SUPERVISORY BOARD

of Hannover Re for the Hannover Re Group

In our function as the Supervisory Board we considered at length during the 2008 financial year the position and development of the company and its major subsidiaries. We advised the Executive Board on the direction of the company and monitored the management of business on the basis of written and verbal reports from the Executive Board. The Supervisory Board held four meetings in order to adopt the necessary resolutions after appropriate discussion. A resolution was adopted by a written procedure with respect to one matter requiring attention at short notice. Furthermore, we received quarterly written reports from the Executive Board on the course of business and the position of the company and the Group pursuant to § 90 German Stock Corporation Act. No audit measures pursuant to § 111 Para. 2 German Stock Corporation Act were required in the 2008 financial year. The reports provided by the Executive Board contain, *inter alia*, up-to-date details of the current planned and expected figures for the individual business groups. The reporting also covers strains from major losses as well as the investment portfolio, investment income, the ratings of the various Group companies and the development of the Group's global workforce. The quarterly reports with the quarterly financial statements and key figures for the Hannover Re Group constituted a further important source of information for the Supervisory Board. We received an analysis of the 2007 results in non-life and life/health reinsurance as well as a presentation from the Executive Board covering the profit expectations for the 2008 financial year and the operational planning for the 2009 financial year. In addition, the Chairman of the Supervisory Board was constantly advised by the Chairman of the Executive Board of major developments and impending decisions as well as of the risk situation within the company and the Group. All in all, we were involved in decisions taken by the Executive Board and assured ourselves of the lawfulness, regularity and efficiency of the company's management as required by our statutory responsibilities and those placed upon us by the company's Articles of Association.

Key points of deliberation

In addition to its discussion of a sizeable planned acquisition, the Supervisory Board obtained information about the implications for the year-end result of the international financial crisis and the above-average burden of losses, about the effects of movements in exchange rates on the balance sheet and statement of income as well as about the impact of the Act on the Modernisation of Accounting Law (BilMoG) on the work of the Supervisory Board. The operational planning for 2009 was also the subject of intense discussion. The reasons for divergences in the course of business from the applicable planned figures and targets in the financial year just-ended were explained to us, and we reconciled these deviations accordingly.

As part of its discussion of important individual projects the Supervisory Board considered, *inter alia*, the sale of a 1% interest and the granting of a purchase option on a further 2% interest in E+S Rückversicherung AG by Hannover Rück Beteiligung Verwaltungs-GmbH to Mecklenburgische Versicherungsgruppe. It also examined the authorisation process for real estate acquisitions and approved the revised strategic principles and objectives as well as updated Rules of Procedure for the Executive Board, in which the canon of measures and transactions subject to approval was extended in favour of the Supervisory Board. Last but not least, the Supervisory Board approved a capital increase at Hannover Life Reassurance Company of America in Orlando/USA.

Committees of the Supervisory Board

Of the committees formed by the Supervisory Board within the meaning of § 107 Para. 3 German Stock Corporation Act, the Balance Sheet Committee met twice and the Standing Committee met on three occasions. The Chairman of the Supervisory Board updated the full Supervisory Board on the committees' major deliberations at the next meeting.

The Balance Sheet Committee considered inter alia the consolidated financial statement drawn up in accordance with IFRS and the individual financial statement of the parent company Hannover Re drawn up in accordance with the German Commercial Code (HGB) and discussed with the auditors the reports submitted by the independent auditor on these financial statements. As in the previous year, an expert opinion on the adequacy of the loss reserves in non-life reinsurance, a review of the accumulated prefinancing volume in life reinsurance including a comparison of the expected return flows with the repayments actually made as well as the risk report pursuant to the Act on Control and Transparency (KonTraG), the report on compliance with Corporate Governance principles and reports on the major subsidiaries were received and discussed. In addition, the Committee examined the investment structure and investment income – including stress tests with regard to the investments and their implications for net income and the equity base – and defined the audit concentrations for the 2008 financial year as well as the auditors' fee. The criteria used for equity allocation within the Group, a comparison of target returns with the actual returns delivered by the individual business groups as well as the equity resources and rating implications constituted further key areas of deliberation.

In view of the impending retirement of the Chief Executive Officer, the Standing Committee deliberated throughout the year over the medium- and long-term planning for the overall composition of the Executive Board. As a result, it issued recommendations to the full Supervisory Board regarding the reappointment / non-reappointment of members of the Executive Board. In particular, the committee attended to the identification of internal and external candidates for appointment as the new Chief Executive Officer, undertook an in-depth evaluation of the short-listed candidates including consultations with an outside psychologist and on this basis submitted an appropriate proposal to the full Supervisory Board. In addition, the Standing Committee determined the performance bonuses of the members of the Executive Board for the 2007 financial year and the overall number of stock participation rights to be awarded to the Executive Board for the 2008 financial year. For the 2009 financial year recommendations were drawn up for the full Supervisory Board regarding the specification of the target performance (target EPS) and the total volume of remuneration to be granted.

Since no elections to the Supervisory Board were upcoming, the Nomination Committee set up in 2007 did not meet.

Corporate Governance

The Supervisory Board once again devoted considerable attention to the issue of Corporate Governance and closely examined, inter alia, the company's business principles, which were thoroughly revised against the backdrop of various changes in legislation and the amended version of the German Corporate Governance Code (DCGK). A good deal of time was also spent on the debate surrounding the recommendations of the German Corporate Governance Code Government Commission as amended 6 June 2008 published by the Federal Ministry of Justice. In particular, the redefined Code Items 4.2.3 Para. 4 (cap on severance payments in management board contracts) and 4.2.2 Para.1 (responsibility of the full supervisory board for the system of remuneration paid to the management board) were discussed at length. Despite the high importance that the Supervisory Board attaches to the standards of good and responsible enterprise management defined in the German Corporate Governance Code, the Supervisory Board decided not to comply with the recommendation concerning a cap on severance payments in management board contracts. The justification in this respect is provided in the Declaration of Conformity pursuant to § 161 German Stock Corporation Act regarding compliance with the German Corporate Governance Code, which is reproduced in this Annual Report in the Corporate Governance report together with further information on this topic. The reader is further referred to the company's publications in the Internet in relation to this topic.

Audit of the annual financial statements and consolidated financial statements

The accounting, annual financial statements, consolidated financial statements and the corresponding management reports were audited by KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG AG), formerly KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hannover. The Supervisory Board selected the auditor for the audit and the Balance Sheet Committee awarded the concrete audit mandate. In addition to the usual audit tasks, the audit focused particularly on the documentation of the internal control system for the preparation of the annual financial statements as well as the translation of foreign currencies in accordance with the German Commercial Code. In the context of the consolidated financial statements to be drawn up by Hannover Re in accordance with International Financial Reporting Standards (IFRS), the auditors were required to subject the implementation of IFRS 7 (Financial Instruments), the preparation for implementation of IFRS 8 (Operating Segments) and the definition of the scope of consolidation, especially with respect to special purpose entities (IAS 27, SIC 12), to particular scrutiny. The mandate for the review report by the independent auditors on the interim financial report as at 30 June 2008 was again also awarded. The special challenges associated with the international aspects of the audits were met without reservation. Since the audits did not give rise to any objections KPMG AG issued unqualified audit certificates. The Balance Sheet Committee discussed the annual financial statements and the management reports with the participation of the auditors and in light of the audit reports, and it informed the Supervisory Board of the outcome of its examination. The audit reports were distributed to all members of the Supervisory Board and scrutinised in detail – with the participation of the auditors – at the Supervisory Board meeting held to consider the annual results. The auditors will also be present at the Annual General Meeting.

The report on the company's relations with affiliated companies drawn up by the Executive Board has likewise been examined by KPMG AG and given the following unqualified audit certificate:

"Having audited the report in accordance with our professional duties, we confirm that

1. its factual details are correct;
2. in the case of the transactions detailed in the report, the expenditure of the company was not unreasonably high."

We have examined

- a) the annual financial statements of the company and the management report prepared by the Executive Board,
- b) the consolidated financial statements of the Hannover Re Group and the Group management report prepared by the Executive Board and
- c) the report of the Executive Board pursuant to § 312 German Stock Corporation Act (Report on relations with affiliated companies)

– in each case drawn up as at 31 December 2008 – and have no objections. Nor do we have any objections to the statement reproduced in the dependent company report. The Supervisory Board thus concurred with the opinions of the auditors and approved the annual financial statements and the consolidated financial statements; the annual financial statements are thereby adopted.

Changes on the Supervisory Board and the Executive Board

There were no changes in the composition of the Supervisory Board or the Executive Board in the year under review. At its meeting on 5 November 2008 the Supervisory Board extended the appointment of Mr. André Arrago and Mr. Ulrich Wallin as members of the company's Executive Board until 31 August 2014. At an extraordinary meeting of the Supervisory Board held on 21 January 2009 Mr. Wallin was appointed as the new Chief Executive Officer of the company with effect from 1 July 2009. Mr. Wallin will succeed Mr. Zeller, who is stepping down from the company's Executive Board at the end of June 2009 at the age of 65.

At the same meeting the decision was taken to terminate the mandate of Dr. Elke König as a member of the company's Executive Board on the most amicable terms effective 31 March 2009. The Supervisory Board expressed its thanks and appreciation to Dr. König for her considerable personal dedication and her successful work on behalf of the Hannover Re Group. Mr. Roland Vogel was appointed to succeed Dr. König as a deputy member of the Executive Board with effect from 1 April 2009 for a period of three years.

Word of thanks to the Executive Board and members of staff

The Supervisory Board thanks the members of the Executive Board and all staff for their work in the year under review.

Hannover, 10 March 2009

For the Supervisory Board

Wolf-Dieter Baumgartl
Chairman

CORPORATE GOVERNANCE

report

In past years Hannover Re was in compliance with all recommendations of the German Corporate Governance Code (DCGK). This continued to be the case in the present year, insofar as implementation of the German Corporate Governance Code as amended 14 June 2007 is concerned. We diverged with respect to one item of the Code as amended 6 June 2008. The item in question involves a recommendation adopted with the most recent amendment of the Code to the effect that a severance cap should be included when new management contracts are drawn up or existing ones renewed. The reasons for our decision are explained in the Declaration of Conformity contained in this report.

An independent survey of acceptance of the Code's recommendations and suggestions conducted by the Berlin Center of Corporate Governance found that Hannover Re once again – as in previous years – ranked as one of the leaders among MDax-listed companies when it came to compliance with the provisions of the Code. On average, companies listed on the MDax satisfied just 74 of the 80 recommendations of the Code as amended 14 June 2007, leaving the level of acceptance unchanged at 92.4%.

As we had already explained at this juncture in the previous year, good enterprise management and supervision in the spirit of state-of-the-art Corporate Governance continues to be enshrined in Hannover Re's business practices as a matter of course. This is already evident from the fact that the Executive Board and Supervisory Board consistently address changes in the relevant legal framework conditions in a timely manner and the latest legal developments are promptly codified in internal corporate standards. The company's Business Principles, for example, were subjected to a thorough review in order to maintain Hannover Re's very good reputation and – by setting high standards – to shape a lasting and above all favourable image of our company in the perception of our shareholders, business partners and the public at large.

With an eye to the theme of compliance, we informed you last year that explicit responsibility for this issue is now enshrined within the schedule of responsibility of the Executive Board and the Balance Sheet Committee of the Supervisory Board. Since then, the Executive Board has regularly briefed the Balance Sheet Committee in detailed reports on the latest developments and activities in this area. The goal of these efforts is to prevent any infractions of the law and to ensure that every single employee and officer at Hannover Re conducts themselves with integrity, irrespective of whether the matter at hand is one of antitrust law, compliance with national and international embargo regulations or equal treatment and non-discrimination.

The resolutions adopted by the Government Commission on the German Corporate Governance Code on 6 June 2008 regarding the further refinement of the Code in the area of management board remuneration were discussed at length by the Supervisory Board. In this regard, it was agreed that the company should comply with the recommendation contained in Item 4.2.2 Para. 1 of the Code. At its first meeting of 2009 the full Supervisory Board will therefore decide upon the remuneration system for the Executive Board, including the major contractual components, and subsequently subject this to regular review.

The activities described here testify to the considerable significance that the Executive Board and Supervisory Board attach to the issue of Corporate Governance. All these efforts are driven by the goal of bringing about sustained growth in the value of the company and strengthening and consolidating on a lasting basis the trust placed in the enterprise by our shareholders, business partners, clients, employees and the general public. On this basis Hannover Re supports the principles of value-based and transparent enterprise management and supervision as defined in the German Corporate Governance Code (DCGK) and recognises their importance in guiding its activities.

In the year just-ended we again devoted considerable attention to our communication with the financial market and developed an impressive range of Investor Relations activities. For further details please see the section entitled "The Hannover Re share" in this Annual Report.

Remuneration report for the Executive Board and individualised disclosure of the remuneration received by Supervisory Board members pursuant to Items 4.2.5 and 5.4.7 of the German Corporate Governance Code

The information regarding these items is provided in the remuneration report.

Securities transactions pursuant to Item 6.6 of the German Corporate Governance Code

With regard to this information we would also refer the reader to the remuneration report.

Shareholdings pursuant to Item 6.6 of the German Corporate Governance Code

Information in this respect is similarly provided in the remuneration report.

Share-based payment pursuant to Item 7.1.3 of the German Corporate Governance Code

Information regarding this topic is provided under Item 8.3 of the notes and in the remuneration report with respect to the members of the Executive Board.

Remuneration report

The remuneration report summarises the principles used to determine the remuneration of the Executive Board of Hannover Re and explains the amount of the income received by the Executive Board in the 2008 financial year on the basis of the Board members' work for Hannover Re and its affiliated companies. In addition, the amount of the remuneration paid to the Supervisory Board on the basis of its work for Hannover Re and its affiliated companies and the principles according to which this remuneration is determined are explained.

The remuneration report is based on the recommendations of the German Corporate Governance Code and contains information which forms part of the notes to the 2008 consolidated financial statement as required by IAS 24 "Related Party Disclosures". In addition, we took into account the more specific provisions of DRS 17 "Reporting on the Remuneration of Members of Governing Bodies". Under German commercial law, too, this information includes data specified as mandatory for the notes (§ 314 HGB) and the management report (§ 315 HGB). These details are discussed as a whole in the remuneration report. Consequently, we have not provided any further explanation of the information discussed in the remuneration report in the Group management report or the notes to the consolidated financial statement.

Remuneration of the Executive Board

Responsibility

The Supervisory Board has delegated responsibility for determination of the amount of the remuneration paid to Hannover Re's Executive Board to the Standing Committee.

Objective

The purpose of the remuneration system for the Executive Board is to appropriately recompense the members of the Executive Board according to their scope of activity and responsibility. In this context, a large variable portion of the total remuneration makes direct allowance for the joint and individual performance of the Executive Board as well as for the performance of the company.

Structure of the remuneration received by the Executive Board

With this objective in mind, the remuneration system consists of three components: fixed emoluments, a variable bonus as well as a share-based remuneration component based on a virtual stock option plan with a long-term incentive effect and risk elements.

The fixed emoluments, paid in twelve monthly instalments, are guided by the professional experience and area of responsibility of the Board member in question.

The variable bonus is cash compensation measured by the performance in the financial year; half is based on the individual Board member's profit contribution and half on the net income generated by the Group as a whole.

The members of the Executive Board are entitled to receive stock appreciation rights under the virtual stock option plan implemented in 2000 for certain members of the Group's management.

The content of the stock option plan is based solely on the Conditions for the Granting of Stock Appreciation Rights. Under these conditions, stock appreciation rights are awarded separately for each financial year provided the internal and external performance criteria defined in advance by the Supervisory Board are met.

The internal performance criterion is satisfied upon achievement of the target diluted earnings per share (EPS) calculated in accordance with IAS 33 "Earnings Per Share". The external performance criterion is the increase in the value of the Hannover Re share. The benchmark used to measure this increase in value is the weighted ABN Amro Global Reinsurance Index. The benchmarks cannot be retrospectively altered.

Exercise of the stock appreciation rights does not give rise to any entitlement to the delivery of Hannover Re stock, but merely to payment of a cash amount linked to the performance of the Hannover Re share. The amount paid out is limited to a maximum calculated as a quotient of the total volume of compensation to be granted in the allocation year and the total number of stock appreciation rights awarded in the year in question.

For further details of the virtual stock option plan please see the explanations provided in the notes to this Group Annual Report, Section 8.3 "Share-Based Payment".

Amount of remuneration received by the Executive Board

The total remuneration received by the Executive Board of Hannover Re on the basis of its work for Hannover Re and its affiliated companies is calculated from the sum of all compensation accruing in cash as well as in pecuniary advantages from non-cash compensation. It can be broken down as follows in the year under review:

Total remuneration received by the Executive Board

Figures in EUR thousand	2008	2007
Compensation in cash		
Fixed emoluments	1,909.2	1,782.1
Variable bonuses for the previous year	2,689.2	2,228.7
Remuneration from Group companies netted with the bonus	145.3	145.7
(Stock appreciation rights awarded	527.3	1,197.9)
Stock appreciation rights executed	449.7	433.8
	5,193.4	4,590.3
Taxable amount from non-cash compensation	91.1	84.9
Total	5,284.5	4,675.2

In the 2008 financial year 215,280 stock appreciation rights totalling EUR 0.5 million (EUR 1.2 million) were granted for the 2007 allocation year; stock appreciation rights granted in previous years were exercised in an amount of EUR 0.4 million (EUR 0.4 million).

As at 31 December 2008 the members of the Executive Board had at their disposal a total of 484,232 (319,444) granted, but not yet exercised stock appreciation rights with a fair value of EUR 1.4 million (EUR 2.2 million).

The Annual General Meeting of Hannover Re held on 12 May 2006 resolved by a voting majority of 85.5% to avail itself until 31 December 2010 of the option contained in the Act on the Disclosure of Management Remuneration (VorstOG) not to specify the remuneration of the Executive Board on an individualised basis by name for a period of at most five years from the date when the resolution is adopted.

Retirement provision

The pension agreements of the members of the Executive Board with Hannover Re contain commitments to an annual retirement pension calculated as a percentage of the fixed annual emoluments. There were seven individual commitments to the active Board members in the year under review. An amount of EUR 1.5 million (EUR 2.0 million) was allocated to the provision for pensions in the year under review. This includes the allocation to the employee-funded provision constituted from deferred compensation – an allocation that was made from the variable bonus for the previous year. The provision for pensions stood at EUR 9.9 million (EUR 8.4 million) as at 31 December 2008.

The remuneration paid to former members of the Executive Board and their surviving dependants, for whom eleven pension commitments existed, totalled EUR 1.3 million (EUR 0.9 million) in the year under review. Altogether, an amount of EUR 10.7 million (EUR 9.8 million) has been set aside for these commitments.

Sideline activities of the members of the Executive Board

The members of the Executive Board require the approval of the Supervisory Board to take on sideline activities. This ensures that neither the remuneration granted nor the time required for this activity can create a conflict with their responsibilities on the Executive Board. If the sideline activities involve seats on supervisory boards or comparable control boards, these are listed and published in the Annual Report of Hannover Re. The remuneration received for supervisory board seats at Group companies is deducted when calculating the variable bonus and shown separately in the above table.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is determined by the Annual General Meeting of Hannover Re and regulated by the Articles of Association.

In accordance with § 12 of the Articles of Association as amended on 3 August 2007, the members of the Supervisory Board receive fixed annual remuneration of EUR 10,000 per member in addition to reimbursement of their expenses. Furthermore, each member of the Supervisory Board receives variable remuneration of 0.03% of the operating profit (EBIT) reported by the company in the consolidated financial statement drawn up in accordance with International Financial Reporting Standards (IFRS). Variable remuneration is not paid if the EBIT is negative.

In addition, the members of the Balance Sheet Committee formed by the Supervisory Board receive an emolument of 30% of the previously described fixed and variable remuneration for their committee work. The members of the Standing Committee formed by the Supervisory Board receive an additional emolument of 15% of the previously described fixed and variable remuneration for their committee work.

The Chairman of the Supervisory Board or of a Committee receives three times the aforementioned amounts, while a Deputy Chairman receives one-and-a-half times the said amounts.

No remuneration was approved for the members of the Nomination Committee.

The remuneration for a financial year is due upon completion of the Annual General Meeting that ratifies the acts of the Supervisory Board for the financial year in question. Value-added tax payable upon the remuneration is reimbursed by the company.

Individual remuneration received by the members of the Supervisory Board in the year under review

Figures in EUR thousand		2008	2007
Name	Function		
Wolf-Dieter Baumgartl	Chairman of the – Supervisory Board – Standing Committee – Balance Sheet Committee – Nomination Committee	243.0	185.6
Dr. Klaus Sturany	Deputy Chairman of the Supervisory Board Member of the Standing Committee	71.6	49.7
Dr. Paul Wieandt	Deputy Chairman of the Supervisory Board (until 20 March 2007)	17.7	74.1
Herbert K. Haas	Member of the – Supervisory Board – Standing Committee – Balance Sheet Committee – Nomination Committee	163.9	107.9
Karl Heinz Midunsky	Member of the – Supervisory Board – Nomination Committee	47.8	43.6
Dr. Erhard Schipporeit	Member of the – Supervisory Board – Nomination Committee	42.9	3.6
Dr. Immo Querner	Member of the Supervisory Board	87.8	35.7
Otto Müller*	Member of the Supervisory Board	47.8	43.6
Renate Schaper-Stewart*	Member of the Supervisory Board (until 2 May 2007)	15.2	42.4
Dipl.-Ing. Hans-Günter Siegerist*	Member of the Supervisory Board (until 2 May 2007)	12.8	35.6
Uwe Kramp*	Member of the Supervisory Board	32.0	1.2
Gert Waechtler*	Member of the Supervisory Board	32.0	1.2
Total		814.5	624.2

* Employee representatives

All the members of the Supervisory Board receive an attendance allowance of EUR 500 for their participation in each meeting of the Supervisory Board and the Committees. These fees are included in the reported remuneration.

In the year under review no payments or benefits were granted to members of the Supervisory Board in return for services provided individually outside the committee work described above, including for example consulting or mediation services, with the exception of the remuneration paid to employee representatives on the basis of their employment contracts.

Loans to members of the management boards and contingent liabilities

In order to avoid potential conflicts of interest, Hannover Re may only grant loans to members of the Executive Board or the Supervisory Board or their dependants with the approval of the Supervisory Board.

In 2008 no loan relationships existed with members of Hannover Re's Executive Board or Supervisory Board, nor did the company enter into any contingent liabilities for members of the management boards.

Securities transactions and shareholdings (directors' dealings)

Dealings in shares, options and derivatives of Hannover Rückversicherung AG effected by members of the Executive Board or Supervisory Board of Hannover Re or by other persons with managerial functions who regularly have access to insider information concerning the company and who are authorised to take major business decisions – as well as such dealings conducted by certain persons closely related to the aforementioned individuals – in excess of EUR 5,000 are to be reported pursuant to § 15a Securities Trading Act (WpHG). The following reportable transactions took place in the 2008 financial year.

Securities transactions

Name	Type of transaction	Type of security	ISIN	Transaction date	Number of securities	Price in EUR	Total volume in EUR
Wilhelm Zeller	Sale	Bond	XS0126063386	23.01.2008	25 ¹⁾	101.95	25,487.50
Wilhelm Zeller	Purchase	Share	DE0008402215	23.01.2008	1,000	28.00	28,000.00
Wilhelm Zeller	Purchase	Share	DE0008402215	18.11.2008	2,115	20.90 ²⁾	44,193.00
André Arrago	Purchase	Share	DE0008402215	07.11.2008	4,100	16.80	68,880.00
André Arrago	Purchase	Share	DE0008402215	11.11.2008	25,900	16.80	435,120.00

¹⁾ The bonds have a nominal value of EUR 1,000.00 each

²⁾ Rounded, the average price was EUR 20.89504

Members of the Supervisory Board and Executive Board of Hannover Re as well as their spouses or registered partners and first-degree relatives hold less than 1.0% of the issued shares. As at 31 December 2008 the total holding amounted to 0.058% (0.031%) of the issued shares, i.e. 69,991 (37,096) shares.

German Corporate Governance Code

The company is in compliance with the recommendations of the Code as amended 14 June 2007 in all respects. It diverges from the recommendations of the Code as amended 6 June 2008 in one respect (cf. specifically the Declaration of Conformity below).

Declaration of Conformity pursuant to § 161 Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code at Hannover Rückversicherung AG

The German Corporate Governance Code sets out major statutory requirements governing the management and supervision of German listed companies. It contains both nationally and internationally recognised standards of good and responsible enterprise management. The purpose of the Code is to foster the trust of investors, clients, employees and the general public in German enterprise management. Under § 161 Stock Corporation Act (AktG) it is incumbent on the Management Board and Supervisory Board of German listed companies to provide an annual declaration of conformity with the recommendations of the "German Corporate Governance Code Government Commission" published by the Federal Ministry of Justice or to explain which recommendations of the Code were/are not applied.

The Executive Board and Supervisory Board declare pursuant to § 161 Stock Corporation Act (AktG) that in its implementation of the German Corporate Governance Code Hannover Rückversicherung AG was in compliance with all recommendations contained in the version dated 14 June 2007, while it diverged in one respect in its implementation of the version of the Code dated 6 June 2008:

Code Item 4.2.3 Para. 4; Caps on severance payments in Management Board contracts

Premature termination of a service contract without serious cause may only take the form of cancellation by mutual consent. Even if the Supervisory Board insists upon setting a severance cap when concluding or renewing an Executive Board contract, this does not preclude the possibility of negotiations also extending to the severance cap in the event of a member leaving the Executive Board. Whilst it is true that the legal literature discusses structuring options that would permit the legally secure implementation of the recommendation contained in Item 4.2.3 Para. 4, it is, however, open to question whether qualified candidates for a position on the company's Executive Board would accept appropriate clauses. In addition, the scope for negotiation over a member leaving the Executive Board would be restricted, which could be particularly disadvantageous in cases where there is ambiguity surrounding the existence of serious cause for termination. In the opinion of Hannover Rückversicherung AG, it is therefore in the interest of the company to diverge from the recommendation contained in Item 4.2.3 Para. 4.

Supplementary note on Code Item 4.2.4; disclosure of remuneration received by members of the Executive Board

With respect to the non-mandatory provision of the Code requiring individualised specification of the remuneration received by members of the Executive Board, we are following the resolution of the Annual General Meeting of 12 May 2006, according to which the disclosures required in § 285 Clause 1 No. 9 Letter a Sentences 5 to 9 and § 314 Para. 1 No. 6 Letter a Sentences 5 to 9 German Commercial Code as amended by the Act on Disclosure of Executive Board Compensation (Vorstandsvergütungs-Offenlegungsgesetz) shall be omitted.

We are in compliance with all other recommendations of the Code.

Hannover, 5 November 2008

For the Executive Board

For the Supervisory Board

THE HANNOVER RE GROUP

Our global presence

America

Hannover Rückversicherung AG
Canadian Branch - Chief Agency
Toronto, Canada

Hannover Rückversicherung AG
Canadian Branch - Facultative Office
Toronto, Canada

Clarendon Insurance
Group, Inc.
New York, USA
(100.0%)

Hannover Re
Services USA, Inc.
Itasca/Chicago, USA
(100.0%)

Hannover Life Reassurance
Company of America
Orlando, USA
(100.0%)

Hannover Life Re
(Bermuda) Ltd.
Hamilton, Bermuda
(100.0%)

Hannover Re (Bermuda) Ltd.
Hamilton, Bermuda
(100.0%)

Hannover Services
(México) S.A. de C.V.
Mexico-City, Mexico
(100.0%)

Hannover Rückversicherung AG
Bogotá Representative Office
Bogotá, Colombia

Hannover Re Escritório de
Representação no Brasil Ltda.
Rio de Janeiro, Brazil
(100.0%)

%-figures = participation

Europe

Hannover Rückversicherung AG
Hannover, Germany

E+S Rückversicherung AG
Hannover, Germany
(64.2%)

Africa

Hannover Life
Reassurance Africa Limited
Johannesburg, South Africa
(100.0%)

Hannover Reinsurance
Africa Limited
Johannesburg, South Africa
(100.0%)

Compass Insurance
Company Ltd.
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(100.0%)



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GLOSSARY

Accumulation loss: sum of several individual losses incurred by various policyholders as a result of the same loss event (e.g. wind-storm, earthquake). This may lead to a higher loss for the direct insurer or reinsurer if several affected policyholders are insured by the said company.

Acquisition cost, deferred (DAC): cost of an insurance company that arises from the acquisition or the renewal of an insurance contract (e.g. commission for the closing, costs of proposal assessment and underwriting etc.). Capitalisation results in a distribution of the cost over the duration of the contract.

Aggregate excess of loss treaty: a form of excess of loss treaty re-insurance under which the reinsurer responds when a ceding insurer incurs losses on a particular line of business during a specific period (usually 12 months) in excess of a stated amount.

Alternative risk financing: use of the capacity available on the capital markets to cover insurance risks, e.g. through the securitisation of natural catastrophe risks.

American Depository Receipt (ADR): share certificates written by US banks on foreign shares deposited there. Instead of trading the foreign shares directly, US stock exchanges trade the ADRs.

Bancassurance: partnership between a bank and an insurance company for the purpose of selling insurance products through the banking partner's branches. The link between the insurer and the bank is often characterised by an equity participation or a long-term strategic cooperation between the two parties.

Benefit reserves: value arrived at using mathematical methods for future liabilities (present value of future liabilities minus present value of future incoming premiums), primarily in life and health insurance.

Block assumption transaction (BAT): proportional reinsurance treaty on a client's life or health insurance portfolio, by means of which it is possible, *inter alia*, for our clients to realise in advance the future profits so as to be able to efficiently ensure the attainment of corporate objectives, e.g. in the areas of financial or solvency policy.

CAPM: cf. → Capital asset pricing model

Capital asset pricing model (CAPM): the CAPM is used to explain the materialisation of prices/returns on the capital market based on investor expectations regarding the future probability distribution of returns. Under this method, the opportunity cost rate for the shareholders' equity consists of three components – a risk-averse interest rate, a market-specific risk loading and an enterprise-specific risk assessment, the beta coefficient. The cost of shareholders' equity is therefore defined as follows: risk-averse interest rate + beta * enterprise-specific risk assessment.

Cash flow statement: statement on the origin and utilisation of cash and cash equivalents during the accounting period. It shows the changes in liquid funds separated into cash flows from operating, investing and financing activities.

Catastrophe loss: loss which has special significance for the direct insurer or reinsurer due to the amount involved; it is defined as a catastrophe loss in accordance with a fixed loss amount or other criteria.

Cedant: direct insurer or reinsurer which passes on (also: cedes) shares of its insured or reinsured risks to a reinsurer in exchange for premium.

Cession: transfer of a risk from the direct insurer to the reinsurer.

Claims and claims expenses: sum total of paid claims and provisions for loss events that occurred in the business year; this item also includes the result of the run-off of the provisions for loss events from previous years, in each case after the deduction of own re-insurance cessions.

Coinsurance Funds Withheld- (CFW) Treaty: type of coinsurance contract where the ceding company retains a portion of the original premium at least equal to the ceded reserves. Similar to a → Modco contract the interest payment to the reinsurer reflects the investment return on an underlying asset portfolio.

Combined ratio: sum of the loss ratio and expense ratio.

Confidence (also: probability) level: the confidence level defines the probability with which the defined amount of risk will not be exceeded.

Contribution margin accounting level 5 (DB 5): this level of contribution margin accounting constitutes the clear profit after earning the discounted claims expenditure plus all external and internal costs including the cost of capital.

Corporate Governance: serves to ensure responsible management and supervision of enterprises and is intended to foster the trust of investors, clients, employees and the general public in companies.

Credit status (also: creditworthiness): ability of a debtor to meet its payment commitments.

Creditworthiness: cf. → credit status

Critical illness coverages: cf. → dread disease coverages

DB 5: cf. → Contribution margin accounting level 5

Deposit accounting: an accounting method originating in US accounting principles for the recognition of short-term and multi-year insurance and reinsurance contracts with no significant underwriting risk transfer. The standard includes *inter alia* provisions relating to the classification of corresponding contract types as well as the recognition and measurement of a deposit asset or liability upon inception of such contracts.

Deposits with ceding companies/deposits received from retrocessionaires (also: funds held by ceding companies/funds held under reinsurance treaties): collateral provided to cover insurance liabilities that a (re-)insurer retains from the liquid funds which it is

to pay to a reinsurer under a reinsurance treaty. In this case, the retaining company shows a deposit received, while the company furnishing the collateral shows a deposit with a ceding company.

Derivatives, derivative financial instruments: these are financial products derived from underlying primary instruments such as equities, fixed-income securities and foreign exchange instruments, the price of which is determined on the basis of an underlying security or other reference asset. Notable types of derivatives include swaps, options and futures.

Direct (also: primary) insurer: company which accepts risks in exchange for an insurance premium and which has a direct contractual relationship with the policyholder (private individual, company, organisation).

Discounting of loss reserves: determination of the present value of future profits through multiplication by the corresponding discount factor. In the case of the loss reserves this is necessary because of the new profit calculation methods for tax purposes applicable to German joint-stock corporations.

Diversification: orientation of business policy towards various revenue streams in order to minimise the effects of economic fluctuations and stabilise the result. Diversification is an instrument of growth policy and risk policy for a company.

Dread disease (also: critical illness) coverages: personal riders on the basis of which parts of the sum insured which would otherwise only become payable on occurrence of death are paid out in the event of previously defined severe illnesses.

Due diligence: activity generally performed as part of a capital market transaction or in the case of mergers and acquisitions, covering inter alia an examination of the financial, legal and tax situation.

Earnings per share, diluted: ratio calculated by dividing the consolidated net income (loss) by the weighted average number of shares outstanding. The calculation of the diluted earnings per share is based on the number of shares including subscription rights already exercised or those that can still be exercised.

Earnings retention: non-distribution of a company's profits leading to a different treatment for tax purposes than if profits were distributed.

EEV: cf. → European embedded value

European embedded value (EEV): present value of shareholders' interests in the earnings distributable from assets allocated to the covered business after sufficient allowance for the aggregate risks in the covered business.

Excess of loss treaty: cf. → non-proportional reinsurance

Excess return on capital allocated (xRoCA): describes the → IVC in relation to the allocated capital and shows the relative excess return generated above and beyond the weighted cost of capital.

Expense ratio: administrative expenses in relation to the (gross or net) premiums written.

Exposure: level of danger inherent in a risk or portfolio of risks; this constitutes the basis for premium calculations in reinsurance.

Facultative reinsurance: participation on the part of the reinsurer in a particular individual risk assumed by the direct insurer. This is in contrast to → obligatory (also: treaty) reinsurance.

Fair value: price at which a financial instrument would be freely traded between two parties.

Financial Accounting Standards Board (FASB): committee in the USA whose task is to determine and improve upon the standards of accounting and reporting.

Financial Accounting Standards (FAS): cf. → Statement of Financial Accounting Standards (SFAS)

Financial Solutions: targeted provision of financial support for primary insurers through reinsurance arrangements under which the reinsurer participates in the original costs of an insurance portfolio and receives as a consideration a share of the future profits of the said portfolio. This approach is used primarily for long-term products in personal lines, such as life, annuity and personal accident insurance.

Free float: the free float refers to the part of the capital stock held by shareholders with a low stockholding in both absolute and relative terms.

Funds held by ceding companies/funds held under reinsurance treaties: cf. → Deposits with ceding companies/deposits received from retrocessionaires

Goodwill: the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed.

Gross/Retro/Net: gross items constitute the relevant sum total deriving from the acceptance of direct insurance policies or reinsurance treaties; retro items constitute the relevant sum total deriving from own reinsurance cessions. The difference is the corresponding net item (gross – retro = net, also: for own account).

Hybrid capital: debt structure which because of its subordination bears the character of both debt and equity

IBNR (Incurred but not reported) reserve: provision for claims which have already occurred but which have not yet been reported.

Impairment: extraordinary amortisation taken when the present value of the estimated future cash flow of an asset is less than its book value.

International Accounting Standards (IAS): cf. → International Financial Reporting Standards (IFRS)

International Accounting Standards Board (IASB): committee in the EU whose task is to determine and improve upon the international standards of accounting and reporting.

International Financial Reporting Standards (IFRS): standards published by the International Accounting Standards Board on accounting and reporting (until 2002 they were named International Accounting Standards, IAS).

International Securities Identification Number (ISIN): ten-character universal code used to identify securities internationally. It is prefixed by a country code that specifies the country where the issuer entity is legally registered or in which it has legal domicile, e.g. DE = Germany.

Intrinsic value creation (IVC): the IVC is calculated according to the following formula: real operating value creation = adjusted operating profit (EBIT) – (capital allocated x weighted cost of capital). IVC is a tool of value-based enterprise management used to measure the accomplishment of long-term targets on the level of the Group, the individual business groups and the operating units (profit centres).

Investment grade: investment grade ratings are awarded to companies and assigned to securities that have a low risk profile. They contrast with non-investment-grade ratings, which by definition include speculative elements and therefore entail a significantly higher risk.

IVC: cf. → Intrinsic value creation

Issuer: private enterprise or public entity that issues securities, e.g. the federal government in the case of German Treasury Bonds and a joint-stock corporation in the case of shares.

Leader: if several (re-)insurers participate in a contract, one company assumes the role of leader. The policyholder deals exclusively with this lead company. The lead (re-) insurer normally carries a higher percentage of the risk for own account.

Letter of credit (LOC): bank guarantee; at the request of the guaranteed party, the bank undertakes to render payment to the said party up to the amount specified in the LOC. This method of providing collateral in reinsurance business is typically found in the USA.

Life and health (re-)insurance: collective term for the lines of business concerned with the insurance of persons, i.e. life, pension, health and personal accident insurance.

Life business: this term is used to designate business activities in our life and health reinsurance business group.

Loss, economic: total loss incurred by the affected economy as a whole following the occurrence of a loss. The economic loss must be distinguished from the → insured loss.

Loss, insured: the insured loss reflects the total amount of losses covered by the insurance industry (insurers and reinsurers).

Loss ratio: proportion of loss expenditure in the → retention relative to the (gross or net) premiums earned.

Mark-to-market valuation: the evaluation of financial instruments to reflect current market value or → fair value.

Matching currency cover: coverage of technical liabilities in foreign currencies by means of corresponding investments in the same currency in order to avoid exchange-rate risks.

Modified Coinsurance- (Modco) Treaty: type of reinsurance treaty where the ceding company retains the assets supporting the re-insured reserves by withholding a fund, thereby creating an obligation to render payments to the reinsurer at a later date. Such payments include a proportional share of the gross premium plus a return on the assets.

Net: cf. → Gross/Retro/Net

Non-life business: by way of distinction from business activities in our life and health reinsurance business group, we use this umbrella term to cover our business groups of property and casualty reinsurance, financial reinsurance and specialty insurance.

Non-proportional reinsurance: reinsurance treaty under which the reinsurer assumes the loss expenditure in excess of a particular amount (→ priority) (e.g. under an excess of loss treaty). This is in contrast to → proportional reinsurance.

Obligatory (also: treaty) reinsurance: reinsurance treaty under which the reinsurer participates in a → cedant's total, precisely defined insurance portfolio. This is in contrast to → facultative reinsurance.

Other securities, available-for-sale: securities that are not classified as "trading" or "held-to-maturity"; these securities can be disposed of at any time and are reported at their market value at the balance sheet date. Changes in market value do not affect the statement of income.

Other securities, held-to-maturity: investments in debt securities intended to be held to maturity. They are measured at amortised cost.

Other securities, trading: securities that are held principally for short-term trading purposes. They are measured at their market value at the balance sheet date.

(Insurance) Pool: a risk-sharing partnership under civil law formed by legally and economically independent insurers and reinsurers in order to create a broader underwriting base for particularly large or unbalanced risks. The members undertake to write certain risks only within the scope of the insurance pool. They include such risks – while maintaining their commercial independence – in the insurance pool against a commission fee. Each insurer participates in the profit or loss of the insurance pool according to its proportionate interest. Reinsurance is often ceded or accepted in order to further diversify the risk. Pools can be divided into two types: coinsurance pools, in which all members take the role of primary insurers according to their interests, and reinsurance pools, in which a primary insurer writes the risks and then spreads them among the participating insurers by way of reinsurance.

Portfolio: a) all risks assumed by an insurer or reinsurer in a defined sub-segment (e.g. line of business, country) or in their entirety; b) group of investments defined according to specific criteria.

Premium: agreed remuneration for the risks accepted from an insurance company. Unlike the earned premiums, the written premiums are not deferred.

Present value of future profits (PVFP): intangible asset primarily arising from the purchase of life and health insurance companies or portfolios. The present value of expected future profits from the portfolio assumed is capitalised and amortised according to schedule.

Price earnings ratio (PER): ratio of the market value of a share to the earnings per share of a publicly traded corporation.

Primary insurer: cf. → direct insurer

Priority: direct insurer's loss amount stipulated under → non-proportional reinsurance treaties; if this amount is exceeded, the reinsurer becomes liable to pay. The priority may refer to an individual loss, an → accumulation loss or the total of all annual losses.

Probability level: cf. → confidence level

Property and casualty (re-)insurance: collective term for all lines of business which in the event of a claim reimburse only the incurred loss, not a fixed sum insured (as is the case in life and personal accident insurance, for example). This principle applies in all lines of property and casualty insurance.

Proportional reinsurance: reinsurance treaties on the basis of which shares in a risk or → portfolio are reinsured under the relevant direct insurer's conditions. → Premiums and losses are shared proportionately on a pro-rata basis. This is in contrast to → non-proportional reinsurance.

Protection cover: protection of segments of an insurer's portfolio against major losses (per risk/per event), primarily on a non-proportional basis.

Provision: liability item as at the balance sheet date to discharge obligations which exist but whose extent and/or due date is/are not known. Technical provisions, for example, are for claims which have already occurred but which have not yet been settled, or have only been partially settled (= provision for outstanding claims, abbreviated to: claims provision).

Provision for unearned premiums (also: unearned premium reserve): premiums written in a financial year which are to be allocated to the following period on an accrual basis. This item is used to defer written premiums.

Purchase cost, amortised: the cost of acquiring an asset item including all ancillary and incidental purchasing costs; in the case of wasting assets less scheduled and/or special amortisation.

Quota share reinsurance: form of proportional reinsurance under which the reinsurer assumes a contractually set percentage share

of the written risk. Since the insurer is responsible for acquisition, pricing, policy administration and claims handling, the administrative expenditure for the reinsurer is very low. The latter therefore participates in the aforementioned expenses through payment of a reinsurance commission. This commission can amount to 15%–20% of the original premium depending upon the market and cost situation.

Rate: percentage rate (usually of the premium income) of the re-insured portfolio which is to be paid to the reinsurer as reinsurance premium under a → non-proportional reinsurance treaty.

Rating: systematic evaluations of companies with respect to their → credit status or the credit status of issuers with regard to a specific obligation. They are awarded by a rating agency or bank.

Reinsurer: company which accepts risks or portfolio segments from a → direct insurer or another reinsurer in exchange for an agreed premium.

Reserve ratio: ratio of (gross or net) technical provisions to the (gross or net) premiums.

Retention: the part of the accepted risks which an insurer/reinsurer does not reinsurance, i.e. shows as → net (retention ratio: percentage share of the retention relative to the gross written premiums).

Retro: cf. → Gross/Retro/Net

Retrocession: ceding of risks or shares in risks which have been re-insured. Retrocessions are ceded to other reinsurers in exchange for a pro-rata or separately calculated premium.

Risk, insured: defines the specific danger which can lead to the occurrence of a loss. The insured risk is the subject of the insurance contract.

Securitisation instruments: innovative instruments for transferring reinsurance business to the capital markets with the goal of refinancing or placing insurance risks.

Segmental reporting: presentation of items from the annual financial statements separated according to functional criteria such as segments and regions.

Special Purpose Entity (SPE): legal structure with specific characteristics not bound to a certain form of organisation used to conduct defined activities or to hold assets.

Specialty insurance: a specialty form of non-life primary insurance that focuses on narrowly defined, homogenous portfolios of niche or other non-standard risks (specialty business), whereby the typical insurer functions (acquisition, underwriting, policy issuing, premium collection, policy administration, claims settlement, etc.) can be outsourced to specialized managing general agents (MGAs) or third-party administrators (TPAs).

Statement of Financial Accounting Standards, SFAS (also: Financial Accounting Standards, FAS): standards published by the Financial Accounting Standards Board on accounting and reporting.

Spread loss treaty: treaty between an insurer and a reinsurer that covers risks of a defined portfolio over a multi-year period.

Structured products: reinsurance with limited potential for profits and losses; the primary objective is to strive for risk equalisation over time and to stabilise the → cedant's balance sheet.

Surplus reinsurance: form of proportional reinsurance under which the risk is not spread between the insurer and reinsurer on the basis of a previously agreed, set quota share. Instead, the insurer determines a maximum sum insured per risk up to which it is prepared to be liable. Risks that exceed the ceding company's retention (surpluses) are borne by the reinsurer. The reinsurer's lines thus vary according to the level of the retention and the sum insured of the reinsured contract. The reinsurer's liability is generally limited to a multiple of the ceding company's retention.

Surplus relief treaty: a portfolio reinsurance contract under which an admitted reinsurer assumes (part of) a ceding company's business to relieve stress on the cedant's policyholders' surplus.

Survival ratio: reflects the ratio of loss reserves to paid losses under a specific contract or several contracts in a balance sheet year.

Technical result: the balance of income and expenditure allocated to the insurance business and shown in the technical statement of income (after additional allowance is made for the allocation to/ withdrawal from the equalisation reserve: net technical result).

Treaty reinsurance: cf. → obligatory reinsurance

Underwriting: process of examining, accepting or rejecting (re-)insurance risks and classifying those selected in order to charge the proper premium for each. The purpose of underwriting is to spread the risk among a pool of (re-)insureds in a manner that is equitable for the (re-) insureds and profitable for the (re-)insurer.

Unearned premium reserve: cf. → provision for unearned premiums

US GAAP (United States Generally Accepted Accounting Principles): internationally recognised US accounting principles. Not all the provisions which together constitute US GAAP have been codified. US GAAP comprises not only defined written statements but also, for example, standard accounting practices in specific industries.

Value of in-force business (VIF): present value of expected future profit flows from the portfolio of in-force retained business, discounted by a currency-specific risk discount rate. It is determined in accordance with local accounting principles.

Variable Interest Entity: legal entity not bound to a certain form of organisation for which the traditional approach to consolidation based on voting rights is ineffective in identifying where control of the entity really lies, or in which the equity investors do not bear the economic risks and rewards of the entity. The definition is broader than the previously used term → special-purpose entity (SPE).

Volatility: measure of the variability of stock prices, interest rates and exchange rates. Standard practice is to measure the volatility of a stock price by calculating the standard deviations of relative price differences.

xRoCA: cf. → Excess return on capital allocated

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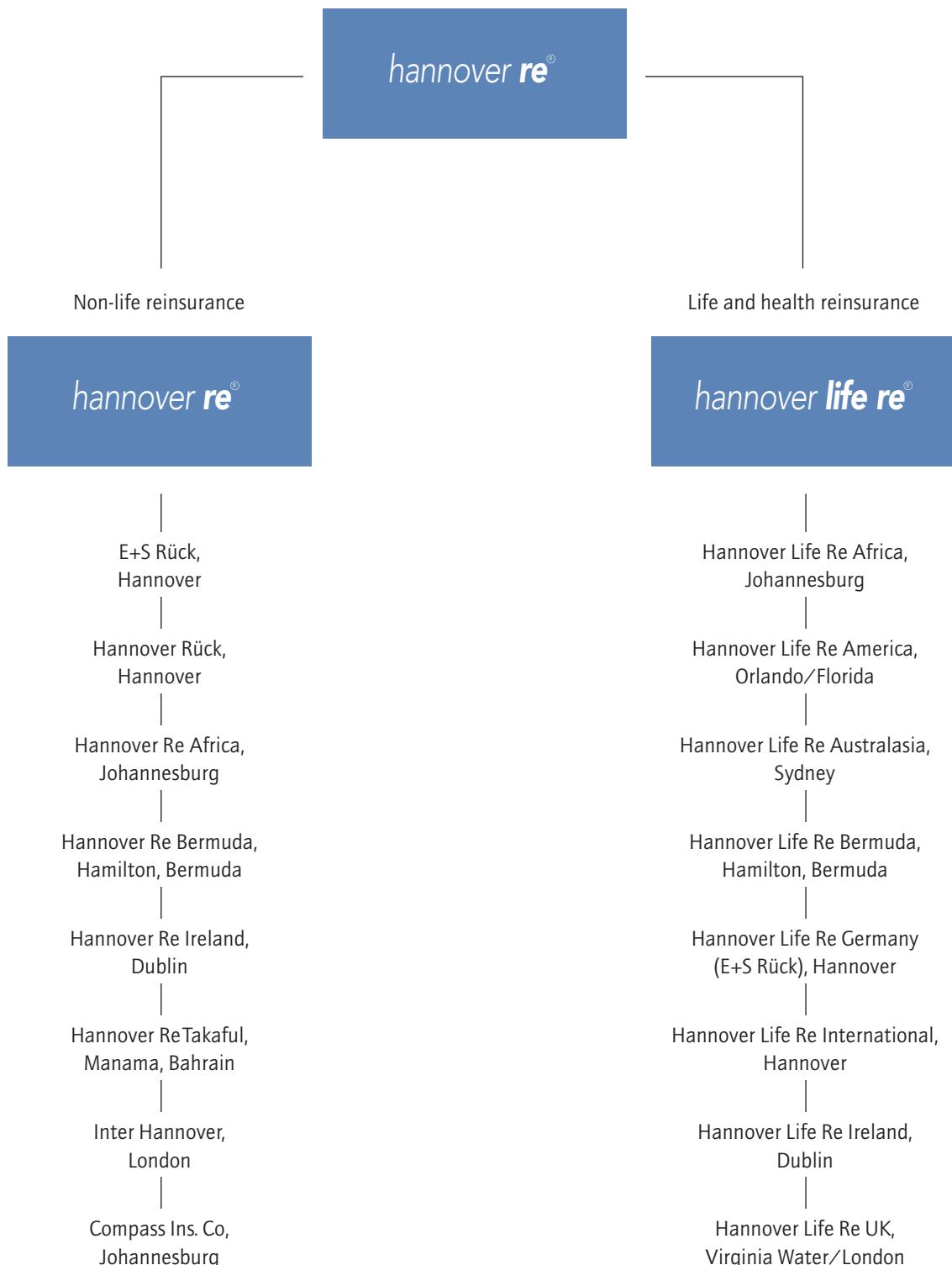
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of the Hannover Re Group



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This is a translation of the original German text; the German version shall be authoritative in case of any discrepancies in the translation.

We are pleased to provide you also with the individual Annual Report of Hannover Rückversicherung AG in German or English.

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FINANCIAL CALENDAR

2009/2010

11 March 2009	Annual Results Press Conference Hannover Re Karl-Wiechert-Allee 50 30625 Hannover, Germany
12 March 2009	DVFA Analysts' meeting, Frankfurt
12 March 2009	Analysts' meeting, London
05 May 2009	Annual General Meeting Beginning 10:30 a.m. Hannover Congress Centrum Theodor-Heuss-Platz 1–3 30175 Hannover, Germany
05 May 2009	Interim Report 1/2009
06 August 2009	Interim Report 2/2009
06 November 2009	Interim Report 3/2009
04 May 2010	Annual General Meeting Beginning 10:30 a.m. Hannover Congress Centrum Theodor-Heuss-Platz 1–3 30175 Hannover, Germany
