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different

Annual Report | **2008**

hannover **re**[®]

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KEY FIGURES

of Hannover Re

Figures in EUR million	2008	+/- previous year	2007	2006	2005	2004
Gross written premium	7,328.7	+10.2%	6,652.6	7,644.6	6,340.4	6,095.2
Net premium earned	5,429.4	+9.0%	4,979.3	5,685.3	4,383.8	4,030.8
Underwriting result ¹⁾	78.9	-171.0%	(111.1)	145.6	(95.5)	(42.8)
Allocation to the equalisation reserve and similar provisions	33.6	110.9%	(309.1)	145.4	228.3	232.5
Investment result	66.9	-85.2%	451.2	799.9	895.7	584.7
Pre-tax profit	(104.2)	-123.8%	438.1	258.7	376.1	149.1
Profit or loss for the financial year	(209.6)	-177.1%	272.0	196.0	374.6	120.6
Investments	17,885.1	-1.2%	18,106.1	18,499.7	16,699.4	13,465.3
Capital and reserve	1,878.8 ²⁾	-9.9%	2,085.8 ²⁾	2,085.8 ²⁾	2,085.8 ²⁾³⁾	1,215.8
Equalisation reserve and similar provisions	1,440.1	+2.4%	1,406.5	1,715.6	1,570.3	1,342.0
Net technical provisions	14,145.0	+6.5%	13,286.7	13,022.7	12,471.9	9,844.2
Total capital, reserves and technical provisions	17,463.9	+4.1%	16,779.0	16,824.1	16,128.0	12,402.0
Number of employees	708	+48	660	654	628	599
Retention	75.2%		73.9%	74.2%	68.3%	67.8%
Loss ratio ¹⁾⁴⁾	74.0%		80.0%	72.7%	76.7%	79.6%
Expense ratio ⁴⁾	24.5%		25.2%	25.4%	26.4%	20.1%
Combined ratio ¹⁾⁴⁾	98.5%		105.2%	98.1%	103.1%	99.7%

¹⁾ including allocation to reserves proposed by the Annual General Meeting

²⁾ including subordinated liabilities

³⁾ excluding life reinsurance

⁴⁾ from the 2006 financial year onwards the option of including special allocations to the provisions for outstanding claims in the non-technical account rather than the technical account will no longer be exercised. The figures for previous years have been adjusted accordingly for the sake of improved comparability.

BOARDS AND OFFICERS

of Hannover Re

Supervisory Board (Aufsichtsrat)

<p>Wolf-Dieter Baumgartl ¹⁾²⁾³⁾ Berg Chairman Chairman of the Supervisory Board Talanx AG HDI Haftpflichtverband der Deutschen Industrie V.a.G.</p>	<p>Member of the Advisory Board E+S Rückversicherung AG, Hannover</p>
	<p>Member of the Administrative Board HDI Assicurazioni S.p.A., Rome, Italy</p>
<p>Dr. Klaus Sturany ¹⁾ Dortmund Deputy Chairman Former Member of the Executive Board RWE Aktiengesellschaft</p>	<p>Member of the Supervisory Board Bayer AG, Leverkusen Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg Österreichische Industrieholding AG, Vienna, Austria</p>
<p>Herbert K. Haas ¹⁾²⁾³⁾ Burgwedel Chairman of the Executive Board Talanx AG HDI Haftpflichtverband der Deutschen Industrie V.a.G.</p>	<p>Chairman of the Supervisory Board E+S Rückversicherung AG, Hannover HDI-Gerling Industrie Versicherung AG, Hannover HDI-Gerling International Holding AG, Hannover HDI-Gerling Lebensversicherung AG, Cologne HDI-Gerling Leben Serviceholding AG, Cologne HDI-Gerling Leben Betriebservice GmbH, Cologne HDI-Gerling Sach Serviceholding AG, Hannover Proactiv Holding AG, Hilden</p>
	<p>Member of the Supervisory Board AmpegaGerling Asset Management GmbH, Cologne</p>
	<p>Member of the Advisory Board Norddeutsche Landesbank Girozentrale, Hannover ³⁾</p>
	<p>Member of the Administrative Board ASPECTA Assurance International AG, Luxembourg S.A., Luxembourg Talanx Finanz (Luxembourg) S.A., Luxembourg</p>
<p>Uwe Kramp ⁵⁾ Hannover</p>	
<p>Karl Heinz Midunsky ³⁾ Gauting Former Corporate Vice President and Treasurer Siemens AG</p>	
<p>Ass. jur. Otto Müller ⁵⁾ Hannover</p>	<p>Member of the Supervisory Board Talanx AG, Hannover</p>

Dr. Immo Querner

Ehlershausen
Member of the Executive Board
Talanx AG
HDI Haftpflichtverband der
Deutschen Industrie V.a.G.

Chairman of the Supervisory Board
AmpegaGerling Asset Management GmbH, Cologne
ASPECTA Lebensversicherung AG, Cologne
Protection Reinsurance Intermediaries AG, Hannover

Deputy Chairman of the Supervisory Board
AmpegaGerling Immobilien Management GmbH, Cologne
AmpegaGerling Investment GmbH, Cologne
ASPECTA Assurance International AG (Liechtenstein), Liechtenstein
HDI-Gerling Leben Serviceholding AG, Cologne

Member of the Supervisory Board
E+S Rückversicherung AG, Hannover
Euro International Reinsurance S.A., Luxembourg
HDI-Gerling Industrie Versicherung AG, Hannover
HDI-Gerling International Holding AG, Hannover
HDI-Gerling Lebensversicherung AG, Cologne
HDI-Gerling Leben Betriebsservice GmbH, Cologne
HDI-Gerling Sach Serviceholding AG, Hannover
HDI-Gerling Zycie T.U.S.A., Warsaw, Poland
ifb AG, Cologne ⁴⁾
Pro Activ Holding, Hilden
Tertia Handelsbeteiligungsgesellschaft mbH, Cologne ⁴⁾

Member of the Advisory Board
Commerzbank AG, Hamburg ⁴⁾

Dr. Erhard Schipporeit ²⁾

Hannover
Former Member
of the Executive Board
E.ON Aktiengesellschaft

Member of the Supervisory Board
CarrerConcept AG, Munich
Deutsche Börse AG, Frankfurt am Main
Fuchs Petrolub AG, Mannheim
HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover
SAP AG, Walldorf
Talanx AG, Hannover

Member of the Board of Directors
TUI Travel, PLC, London, United Kingdom

Gert Waechtler ⁵⁾

Burgwedel

¹⁾ Member of the Standing Committee

²⁾ Member of the Balance Sheet Committee

³⁾ Member of the Nomination Committee

⁴⁾ Memberships of supervisory boards and comparable control boards required by law at other companies in Germany and abroad

⁵⁾ Staff representative

Executive Board (Vorstand)

Wilhelm Zeller

Chairman of the Executive Board
Hannover Rückversicherung AG, Hannover
E+S Rückversicherung AG, Hannover

Chairman of the Board of Directors
Clarendon Insurance Group, Inc., Wilmington, USA
Clarendon National Insurance Company, Trenton, USA
Euro International Reinsurance S.A., Luxembourg
Hannover Re (Bermuda) Ltd., Hamilton, Bermuda
Hannover Reinsurance (Ireland) Ltd., Dublin, Ireland

Chairman of the Supervisory Board
Hannover Life Re AG, Hannover

Member of the Board of Directors
Hannover Life Re of Australasia Ltd, Sydney, Australia

Member of the Supervisory Board
Coface Deutschland AG, Mainz*
Coface Kreditversicherung AG, Mainz*
Protection Reinsurance Intermediaries AG, Hannover

Member of the Advisory Board
Barmenia Allgemeine Versicherungs-AG, Wuppertal*
Barmenia Krankenversicherung a.G., Wuppertal*
Barmenia Lebensversicherung a.G., Wuppertal*
Hannover Finanz GmbH, Hannover

Member of the Executive Board
Talanx AG, Hannover

André Arrago

Member of the Executive Board
Hannover Rückversicherung AG, Hannover
E+S Rückversicherung AG, Hannover

Chairman of the Board of Directors
Hannover ReTakaful B.S.C. (c), Manama, Bahrain

Deputy Chairman of the Board of Directors
Hannover Re (Bermuda) Ltd., Hamilton, Bermuda

Member of the Board of Directors
Hannover Re Services Japan KK, Tokyo, Japan

Member of the Supervisory Board
April Group, Lyon, France*
Groupement Français de Caution, Grenoble, France*
Mutuelle des Transports Assurances (MTA), Paris, France*

Dr. Wolf Becke

Member of the Executive Board
Hannover Rückversicherung AG, Hannover
E+S Rückversicherung AG, Hannover

Member of the Supervisory Board
Hannover Life Re AG, Hannover

	<p>Chairman of the Board of Directors Hannover Life Re (Bermuda) Ltd., Hamilton, Bermuda Hannover Life Reassurance (Ireland) Limited, Dublin, Ireland Hannover Life Reassurance (UK) Limited, Virginia Water, United Kingdom Hannover Life Reassurance Africa Ltd., Johannesburg, South Africa Hannover Life Reassurance Company of America, Orlando, USA</p>
	<p>Deputy Chairman of the Board of Directors Hannover Life Re of Australasia Ltd, Sydney, Australia</p>
	<p>Member of the Supervisory Board ASPECTA Lebensversicherung AG, Cologne CIV Lebensversicherung AG, Hilden HDI-Gerling Lebensversicherung AG, Cologne</p>
	<p>Member of the Board of Directors Hannover Re Services Japan KK, Tokyo, Japan Hannover Reinsurance Group Africa (Pty) Limited Johannesburg, South Africa</p>
	<p>Managing Director Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover</p>
<p>Jürgen Gräber Member of the Executive Board Hannover Rückversicherung AG, Hannover E+S Rückversicherung AG, Hannover</p>	<p>Chairman of the Board of Directors Compass Insurance Company Limited, Johannesburg, South Africa Hannover Re Services USA, Inc., Itasca, USA Hannover Reinsurance Africa Limited, Johannesburg, South Africa Hannover Reinsurance Group Africa (Pty) Limited, Johannesburg, South Africa</p>
	<p>Member of the Board of Directors E+S Reinsurance (Ireland) Ltd., Dublin, Ireland Hannover Re (Guernsey) PCC Ltd., St. Peter Port, Guernsey Hannover Reinsurance (Dublin) Ltd., Dublin, Ireland Hannover Reinsurance (Ireland) Ltd., Dublin, Ireland</p>
<p>Dr. Elke König Member of the Executive Board Hannover Rückversicherung AG, Hannover E+S Rückversicherung AG, Hannover</p>	<p>Chairperson of the Board of Directors Hannover Finance (Luxembourg) S.A., Luxembourg Hannover Finance (UK) Limited, Virginia Water, United Kingdom Hannover Finance, Inc., Wilmington, USA</p>
	<p>Chairperson of the Advisory Board Hannover Finanz GmbH, Hannover</p>
	<p>Deputy Chairperson of the Board of Directors Hannover Life Re (Bermuda) Ltd., Hamilton, Bermuda</p>
	<p>Member of the Supervisory Board AmpegaGerling Asset Management GmbH, Cologne Hannover Life Re AG, Hannover</p>

Member of the Advisory Board
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover

Member of the Board of Directors
Clarendon Insurance Group, Inc., Wilmington, USA
Clarendon National Insurance Company, Trenton, USA
Hannover Life Re of Australasia Ltd, Sydney, Australia
Hannover Life Reassurance (Ireland) Limited, Dublin, Ireland
Hannover Life Reassurance (UK) Limited, Virginia Water, United Kingdom
Hannover Life Reassurance Company of America, Orlando, USA
Hannover Re (Bermuda) Ltd., Hamilton, Bermuda
Hannover Reinsurance (Ireland) Ltd., Dublin, Ireland
Hannover ReTakaful B.S.C. (c), Manama, Bahrain
International Insurance Company of Hannover Ltd.,
Bracknell, United Kingdom

Managing Director
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover

Dr. Michael Pickel
Member of the Executive Board
Hannover Rückversicherung AG, Hannover
E+S Rückversicherung AG, Hannover

Member of the Board of Directors
Hannover Re Services Italy S.r.l., Milan, Italy

Member of the Board of Directors
Mediterranean Reinsurance Services Ltd., Hong Kong, China

Managing Director
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover

Ulrich Wallin
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Hannover Rückversicherung AG, Hannover
E+S Rückversicherung AG, Hannover

Chairman of the Board of Directors
International Insurance Company of Hannover Ltd.,
Bracknell, United Kingdom

* Membership of Supervisory Boards and comparable control boards required by law at other companies in Germany and abroad

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.

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.

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 as the year progressed.

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 effect was significantly tempered by the rise in risk premiums for corporate bonds.

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.

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 refinancing, 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:

The impact of the worldwide financial market crisis left its mark on the operating result in life and health reinsurance. 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.

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.

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

Since 1 January 1997 the parent company has transacted the Group's active reinsurance exclusively in foreign markets – with the exception of some parts of the business of the Talanx companies. Our subsidiary E+S Rückversicherung AG, on the other hand, bears responsibility within the Hannover Re Group for German business. Geographical risk spreading between Hannover Re and E+S Rück is ensured by means of reciprocal retrocessions.

Reinsurance 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 pronounced 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.

The Latin American insurance market is also developing steadily: following the abolition of the reinsurance monopoly 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. This gives us more direct access to clients and puts in place an optimal platform for participating in the up-and-coming Brazilian market.

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 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 – through which we place insurance risks on the financial market – by an extra USD 10 million.

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.

The year under review was notable for an increased burden of natural catastrophe losses. 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". A number of other small and mid-sized natural disasters were also recorded, including floods in Australia.

Total net expenditure on catastrophe losses and major claims in 2008 amounted to EUR 212.5 million (EUR 136.2 million). The combined ratio stood at 98.5% (105.2%) in the year under review.

Gross premium in life and health reinsurance increased by 20.2% to EUR 3,503.9 million (EUR 2,914.0 million). Both the demographic trend in industrialised nations and the growing urban middle class in threshold markets offer a solid basis for dynamic growth. 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.

Consequently, 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 written premium in total business climbed by 10.2% to EUR 7.3 billion (EUR 6.7 billion). The level of retained premium increased from 73.9% to 75.2%. Net premium earned rose by 9.0% to EUR 5.4 billion (EUR 5.0 billion).

The underwriting result for total business before changes in the equalisation reserve improved to EUR 78.9 million (-EUR 111.1 million). An amount of EUR 33.6 million was allocated (previous year: withdrawal of EUR 309.1 million) to the equalisation reserve and similar provisions.

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. While interest rate markets soared, especially towards the end of the year, primarily on the back of rate cuts by central banks and the flight to quality, risk premiums on corporate bonds widened enormously following the collapse of a major investment bank in mid-September. It is gratifying to note that our portfolio of assets under own management nevertheless grew slightly to EUR 12.3 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 0.4% compared to the level as at 31 December 2007 (EUR 12.2 billion). Ordinary investment income including deposit interest fell short of the previous year at EUR 635.5 million (EUR 721.4 million) owing to portfolio regrouping into low-interest government bonds.

Realised gains totalling EUR 184.8 million (EUR 132.4 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 476.1 million (EUR 29.6 million) attributable largely to the sharp reduction of the equity allocation in the fourth quarter. However, write-downs of EUR 266.6 million (EUR 386.0 million) taken on our investments were also a factor in the appreciable contraction of net investment income to EUR 66.9 million (EUR 451.2 million).

Owing to the repercussions of the financial market crisis on our investment result, the loss for the financial year of -EUR 209.6 million (previous year: profit of EUR 272.0 million) came in well below our expectations. The result in the year under review was additionally hampered by the fact that losses on equities and participating interests are not tax-deductible in Germany and hence a tax load of EUR 105.4 million was incurred despite posting a pre-tax deficit. In view of the negative result for the year, the Executive Board and Supervisory Board intend to propose to the Annual General Meeting that no dividend should be paid.

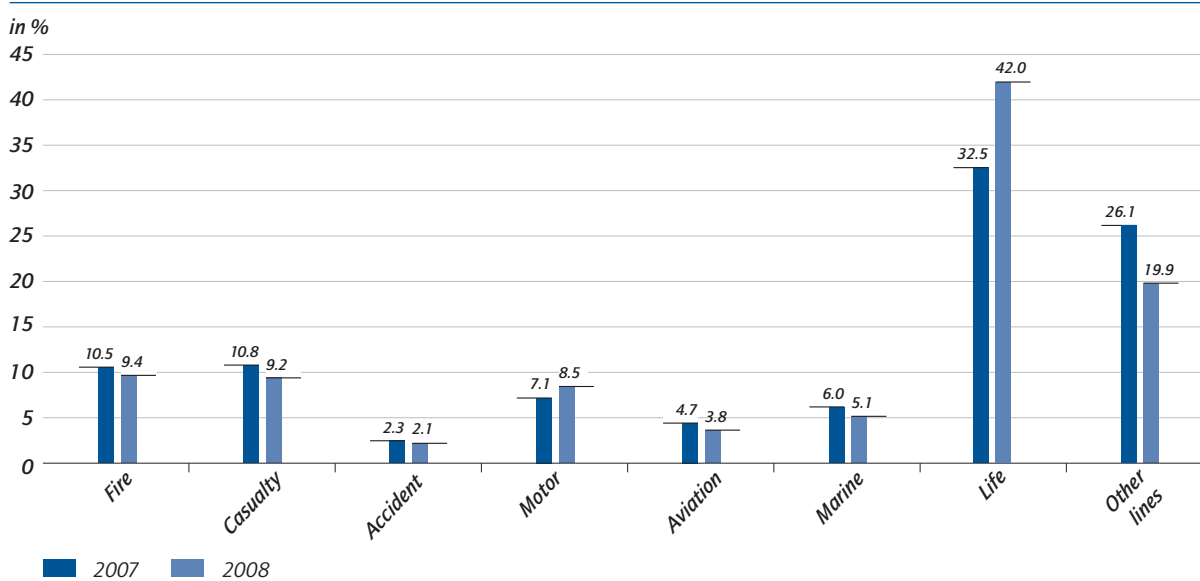
Development of the individual lines of business

The following section describes the development of the various lines of business in relation to the worldwide portfolio written by Hannover Re (Hannover Rück AG). Through intra-Group retrocessions from E+S Rück we also participate in the German reinsurance market. The proportion of the parent company's gross written premium attributable to business accepted from E+S Rück stood at 6.6% in the year under review (7.7%).

In view of the significant burden of losses and owing to the effects of the financial market crisis on our investment portfolio, we are not satisfied with the result.

In the context of the roll-out of our new reinsurance administration systems we reviewed the actuarial calculations used to determine the IBNR reserves and improved the methodology. In particular, lines previously assessed on a treaty-by-treaty business were included in the automated, actuarially grounded calculations. This approach led to a sharp increase in the globally calculated IBNR reserve in the year under review, while reserves previously constituted for individual treaties were partially written back.

Gross premium breakdown in % of the total portfolio



Fire

Fire insurance is one of our largest lines; we write this business worldwide. Leaving aside treaties in the United States, we generate the bulk of our portfolio in Germany. In the year under review there was still no indication of a trend reversal in the decline in premium income in German industrial fire business, which was sustained for a fourth consecutive year. As a consequence of the prevailing premium erosion, we continued to write our business highly selectively.

We were satisfied with the development of business in the United Kingdom – the third-largest single market in our fire portfolio. In the United States we scaled back our fire business in the year under review. The premium volume for the fire line contracted by 1.6% altogether to EUR 689.7 million (EUR 701.2 million).

The underwriting result improved from EUR 42.4 million to EUR 74.4 million. The net loss ratio of 62.2% was slightly better than in 2007 (67.8%).

An amount of EUR 39.5 million (EUR 34.0 million) was allocated to the equalisation reserve and similar provisions.

Casualty

In view of our strict profitability criteria we further reduced our casualty business in the year under review and trimmed our market share. This was especially true of the United States, by far our largest single market, since we do not consider rates to be adequate. We continued to scale back risks that generated below-average margins.

In most segments of US casualty business – including for example directors' & officers' (D&O) covers – rates slipped by further single-digit percentages in the first nine months of the year under review. Overshadowed by the crisis on financial markets, however, they stabilised in the fourth quarter. In casualty business, especially professional indemnity and specialty liability lines, we purposefully relinquished market shares and reduced our volume.

In France we continued to grow our portfolio of builder's risk insurance and are pursuing a long-term strategy of consistent expansion.

In the casualty sector we profit first and foremost from our good rating, since ceding companies continue to attach considerable importance to the financial strength of reinsurers. This is particularly the case with long-tail liability lines.

Accident

Accident insurance accounts for a relatively modest 2.1% of the total portfolio. Germany is the largest single market in this line. We are systematically expanding this line in Germany and not only offer to assume our clients' risks by way of treaty and facultative reinsurance, but also support them with product innovations. These include,

Fire

in EUR million	2008	2007
Gross written premium	689.7	701.2
Loss ratio (%)	62.2	67.8
Underwriting result (net)	74.4	42.4

Liability insurance in Germany was again fiercely competitive in the year under review, prompting us to write our business extremely selectively.

Our total gross premium contracted by a further 5.7% to EUR 677.0 million following a sharp fall in the previous year (EUR 717.9 million).

The loss ratio reverted to a normal level of 78.5% in the year under review. The previous year's figure (100.4%) had reflected the deliberate strengthening of our IBNR reserves. The underwriting result consequently improved to EUR 32.6 million (-EUR 136.3 million).

An amount of EUR 29.7 million (EUR 110.6 million) was withdrawn from the equalisation reserve and similar provisions.

Casualty

in EUR million	2008	2007
Gross written premium	677.0	717.9
Loss ratio (%)	78.5	100.4
Underwriting result (net)	32.6	(136.3)

inter alia, a combined personal accident annuity product which also provides benefits in the event of severe illness. What is more, we are able to assist our clients with underwriting and claims service support.

The development of business in France – our second-largest market – was satisfactory. Gross premium grew 3.6% year-on-year to reach EUR 156.7 million (EUR 151.3 million).

The loss ratio for the accident line increased from 52.5% to 64.2%, in part owing to its first-time inclusion in the calculation of the IBNR reserve.

An amount of EUR 4.7 million (EUR 1.9 million) was withdrawn from the equalisation reserve and similar provisions.

Motor

Our most important markets were the United States and Germany. The protracted competition in our domestic market continued unabated in the year under review. Compared to the original market, however, the environment on the reinsurance market was more positive – i.e. rates and conditions were still largely commensurate with the risks. In motor liability insurance the premium erosion – at around 2% – proved to be more favourable than initially feared. Given that the claims frequency also decreased, profitability was still adequate. The claims experience in motor own damage insurance was less favourable; the hailstorms "Hilal" and "Naruporn" had adverse repercussions for insurers and reinsurers alike in this subsegment.

In France, too, the development of the motor line was not satisfactory. Since the rate level remains insufficient, we have written business highly selectively.

In Asian markets such as China, on the other hand, and also in the CIS states we expanded our portfolio.

Aviation

Hannover Re ranks among the leading reinsurers worldwide in aviation and space business. After the original market had recorded sharp rate declines in aviation insurance in 2007 – causing insurers to post their first loss after five sometimes very profitable years –, there was considerable pressure to halt this price erosion. The financial market crisis and the associated depletion of capital

Accident

in EUR million	2008	2007
Gross written premium	156.7	151.3
Loss ratio (%)	64.2	52.5
Underwriting result (net)	(1.1)	10.4

The premium volume in the motor line grew appreciably by 32.4% from EUR 470.2 million to EUR 622.5 million.

With the loss ratio rising from 94.1% to 95.0%, the underwriting deficit slipped from -EUR 76.6 million to -EUR 119.8 million. Both the previous year and the year under review saw further strengthening of the IBNR reserves.

An amount of EUR 13.8 million (EUR 47.7 million) was withdrawn from the equalisation reserve and similar provisions.

Motor

in EUR million	2008	2007
Gross written premium	622.5	470.2
Loss ratio (%)	95.0	94.1
Underwriting result (net)	(119.8)	(76.6)

resources at primary insurers also favourably affected rate movements in the primary and reinsurance sectors, as a consequence of which initial tendencies could be discerned in the year under review towards stabilisation and even an upturn in rates.

The diversification of our portfolio was improved still further in the year under review; the dominance of fleet business continued to diminish. We are thus well placed to act profitably in the aviation market.

Notable major losses in the year under review included a serious plane crash in Madrid and a satellite failure, producing a net burden of losses of EUR 11.2 million.

Gross written premium contracted by 11.1% to EUR 280.6 million (EUR 315.6 million).

The loss ratio stood at 63.8%. The previous year's figure (84.8%) had been influenced by IBNR reserves established on the basis of refined actuarial methods. The underwriting result closed at EUR 18.9 million (-EUR 11.3 million).

Marine

In common with our aviation portfolio we also write marine business predominantly through the London Market; in this line too we are one of the major reinsurance providers.

After two years that were virtually spared catastrophe losses, rates in marine reinsurance softened slightly in 2008 – albeit with regional differences. The Asian market, for example – as one of the most intensely competitive – saw reductions of some 20%. Essentially, we preserved our existing portfolio – although exposures in the Gulf of Mexico were consciously scaled back.

In addition to higher basic losses in the primary sector in offshore/energy business, it was hurricane "Ike" that inflicted sizeable losses on the (re)insurance industry: despite the relatively moderate strength of its winds, the hurricane caused considerable devastation as it progressed slowly along its storm track. As a result, the market loss for offshore business – i.e. the drilling rigs and oil platforms in the Gulf of Mexico – is put at around USD 3 billion. Our net loss expenditure from hurricane "Ike" totalled EUR 198.4 million and encompassed not only offshore but also onshore business, i.e. the insured property damage on land. Another hurricane – "Gustav" – was incurred in the Caribbean in the year under review, although the associated cost for Hannover Re (EUR 15.2 million) was relatively modest.

An amount of EUR 23.3 million (EUR 76.6 million) was withdrawn from the equalisation reserve and similar provisions.

Aviation

in EUR million	2008	2007
Gross written premium	280.6	315.6
Loss ratio (%)	63.8	84.8
Underwriting result (net)	18.9	(11.3)

Gross written premium retreated to EUR 376.6 million (EUR 396.7 million) on account of our selective underwriting policy.

The loss ratio improved from 118.3% to 96.5%. The underwriting result came in at -EUR 25.2 million after -EUR 67.8 million in the previous year.

An amount of EUR 3.1 million was withdrawn from the equalisation reserve and similar provisions, compared to an allocation of EUR 1.2 million in the previous year.

Marine

in EUR million	2008	2009
Gross written premium	376.6	396.7
Loss ratio (%)	96.5	118.3
Underwriting result (net)	(25.2)	(67.8)

Life

Even against the backdrop of the deepening worldwide financial market crisis in the second half of the year, the development of our internationally written life and annuity portfolio was satisfactory in the year under review.

Principally thanks to the growth in our annuity business in the United Kingdom as well as the writing of a large-volume block assumption transaction for endowment policies in the United States, gross premium was considerably enlarged; growth in Romance-speaking markets, South Africa and several Asian markets was also a factor here.

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. This financing facility will be repaid over the coming years from the return flows on the underlying business.

All in all, gross premium income came in at EUR 3,078.0 million, an increase of 42.4% relative to the previous year.

Other lines

The lines of health, credit and surety, other indemnity insurance and other property insurance are reported together under other lines. Other property insurance consists of the extended coverage, comprehensive householder's (contents), comprehensive householder's (buildings), burglary and robbery, water damage, plate glass, engineering, loss of profits, hail, livestock and windstorm lines. Other indemnity insurance encompasses legal protection, fidelity as well as other pure financial losses and property damage.

The premium volume in the other lines decreased by 16.7% to EUR 1,447.6 million (EUR 1,737.7 million). The loss ratio amounted to 67.5%, compared to 66.4% in the previous year. The underwriting result was again most satisfactory at EUR 63.9 million (EUR 63.9 million).

Profitability in the year under review proved to be highly gratifying. It was underscored by the favourable experience of the biometric risks of mortality and longevity, while the structural risks associated with the persistency of the business in force and the client-specific counterparty risk – which are of vital importance first and foremost under financing transactions – were unremarkable. The underwriting result came under strain in the year under review from considerable prefinancing expenses incurred as a consequence of a block assumption transaction involving US endowment policies. In addition, further charges were taken in connection with US modified coinsurance contracts. These effects were only partially offset by the "L7" transaction. The net underwriting profit stood at EUR 35.2 million, after EUR 64.1 million in the previous year.

Life

in EUR million	2008	2007
Gross written premium	3,078.0	2,161.9
Underwriting result (net)	35.2	64.1

We take a very conservative approach in *health reinsurance* and principally accept business on a proportional basis from our US subsidiary Hannover Life Re America in Orlando. We also write a small number of non-proportional covers in Germany, Romance-speaking European countries and – on a carefully selected basis – in certain other markets. Following the loss of a large US contract in the Medicare Supplement sector due to portfolio withdrawal, the premium volume contracted sharply in the year under review and totalled just EUR 425.9 million (EUR 752.1 million). The net underwriting result, on the other hand, showed a satisfactory profit of EUR 3.6 million (EUR 10.1 million).

Hannover Re ranks third in worldwide *credit and surety reinsurance*; in North America we are one of the market

leaders. 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 credit line consequently increased. Losses in surety business, on the other hand, rose only marginally.

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 financial guarantee business.

An oversupply of reinsurance capacity continues to prevail in credit and surety insurance on European markets, although ceding companies are placing greater emphasis on the financial strength of their reinsurers.

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

Gross premium decreased slightly from EUR 355.4 million to EUR 344.4 million. The underwriting profit in the year under review was again very pleasing at EUR 19.8 million (EUR 33.9 million).

A contribution of EUR 43.5 million (EUR 67.1 million) was made to the equalisation reserve and similar provisions in these two lines.

Other lines

in EUR million	2008	2007
Gross written premium	1,447.6	1,737.7
Loss ratio (%)	67.5	66.4
Underwriting result (net)	63.9	63.9

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 the payment obligations associated with our liabilities profile.

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.

The portfolio of assets under own management remained virtually unchanged from the previous year at EUR 12.3 billion (EUR 12.2 billion).

For years we have actively managed the average duration of our fixed-income portfolio, thereby conserving our shareholders' equity. During the current reporting period we slightly reduced the modified duration of our bond portfolio, which consequently stood at 3.6 years (3.9 years) as at 31 December 2008.

The portfolio of fixed-income securities climbed sharply to EUR 7.5 billion (EUR 6.2 billion), primarily as a consequence of the reduced equity allocation but also due to inflows of cash from the technical account. The quality of the bond portfolio – measured in terms of rating categories – was maintained on a consistently high level. The proportion of securities rated "A" or better – at 97.0% – was roughly on the level of the previous year.

Ordinary investment income fell short of the previous year at EUR 635.5 million (EUR 721.4 million). This was due, inter alia, to a lower average yield than in the previous year.

The crash in the US real estate sector snowballed into a crisis on global credit and financial markets as the year progressed. The value adjustments prompted by loan defaults and write-downs on financial securities nevertheless remained within bounds in our portfolio. The impact of subprime losses on our investments was similarly insignificant. Write-downs on fixed-income securities amounted to EUR 81.5 million (EUR 47.8 million), including EUR 7.3 million attributable to Lehman Brothers.

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. We reduced our equity allocation to a minimum in the fourth quarter, and it stood at significantly less than 1% (9.4%) as at the balance sheet date. Write-downs of EUR 2.2 million (EUR 25.3 million) were taken on the remaining portfolio.

The net negative balance of write-ups and write-downs on investments totalling -EUR 230.6 million was appreciably lower than in the previous year (-EUR 347.6 million). This can be attributed principally to reduced write-downs on participating interests in 2008. Deposit interest and expenses contributed EUR 148.3 million (EUR 133.3 million) on balance to the investment income.

Gains of altogether EUR 184.8 million (EUR 132.4 million) realised on the disposal of investments were attributable in large measure to the tactical modification of durations in the US dollar portfolio in the first quarter as well as the liquidation of the hedge on the equity portfolio in the fourth quarter. Further positive effects derived from securities lending transactions. This contrasted with realised losses of EUR 476.1 million (EUR 29.6 million). The negative balance resulted first and foremost from the reduction of the equity portfolio.

The net unrealised gains on fixed-income securities totalled EUR 306.4 million as at year-end, compared with EUR 106.2 million in the previous year.

All in all, the net investment result consequently came in lower than in the previous year at EUR 66.9 million (EUR 451.2 million).

Human resources

Our staff

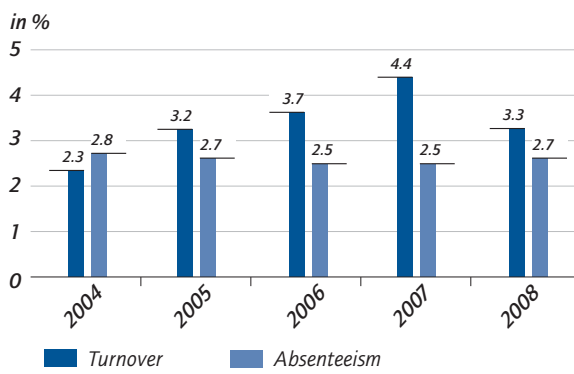
Hannover Re strives to be an attractive employer for ambitious, performance-minded individuals who identify with the company's goals. With this in mind we offer a flexible, receptive working environment as well as latitude for self-reliant decision-making. Our human resources staff, systems and structures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

Key personnel data

Hannover Re employed 708 (660) staff as at 31 December 2008. The turnover ratio at our Hannover location 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



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

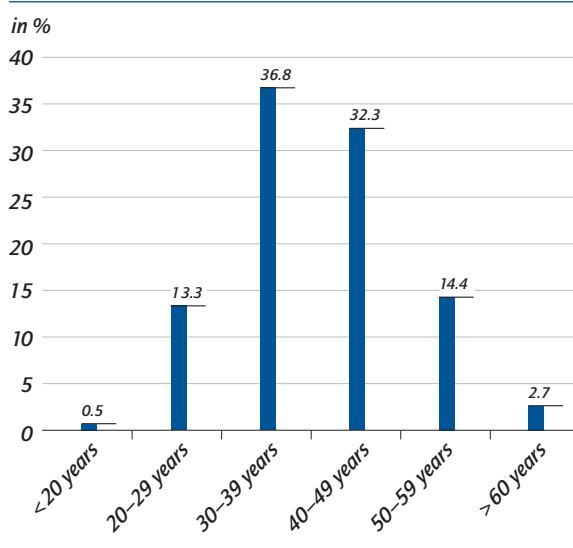
Demand for motivated, well educated university graduates – especially those with degrees in mathematics or business mathematics – continued to intensify in the year under review. Our company finds itself facing fierce competition from banks, management consultants and other financial services providers. 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

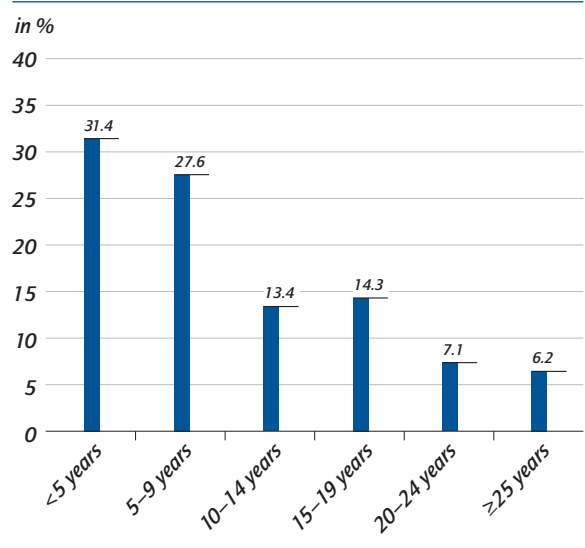
particular. Stepping up and expanding our contacts with universities – in part also through the sponsoring of chairs in mathematics –, increasing the number of positions offered to apprentices and soon-to-be graduates as well as launching an employer branding project are just the first measures undertaken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



Length of service (Hannover location)



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 has therefore funded the building of a new daycare centre on its business premises, which was commissioned in December 2008. The nursery is supported by the parents' initiative "Hannover ReKids", a society founded by Hannover Re staff.

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.

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 of 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 partici-

pants in our variable systems of remuneration was therefore further enlarged in the period under consideration.

Participation of staff in the Group Performance Bonus (Hannover location)

2008	Number
Senior executives	66
Managerial levels up to the rank of Chief	403
Total participants	469
Proportion of the total workforce	48.7%

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.

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 express

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. We consequently strive to be one of the three most profitable reinsurers in the world and consistently enhance our 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 Hannover Re 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 we take very seriously, and the assumption of social responsibility

constitutes a core element of our corporate culture. In Hannover, for example, we launched a Christmas tree campaign this year – inspired by the model at our South African subsidiary: in this way, staff at Hannover Re helped to realise the dreams of children at a local children's home during the Christmas season.

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, biomass 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 we participated for the first time in the "Ecological Project for Integrated Environmental Technology" (Eco-profit). 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

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. Specially 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 Kestnervesellschaft 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 prac-

tice 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 realisa-

tions, 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

Regulatory solvency requirements are regularly monitored within the scope of Hannover Re's risk management. 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 calcu-

late 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 re-

views 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 potential 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 result generated by Hannover Re is fundamentally determined by two components, namely the "underwriting result" and the "investment result". 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 downside 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 Hannover Re 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.

Rating structure of our fixed-income securities¹⁾

Rating	Bearer debt securities		Registered debt securities, debentures and loans		Bond funds		Sundry loans	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	72.1	4,682.8	50.5	146.5	–	–	–	–
AA	15.3	994.7	25.8	75.0	99.4	665.6	–	–
A	10.0	648.9	15.0	43.6	–	–	16.7	5.0
BBB	1.7	111.9	8.6	25.1	–	–	83.3	25.0
<BBB	0.9	55.4	0.1	0.2	0.6	3.7	–	–
Total	100.0	6,493.7	100.0	290.4	100.0	669.3	100.0	30.0

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

Of the corporate bonds totalling EUR 872.8 million held by our company, EUR 366.7 million was issued by entities in the financial sector. Of this amount, EUR 320.9 million

was attributable to banks. The vast majority of these bank bonds (more than 80%) were rated "A" or better.

Scenarios for changes in the fair value of our securities as at the balance sheet date

Portfolio	Scenario		Portfolio change based on fair value in EUR million
Fixed-income securities	Yield increase	+50 basis points	(167,1)
	Yield increase	+100 basis points	(323,3)
	Yield decrease	- 50 basis points	159,1
	Yield decrease	- 100 basis points	329,0
	Fair value as at 31.12.2008		7.789,9
Equity securities	Share prices	+10%	0,8
	Share prices	+20%	1,6
	Share prices	- 10%	(0,8)
	Share prices	- 20%	(1,6)
	Fair value as at 31.12.2008		8,1

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. Overall, these tools support diversification within the total portfolio and promote risk reduction. Credit risks are also relevant in life and health reinsurance because we prefinance 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.

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 Secur-

ity Committee continuously monitors the credit status of retrocessionaires and approves measures where necessary to secure receivables. The Group Protections unit is responsible for the Hannover 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.

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, backup 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 development 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 posi-

tive 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.

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 likely 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 40%. 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.

In the current reporting year we have again transferred risks to the capital market. We are targeting a volume in excess of USD 300 million with the "K6" transaction.

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.

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

In *Northern European* countries, the rate erosion similarly 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*, too, 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 as well, 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 associated 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.

In US property business without catastrophe exposure the market also began to harden – both in terms of rates and conditions. It was additionally 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.

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 natural catastrophes 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.

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.

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.

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 going forward.

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

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 emerging markets.

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 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.

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 solid growth in net premium in the original currencies as well as a healthy profit contribution.

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 suf-

ferred 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%.

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 very good financial year in 2009.

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. Despite the turbulence on credit markets we expect income from our investments under own management to recover. In the area of fixed-income securities we continue to stress the high quality and diversification of our portfolio. In combination with investments in equities and indeed in alternative asset classes, which have not been excluded, we should still be able to deliver a stable profit contribution.

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.

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 increase the operating profit (EBIT) by at least 10% 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 performance 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.

Other information

Affiliated companies

We received an adequate consideration for all transactions with affiliated companies according to the circumstances of which we were aware at the time when the transactions

were effected. We incurred no losses requiring compensation as defined by § 311 (1) of the Stock Corporation Act (AktG).

Information pursuant to § 289 Para. 4 German Commercial Code (HGB)

The share capital of the company amounts to EUR 120,597,134.00. It is divided into 120,597,134 registered no-par-value 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 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.

Miscellaneous information

Hannover Re maintains branches in Australia, Bahrain, Canada, China, France, Hong Kong, Korea, Malaysia and Sweden.

Joint administration arrangements exist between our company and our subsidiary E+S Rückversicherung AG and extend to all functions of the two companies.

Tax matters are largely handled on a central basis for the Group by Talanx AG.

Our investments are managed by AmpegaGerling Asset Management GmbH and real estate matters are handled by AmpegaGerling Immobilien Management GmbH.

With regard to remuneration arrangements the reader is referred to the remuneration report on pages 63 et seq.

INDIVIDUAL ACCOUNTS

of Hannover Re

BALANCE SHEET

as at 31 December 2008

Figures in EUR thousand	2008	2007
Assets		
A. Intangible assets:		
other intangible assets		34,987
B. Investments		
I. Land and buildings, rights to land and buildings, leasehold	15,865	6,287
II. Investments in affiliated companies and participating interests		
1. Shares in affiliated companies	4,047,225	4,094,757
2. Loans to affiliated companies	213,611	231,153
3. Participating interests	61,326	84,440
4. Loans to enterprises in which the company has a participating interest	1,073	–
	4,323,235	4,410,350
III. Other financial investments		
1. Shares, units in unit trusts and other variable-yield securities	932,293	1,922,566
2. Bearer debt securities and other fixed-income securities	6,493,712	5,342,020
3. Mortgages and loans secured on land and buildings	–	230
4. Other loans		
a) Registered debt securities	161,721	110,708
b) Debentures and loans	128,700	129,892
c) Sundry loans	30,000	30,000
	320,421	270,600
5. Deposits with banks	139,737	230,430
6. Other investments	31,957	29,980
	7,918,120	7,795,826
IV. Deposits with ceding companies	5,627,883	5,893,631
	17,885,103	18,106,094

Figures in EUR thousand	2008		2007
Liabilities			
A. Capital and reserves			
I. Subscribed capital		120,597	120,597
II. Capital reserve		880,608	880,608
III. Retained earnings	511		511
1. Statutory reserve			
as at 1.1	584,100		
withdrawal	207,000		
as at 31.12.		377,100	584,100
		377,611	584,611
IV. Disposable profit		–	280,000
			1,865,816
B. Subordinated liabilities		500,000	500,000
C. Technical provisions			
I. Provision for unearned premiums			
1. Gross	809,108		720,557
2. Less: reinsurance ceded	159,290		159,375
		649,818	561,182
II. Life assurance provision			
1. Gross	4,996,385		5,490,273
2. Less: reinsurance ceded	1,159,331		1,605,693
		3,837,054	3,884,580
III. Provisions for outstanding claims			
1. Gross	11,737,944		10,751,172
2. Less: reinsurance ceded	2,184,265		2,019,813
		9,553,679	8,731,359
IV. Provision for bonuses and rebates			
1. Gross	612		671
2. Less: reinsurance ceded	320		330
		292	341
V. Equalisation reserve and similar provisions		1,440,058	1,406,493
VI. Other technical provisions			
1. Gross	125,178		131,661
2. Less: reinsurance ceded	20,989		22,460
		104,189	109,201
		15,585,090	14,693,156

Figures in EUR thousand	2008	2007
Assets		
C. Receivables		
I. Accounts receivable arising out of reinsurance operations	1,538,051	1,160,533
from affiliated companies:		
194,844 (2007: 151,989)		
II. Other receivables	228,119	328,553
from affiliated companies:		
167,210 (2007: 276,897)	1,766,170	1,489,086
D. Other assets		
I. Tangible assets and stocks	17,991	16,192
II. Current accounts with banks, cheques and cash in hand	140,141	125,139
III. Sundry assets	12,333	7,399
	170,465	148,730
E. Prepayments and accrued income		
I. Accrued interest and rent	96,898	88,955
II. Other accrued income	2,892	1,398
	99,790	90,353
F. Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)		
	108,415	100,091
	20,072,048	19,969,341

Figures in EUR thousand	2008	2007
Liabilities		
D. Provisions for other risks and charges		
I. Provisions for pensions and similar obligations	46,659	43,226
II. Provisions for taxation	126,231	103,377
III. Other provisions	27,947	42,709
	200,837	189,312
E. Deposits received from retrocessionaires		1,949,352
F. Other liabilities		
I. Accounts payable arising out of reinsurance operations	815,340	737,837
to affiliated companies:		
282,642 (2007: 244,454)		
II. Miscellaneous liabilities	38,013	33,208
	853,353	771,045
thereof		
from taxes:		
2,845 (2007: 6,651)		
for social security:		
278 (2007: 92)		
to affiliated companies:		
26,983 (2007: 21,774)		
G. Accruals and deferred income		660
	1,219	
	20,072,048	19,969,341

PROFIT AND LOSS ACCOUNT

for the 2008 financial year

Figures in EUR thousand	2008		2007	
	1.1.–31.12.		1.1.–31.12.	
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross written premiums	7,328,660		6,652,631	
b) Retrocession premiums	1,814,563		1,738,546	
		5,514,097	4,914,085	
c) Change in the gross provisions for unearned premiums	(82,054)		81,675	
d) Change in the provisions for unearned premiums, retrocessionaires' share	(2,633)		(16,451)	
		(84,687)	65,224	
		5,429,410	4,979,309	
2. Allocated investment return transferred from the non-technical account, net of retrocession		108,665	85,274	
3. Other technical income, net of retrocession		–	210	
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	3,729,380		4,030,984	
bb) Retrocessionaires' share	1,030,354		1,047,516	
		2,699,026	2,983,468	
b) Change in provisions for outstanding claims				
aa) Gross	(856,316)		(378,309)	
bb) Retrocessionaires' share	108,048		(117,133)	
		(748,268)	(495,442)	
		3,447,294	3,478,910	
5. Changes in other technical provisions, net of retrocession				
Net life assurance provision		(706,774)	(403,428)	
6. Bonuses and rebates, net of retrocession		76	86	
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses	1,748,836		1,590,285	
Less: commissions and profit commissions received on retrocession	447,733		298,924	
		1,301,103	1,291,361	
8. Other technical charges, net of retrocession		3,910	2,092	
9. Subtotal		78,918	(111,084)	
10. Change in the equalisation reserve and similar provisions		(33,564)	309,131	
11. Net technical result		45,354	198,047	

Figures in EUR thousand	2008		2007
	1.1.–31.12.		1.1.–31.12.
Balance brought forward		45,354	198,047
II. Non-technical account			
1. Investment income			
a) Income from participating interest	11,907		33,023
affiliated companies:			
4,946 (2007: 28,221)			
b) Income from other investments			
affiliated companies:			
34,324 (2007: 58,753)			
aa) Income from land and buildings, rights to land and buildings, leasehold	1,550		420
bb) Income from other investments	484,085		502,920
		485,635	503,340
c) Appreciation on investments	36,027		38,430
d) Gains on the realisation of investments	184,792		132,415
e) Income from profit pools, profit and loss transfer agreements or partial profit and loss transfer agreements	137,908		185,074
		856,269	892,282
2. Investment charges			
a) Investment management charges, including interest	46,665		25,473
b) Depreciation	266,607		386,003
extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB)			
195,132 (2007: 319,141)			
c) Losses on the realisation of investments	476,102		29,608
d) Expenses from loss transfer	–		36
		789,374	441,120
		66,895	451,162
3. Allocated investment return transferred to the technical account		(140,514)	(124,331)
		(73,619)	326,831
4. Other income		99,148	101,026
5. Other charges		175,104	187,829
		(75,956)	(86,803)
6. Profit or loss on ordinary activities before tax		(104,221)	438,075

Figures in EUR thousand	2008		2007
	1.1.–31.12.		1.1.–31.12.
Balance brought forward		(104,221)	438,075
7. Taxes on profit and income		101,429	165,195
8. Other taxes		3,977	925
		105,406	166,120
9. Profit or loss for the financial year		(209,627)	271,955
10. Profit brought forward from previous year		2,627	8,045
11. Withdrawal from other retained earnings		207,000	–
12. Disposable profit/accumulated loss		–	280,000

Valuation of assets

Valuation was carried out in accordance with the provisions of §§ 341 et seq. of the Commercial Code (HGB).

Other intangible assets were valued at acquisition cost less scheduled depreciation in accordance with the normal operational useful life.

Property was valued at the purchase or construction cost less scheduled depreciation in accordance with § 253 (2) of the Commercial Code (HGB). Non-scheduled depreciation was taken on one property.

Shares in affiliated companies and participations were valued on a purchase cost basis taking into account write-downs at the lower fair value.

Loans to affiliated companies and loans to enterprises in which the company has a participating interest were valued at acquisition cost less amortisation or at the lower fair value.

The portfolio of securities was allocated to fixed assets or current assets depending on the intended use and valued in accordance with the provisions of § 341 b of the Commercial Code (HGB).

Shares, units in unit trusts and other variable-yield securities as well as bearer debt securities and other fixed-income securities were valued according to the strict or modified lower-of-cost-or-market principle depending on the intended use.

Derivative instruments were valued on a mark-to-market basis.

Mortgages and loans secured on land and buildings, registered debt securities, debentures and loans as well as other loans were valued at nominal value or acquisition cost – taking into account amortisation – or at the lower fair value.

Write-ups were effected in accordance with § 280 (1) of the Commercial Code (HGB).

Other investments were carried as current assets. Deposits and cash at banks on current accounts, cash in hand, deposits and accounts receivable arising out of reinsurance operations and other debts were valued at the nominal amounts. Valuation adjustments were set up for default risks.

Fixed assets and stock were valued at purchase cost less straight-line or declining-balance depreciation. Low-value items with net purchase costs of between EUR 150.00 and EUR 1,000.00 are grouped annually and written off over five years.

Valuation of liabilities

The provision for unearned premiums, life assurance provision, provisions for outstanding claims, provisions for bonuses and rebates and other technical provisions were entered as liabilities according to the information provided by the ceding companies.

The basis for the valuation of the provision for unearned premiums is the reinsurance premium less 92.5% of the reinsurance commission in accordance with the NRW order dated 29 May 1974. In marine insurance the provision for unearned premiums and the provisions for outstanding claims were regarded as one unit and shown as provisions for outstanding claims. It was determined on the basis of the so-called English system. The provision is replaced by a provision established in accordance with general principles no later than three years after the year following the underwriting year.

Where the provisions indicated by the ceding companies are not expected to be adequate, they have been increased by appropriate additional amounts. Where no information was available from cedants, the provisions were estimated in the light of the business experience to date. The results of new treaties were at least neutralised. In some cases, provisions have been determined on an actuarial basis. If necessary, additional or complete estimates of the corresponding portfolio or profit elements were carried out where ceding company accounts with substantial premium income were missing. Missing ceding company accounts with a low premium income were included in the following year. The estimated gross premium income is 24.03% of the total volume.

In all major lines IBNR claims reserves have been set up. The calculation was largely carried out in accordance with statistical mathematical methods.

The shares of retrocessionaires in the technical reserves were determined on the basis of the reinsurance contracts. Provision was made for bad debts.

The equalisation reserve was set up in accordance with the notes to § 29 of the regulation on the presentation of insurance company accounts (RechVersV); the similar provisions were constituted in accordance with § 30 of the regulation on the presentation of insurance company accounts (RechVersV). With respect to insurance lines 28 Other property insurance and 29 Other indemnity insurance, separate profit and loss accounts were drawn up only for the fidelity line.

The provision for nuclear plants was calculated in accordance with § 30 (2) of the regulation on the presentation of insurance company accounts (RechVersV).

The catastrophe risk provision for pharmaceutical product liability was calculated in accordance with § 30 (1) of the regulation on the presentation of insurance company accounts (RechVersV).

The catastrophe risk provision for terrorism risks was calculated in accordance with § 30 (2a) of the regulation on the presentation of insurance company accounts (RechVersV).

The provision for pensions was established according to the fractional value method as per § 6a of the Income Tax Act (EStG) in conjunction with Paragraph 41 Income Tax Regulations (EStR) 2003. The 2005 G standard tables of Dr. Klaus Heubeck were used as a basis for this with an accounting interest rate of 4.9% (4.9%).

The pension commitments are established according to the present value of the expectancy and are protected by insurance.

In our opinion, the provisions for taxation and other provisions take into account all identifiable risks and uncertain liabilities. In the case of tax expenditure which relates to the financial year or previous years under the provisions of tax law, but for which probable tax relief will arise in subsequent years, an item on the assets side was established in accordance with § 274 (2) of the Commercial Code (HGB). This relates to corporation tax based on a rate of taxation of 15%, the German reunification charge and trade tax.

The other provisions were established in the amount that will probably be utilised or on the basis of actuarial opinions.

A provision was constituted for virtual stock options in accordance with actuarial principles on the basis of a recognised financial option pricing model (Black-Scholes Model with the aid of a trinomial tree method).

The other liabilities were valued at the amounts repayable.

Currency conversion

Transactions booked in foreign currencies are converted to the reporting currency at the applicable monthly exchange rate at the date of entry in the accounts. Assets and liabilities entered in the balance sheet were converted to euros at the average exchange rates on the balance sheet date.

In order to reduce currency risks as far as possible, matching cover was extensively established for liability elements by setting up corresponding asset elements in the different currencies. In the case of foreign currencies in which investments are held, the profits arising out of revaluation were allocated – after offsetting against losses within the financial year – to the reserve for currency risks as unrealised profits. Exchange-rate losses from these investment currencies were – where possible – neutralised by releases from the reserve. In addition, this reserve is written back on a year-by-year basis.

Miscellaneous

The technical interest results in the main from the interest income earned on the basis of the life assurance provision. Standard methods were used for the calculation.

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 stockholders.

Insurance contracts with the HDI-Gerling non-life group are booked with a time delay of one quarter.

Notes on assets

Figures in EUR thousand	2008			2007			
	Change in asset items A., B.I. to B.III.	Book values 31.12.	Additions	Disposals	Write-ups	Depreciation	Book values 31.12.
A. Intangible assets							
other intangible assets	34,987	12,339	5	–	5,216	42,105	
B.I. Land and buildings, rights to land and buildings, leasehold	6,287	11,612	–	–	2,034	15,865	
B.II. Investments in affiliated companies and participating interests							
1. Shares in affiliated companies	4,094,757	279,503	172,420	–	154,615	4,047,225	
2. Loans to affiliated companies	231,153	69,066	86,190	–	418	213,611	
3. Participating interests	84,440	3,577	26,403		288	61,326	
4. Loans to enterprises in which the company has a participating interest	–	1,073	–	–	–	1,073	
5. Total B. II.	4,410,350	353,219	285,013	–	155,321	4,323,235	
B.III. Other financial investments							
1. Shares, units in unit trusts and other variable-yield securities	1,922,566	1,312,967	2,272,319	–	30,921	932,293	
2. Bearer debt securities and other fixed-income securities	5,342,020	8,471,099	7,268,764	16,105	66,748	6,493,712	
3. Mortgages and loans secured on land and buildings	230	–	230	–	–	–	
4. Other loans							
a) Registered debt securities	110,708	85,485	34,472	–	–	161,721	
b) Debentures and loans	129,892	21,098	22,290	–	–	128,700	
c) Sundry loans	30,000	–	–	–	–	30,000	
5. Deposits with banks	230,430	46,338	137,031	–	–	139,737	
6. Other investments	29,980	10,352	8	–	8,367	31,957	
7. Total B. III.	7,795,826	9,947,339	9,735,114	16,105	106,036	7,918,120	
Sum total	12,247,450	10,324,509	10,020,132	16,105	268,607	12,299,325	

Land and buildings and rights to land and buildings

On 31 December 2008 the company had at its disposal five developed properties with business and other buildings in Hannover, Bremen and near Paris as well as one floor of offices in Madrid. The book value of the floor of offices in Madrid amounted to EUR 854 thousand as at 31 December 2008. Two buildings in Hannover are for own use (book value: EUR 10,788 thousand).

Shares in affiliated companies and participations

Our major shares in affiliated companies and participations are listed below. We have omitted companies of subordinate economic importance with no material influence on the assets, financial position or net income.

A complete list of shareholdings has been deposited with the electronic company register.

2008					
Name and registered office of the company Figures in currency units of 1,000	Participation (in %)	Capital and reserves (§ 266 (3) Commercial Code)		Result for the last financial year	
Shares in affiliated companies					
Companies resident in Germany					
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany	100.00	EUR	2,627,154	EUR	–
■ holds 64,19% of the shares in:					
E+S Rückversicherung AG, Hannover/Germany		EUR	542,281	EUR	52,000
■ holds 20.00% of the shares in:					
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany ¹⁾²⁾		EUR	73,544	EUR	11,638
■ holds 100.00% of the shares in:					
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda		EUR	930,790	EUR	86,339
■ holds 100.00% of the shares in:					
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland		EUR	430,704	EUR	18,395
■ holds 95.00% of the shares in:					
Hannover ReTakaful B.S.C. (c) Manama/Bahrain		BHD	20,138	BHD	515

2008					
Name and registered office of the company Figures in currency units of 1,000	Participation (in %)	Capital and reserves (\$ 266 (3) Commercial Code)		Result for the last financial year	
Hannover Life Re AG, Hannover/Germany ³⁾	100.00	EUR	621,166	EUR	–
■ holds 100.00% of the shares in:					
Hannover Life Reassurance (Ireland) Limited, Dublin/Ireland		EUR	291,689	EUR	(3,030)
■ holds 100.00% of the shares in:					
Hannover Life Reassurance Company of America, Orlando/USA		USD	128,073	USD	(11,357)
■ holds 100.00% of the shares in:					
Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda		EUR	131,355	EUR	9,214
■ holds 100.00% of the shares in:					
Hannover Life Re of Australasia Ltd, Sydney/Australia	100.00	AUD	191,844	AUD	39,337
Oval Office Grundstücks GmbH Hannover/Germany	50.00	EUR	58,198	EUR	1,398
Companies resident abroad					
Hannover Finance (Luxembourg), S.A., Luxembourg/Luxembourg	100.00	EUR	36,486	EUR	(13,181)
Hannover Finance (UK) Limited, Virginia Water/United Kingdom	100.00	GBP	131,119	GBP	(10)
■ holds 100.00% of the shares in:					
Hannover Life Reassurance (UK) Limited, Virginia Water/United Kingdom		GBP	43,958	GBP	(4,275)
■ holds 100.00% of the shares in:					
Hannover Services (UK) Ltd., Virginia Water/United Kingdom		GBP	650	GBP	(99)
■ holds 100.00% of the shares in:					
International Insurance Company of Hannover Ltd., Bracknell/United Kingdom		GBP	104,621	GBP	1,916
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesbourg/South Africa	100.00	ZAR	156,133	ZAR	33,712
■ holds 100.00% of the shares in:					
Hannover Life Reassurance Africa Limited, Johannesbourg/South Africa		ZAR	169,724	ZAR	60,091
■ holds 100.00% of the shares in:					
Hannover Reinsurance Africa Limited, Johannesbourg/South Africa		ZAR	686,963	ZAR	76,008
■ holds 100.00% of the shares in:					
Compass Insurance Company Limited, Johannesbourg/South Africa		ZAR	114,419	ZAR	23,270
■ holds 51.00% of the shares in:					
Lireas Holdings (Pty) Ltd., Johannesbourg/South Africa		ZAR	161,052	ZAR	30,794

2008

Name and registered office of the company Figures in currency units of 1,000	Participation (in %)	Capital and reserves (§ 266 (3) Commercial Code)	Result for the last financial year
Hannover Re Real Estate Holdings, Inc., Orlando/USA	86.50	USD 138,741	USD (11,498)
Hannover Finance, Inc., Wilmington/USA	100.00	USD 373,848	USD (80,076)
■ holds 100.00% of the shares in:			
Clarendon Insurance Group, Inc., Wilmington/USA		USD 67,518	USD (103,399)
■ holds 100.00% of the shares in:			
Clarendon National Insurance Company, Trenton/USA		USD 63,891	USD (103,320)
■ holds 100.00% of the shares in:			
Clarendon America Insurance Company, Trenton/USA		USD 144,532	USD (3,036)
Clarendon Select Insurance Company, Tallahassee/USA		USD 14,936	USD –
Harbor Specialty Insurance Company, Trenton/USA		USD 32,423	USD 5,893
Kaith Re Ltd., Hamilton/Bermuda	88.00	USD 296	USD (479)
Globe Re Ltd., Hamilton/Bermuda	15.15	USD 34,729	USD 1,729
Hannover Re Takaful B.S.C. (c) Manama/Bahrain	5.00	BHD 20,138	BHD 515
Participations			
ITAS Vita S.p.A., Trento/Italy	34.88	EUR 64,173	EUR 146
HANNOVER Finanz GmbH, Hannover/Germany ²⁾	25.00	EUR 80,934	EUR 11,441
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover/Germany ¹⁾²⁾	20.00	EUR 73,544	EUR 11,638

¹⁾ Formerly WeHaCo Unternehmensbeteiligungs-AG²⁾ Financial year ending 31 December 2007³⁾ Formerly Zweite Hannover Rück Beteiligung Verwaltungs-GmbH

Other notes on investments

Assets with a balance sheet value of EUR 3,670,052 thousand (2007: EUR 3,084,940 thousand) were blocked as security for ceding companies. Security deposits were sometimes made available to banks for security loan transactions in favour of third parties. A guarantee fund of EUR 608 thousand (EUR 649 thousand) has been established to secure commitments under partial retirement arrangements.

Fair values pursuant to § 54 RechVersV

The fair values of land and buildings for 2008 were determined using the gross rental method. In individual cases book values were used.

Income values were determined for shares in affiliated companies and participating interests, and in the case of life insurance companies embedded values were calculated.

Shares, units in unit trusts, bearer debt securities and other securities were valued at market value. This is obtained from stock market prices and bid prices as at the balance sheet date. In the case of special investments for which no stock exchange price was available, valuation was made at cost of acquisition or net asset value (NAV).

Securities not traded in illiquid markets were valued using average and theoretical prices provided by Bloomberg, the plausibility of which was checked using self-calculated theoretical prices on the basis of credit default swap rates.

The fair values of the sundry loans and the loans to affiliated companies and participating interests were determined on the basis of yield curves, taking into account the creditworthiness of the specific debtor and the currency of the loan.

Other investments were reported at nominal values and in individual cases at book value.

Figures in EUR thousand		2008		
Fair values pursuant to § 54 RechVersV of asset items B.I. to B.III.		Book values 31.12.	Fair values 31.12.	Difference 31.12.
B.I.	Land and buildings, rights to land and buildings, leasehold	15,865	27,978	12,113
B.II.	Investments in affiliated companies and participating interests			
	1. Shares in affiliated companies	4,047,225	4,966,100	918,875
	2. Loans to affiliated companies	213,611	223,349	9,738
	3. Participating interests	61,326	69,854	8,528
	4. Loans to enterprises in which the company has a participating interest	1,073	1,073	–
	5. Total B.II.	4,323,235	5,260,376	937,141
B.III.	Other investments			
	1. Shares, units in unit trusts and other variable-yield securities	932,293	981,503	49,210
	2. Bearer debt securities and other fixed-income securities	6,493,712	6,769,301	275,589
	3. Other loans			
	a) Registered debt securities	161,721	162,528	807
	b) Debentures and loans	128,700	131,038	2,338
	c) Sundry loans	30,000	30,003	3
	4. Deposits with banks	139,737	139,737	–
	5. Other investments	31,957	33,039	1,082
	6. Total B.III.	7,918,120	8,247,149	329,029
	Total	12,257,220	13,535,503	1,278,283

Other receivables

Figures in EUR thousand	2008	2007
Receivables from affiliated companies	167,210	276,897
Receivables from reinsured pension schemes	30,547	29,360
Receivables from the revenue authorities	16,483	14,802
Receivables from share exchange	7,337	–
Cost paid in advance for a subsidiary	2,154	–
Interest and rent due	1,132	683
Receivables from representative offices	977	1,097
Claims from settlement of the purchase price of a participation	–	3,870
Other receivables	2,279	1,844
Total	228,119	328,553

Treasury shares

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 capital stock existing on the date of the resolution. The company did not hold fully paid, no-par-value treasury shares as at 31 December 2008.

Within the financial year just-ended the company acquired shares for employees, which it subsequently sold to them. No profit resulted from the transaction.

	2008		
	Date of acquisition		Date of sale
	16 October	7 November	18 December
Number of shares	13,000	984	13,984
Amount of capital stock attributable to the shares (EUR)	13,000.00	984.00	13,984.00
Price (EUR)	22.81	19.80	22.60

Sundry assets

The sundry assets relate to tax assets amounting to EUR 12,333 thousand in the year under review. The tax assets in the previous year in an amount of EUR 7,399 thousand relate to the years 2006 and 2007 and were carried under other receivables in the previous year.

Other receivables

Figures in EUR thousand	2008	2007
Accrued interest and rent	96,898	88,955
Accrued administrative expenses	1,726	942
Deferred premium on bonds pursuant to § 341c Commercial Code (HGB)	37	319
Other	1,129	137
Total	99,790	90,353

Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)

A deferred item was established in the financial year for the probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB) in the amount of EUR 108,415 thousand (EUR 100,091 thousand). Of this amount, EUR 53,741 thousand (EUR 49,615 thousand) was attributable to corporation tax including the German reunification charge and EUR 54,674 thousand (EUR 50,476 thousand) to trade tax.

Notes on liabilities

Subscribed capital

The company's subscribed capital remained unchanged as at 31 December 2008 in the amount of EUR 120,597 thousand. It is divided into 120,597,134 no-par-value registered shares.

Authorised capital of up to EUR 60,299 thousand is available with a time limit of 31 May 2009. Of this amount, up to EUR 1,000 thousand may be used to issue employee shares.

In addition, contingent capital of 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 convert participating bonds or profit-sharing rights. This contingent capital has a term until 11 May 2011.

Capital reserve

The company's capital reserve remained unchanged as at 31 December 2008 in the amount of EUR 880,608 thousand.

The capital reserve refers solely to the amount generated upon the issue of shares in excess of the par value of the subscribed capital.

Subordinated liabilities

Under a loan agreement dated 7 June 2005 Hannover Finance (Luxembourg) S.A. granted Hannover Re a junior loan of EUR 500,000 thousand at an interest rate of 5.11% and with a term until 27 May 2015.

Provision for unearned premiums

Figures in EUR thousand		2008		2007	
Insurance line	gross	net	gross	net	
Fire	127,360	102,632	130,016	97,476	
Casualty	128,038	104,394	171,188	140,864	
Accident	21,460	18,185	17,586	14,996	
Motor	117,927	94,376	40,413	30,414	
Aviation	104,329	82,774	92,027	72,518	
Life	75,328	59,744	67,229	52,955	
Other lines	234,666	187,713	202,098	151,959	
Total	809,108	649,818	720,557	561,182	

Life assurance provisions

Figures in EUR thousand		2008		2007	
Insurance line	gross	net	gross	net	
Accident	1,589	1,525	3,637	3,118	
Life	4,968,386	3,813,660	5,458,993	3,858,391	
Other lines	26,410	21,869	27,643	23,071	
Total	4,996,385	3,837,054	5,490,273	3,884,580	

Provisions for outstanding claims

Figures in EUR thousand	2008		2007	
	gross	net	gross	net
Outstanding loss reserve				
Fire	1,072,072	939,221	1,113,511	961,298
Casualty	4,226,203	3,467,051	4,040,560	3,341,791
Accident	207,656	166,680	149,720	133,046
Motor	1,737,649	1,465,996	1,587,107	1,330,157
Aviation	920,282	646,750	895,424	608,430
Marine	1,003,088	724,968	801,869	574,532
Life	1,050,972	901,182	757,768	650,920
Other lines	1,503,968	1,202,609	1,390,583	1,094,698
	11,721,890	9,514,457	10,736,542	8,694,872
Separate value adjustment on retrocessions	–	23,762	–	22,448
	11,721,890	9,538,219	10,736,542	8,717,320
Provision for annuities				
Casualty	971	938	1,207	1,116
Accident	4,132	4,122	3,590	3,580
Motor	10,951	10,400	9,833	9,343
	16,054	15,460	14,630	14,039
Total	11,737,944	9,553,679	10,751,172	8,731,359

Equalisation reserve and similar provisions

Figures in EUR thousand		2008		
Insurance line	Position at 1.1.	Addition	Withdrawal and release	Position at 31.12.
Equalisation reserve				
Fire	195,922	70,395	–	266,317
Casualty	416,792	–	29,587	387,205
Accident	65,667	–	4,767	60,900
Motor	174,796	–	13,829	160,967
Aviation	128,340	5,606	28,925	105,021
Other lines	313,886	64,170	–	378,056
	1,295,403	140,171	77,108	1,358,466
Provisions which are similar to the equalisation reserve – major risks –				
Fire	57,709	1,033	31,895	26,847
Casualty	18,764	1,638	1,783	18,619
Accident	409	69	–	478
Motor	58	10	–	68
Marine	5,607	–	3,103	2,504
Other lines	28,543	4,533	–	33,076
Total	1,406,493	147,454	113,889	1,440,058

Other technical provisions

Figures in EUR thousand		2008		2007	
Type of provisions	gross	net	gross	net	
Profit commission	127,025	105,559	131,391	108,856	
Commission	(1,853)	(1,376)	263	338	
Road accident victims' assistance	6	6	7	7	
Total	125,178	104,189	131,661	109,201	

Technical provisions – total

Figures in EUR thousand	2008		2007	
	gross	net	gross	net
Insurance line				
Fire	1,511,941	1,350,656	1,514,968	1,326,946
Casualty	4,816,586	4,024,211	4,718,295	3,976,635
Accident	297,516	252,945	241,551	221,593
Motor	2,043,409	1,744,513	1,820,590	1,551,619
Aviation	1,138,016	841,809	1,121,950	814,092
Marine	1,013,471	733,947	814,431	585,722
Life	6,098,183	4,777,384	6,287,469	4,565,065
Other lines	2,190,163	1,835,863	1,981,573	1,629,036
	19,109,285	15,561,328	18,500,827	14,670,708
Separate value adjustment on retrocessions	–	23,762	–	22,448
Total	19,109,285	15,585,090	18,500,827	14,693,156

Provisions for other risks and charges

Figures in EUR thousand	2008	2007
Provisions for pension and similar liabilities	46,659	43,226
Provision for taxation	126,231	103,377
Sundry provisions		
Provisions for outstanding payments	8,301	11,729
Provisions for currency risks	5,745	9,090
Provisions for partial retirement	2,628	2,928
Provisions for annual accounts costs	2,669	2,489
Provisions for suppliers' invoices	1,469	1,392
Provisions for costs of legal action	1,077	923
Provisions for litigation risks	647	297
Other provisions	5,411	13,861
	27,947	42,709
Total	200,837	189,312

Miscellaneous liabilities

Figures in EUR thousand	2008	2007
Accounts due to affiliated companies	26,983	21,774
Liabilities from advance distribution	3,202	–
Liabilities in respect of the revenue authorities	2,845	6,651
Liabilities in respect of permanent establishments	2,563	1,547
Liabilities from deliveries and services	1,073	1,088
Liabilities from interest and LOC	960	981
Liabilities from outstanding social security contributions	278	92
Liabilities from option premiums	–	928
Other liabilities	109	147
Total	38,013	33,208

Deferred items

Figures in EUR thousand	2008	2007
Disagio	1,219	660

Notes on the profit and loss account

Figures in EUR thousand	2008	2007	2008	2007	2008	2007	2008	2007
Insurance line	Gross written premium		Gross premium earned		Net premium earned		Technical result for own account	
Fire	689,665	701,193	692,821	705,897	524,243	511,468	34,824	8,377
Casualty	676,989	717,941	720,228	769,206	589,068	632,570	62,382	(25,672)
Accident	156,729	151,252	152,764	145,156	134,434	123,044	3,590	12,357
Motor	622,528	470,248	549,042	519,329	441,133	404,516	(105,979)	(28,868)
Aviation	280,564	315,622	271,048	339,565	156,732	205,451	42,263	65,317
Marine	376,579	396,736	376,579	396,736	186,753	190,598	(22,145)	(68,943)
Other lines	1,447,557	1,737,734	1,414,154	1,705,789	1,054,087	1,278,860	(4,825)	171,424
Total property and casualty	4,250,611	4,490,726	4,176,636	4,581,678	3,086,450	3,346,507	10,110	133,992
Life	3,078,049	2,161,905	3,069,970	2,152,628	2,342,960	1,632,802	35,244	64,055
Total insurance business	7,328,660	6,652,631	7,246,606	6,734,306	5,429,410	4,979,309	45,354	198,047

Total insurance business

Figures in EUR thousand	2008	2007
Gross claims incurred	4,585,696	4,409,293
Gross operating expenses	1,748,836	1,590,285
Reinsurance balance	231,061	525,690

Expenses for personnel

Figures in EUR thousand	2008	2007
1. Wages and salaries	44,573	44,192
2. Social security payments and expenses for welfare	6,756	6,502
3. Expenses for old-age pension scheme	2,393	7,398
4. Total expenses	53,722	58,092

Expenses for investments

Figures in EUR thousand	2008	2007
Shares, units in unit trusts, participating interests	478,272	42,099
Shares in affiliated companies and participations as well as loans to affiliated companies and enterprises in which the company has a participating interest	155,322	308,366
Fixed-income securities	92,163	62,594
Deposit and bank fees	31,970	9,816
Administrative expenses	12,862	15,389
Other investments	8,367	–
Futures and options contracts	3,272	2,252
Deposits	3,216	83
Land and buildings	3,867	434
Registered bonds and other loans	52	51
Other variable-yield securities	11	–
Loss transfer	–	36
Total	789,374	441,120

Other income

Figures in EUR thousand	2008	2007
Separate value adjustment on accounts receivable and retrocessions	36,010	48,778
Exchange rate gains	22,607	19,552
Release of non-technical provisions	11,462	13,921
Profit from liquidation of a trust account	8,904	–
Profit from clearing transactions	5,522	1,032
Profit from services	4,634	5,008
Allocated investment return	3,618	2,849
Reimbursement of expenses	2,427	1,011
Payment for renewal rights	1,771	7,819
Amounts realised	43	42
Other income	2,150	1,014
Total	99,148	101,026

Other expenses

Figures in EUR thousand	2008	2007
Exchange rate losses	55,225	27,352
Deposit interest	43,252	51,186
Separate value adjustment on accounts receivable and retrocessions	40,436	30,840
Financing interest	26,247	26,044
Expenses for the whole company	22,686	17,595
Interest pursuant to § 233a AO (Fiscal Code)	4,968	48,274
Expenses from services	4,341	4,761
Expenses for letters of credit	3,134	3,687
Interest charges on old-age pension scheme	2,251	1,787
Interest charges from reinsurance transactions	1,456	229
Financing charges	632	3,770
Expenses from a guarantee	–	9,106
Other interest and expenses	2,325	2,254
	206,953	226,885
Less: Technical interest	31,849	39,056
Total	175,104	187,829

Other information

Notes on § 341b and § 285 of the Commercial Code (HGB)

Of the units in unit trusts totalling EUR 925,168 (1,381,256) thousand shown under the "Other investments" in the item "Shares, units in unit trusts and other variable-yield securities", an amount of EUR 836,395 (828,453) thousand was allocated to fixed assets. The fair value amounts to EUR 884,000 (940,591) thousand. Based on the assumption that the impairments will not be permanent, write-downs of EUR 27,159 (3,495) thousand were not taken on a portfolio with a book value of EUR 160,042 (51,119) thousand.

Of the bearer debt securities and other fixed-income securities, securities with a book value of EUR 1,441,315 (1,981,662) thousand and a fair value of EUR 1,492,425 (2,030,701) thousand were allocated to fixed assets. Write-downs of EUR 43,750 (4,238) thousand were not taken on a portfolio with a book value of EUR 349,338 (391,450) thousand since a permanent impairment is not anticipated. Fixed-income securities with a book value of EUR 249,234 thousand were reclassified from current assets to fixed assets.

Special investments in private equity funds and asset pools held long term for which no market price was available were valued at acquisition cost or net asset value (NAV). Temporary impairments were disregarded to the extent that a full return flow of funds is anticipated within the aggregate term.

Of the total fees paid to the auditor, EUR 819 (857) thousand related to the audit of the financial statements, EUR 48 (142) thousand to tax consulting and EUR 43 (105) thousand to other services.

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 an 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.

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 we 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.

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.

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. We do 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 2,083.3 million). The securities held in the master trust are shown as available-for-sale investments.

As security for 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, which also provide security for subsidiaries, was EUR 2,470.8 million (EUR 2,092.4 million) as at the balance sheet date.

Outstanding capital commitments with respect to special investments and shares in affiliated companies exist in the amount of EUR 262.1 million (EUR 195.8 million).

Under novation clauses in reinsurance contracts written by the subsidiaries with outside third parties we shall – in certain constellations – assume the rights and duties of the subsidiaries under the contracts. In the event of the contracts being transferred to Hannover Re, assets shall be transferred from the relevant subsidiary in the amount of the reserves. As at 31 December 2008 reserves equivalent to EUR 666,409 thousand existed at the subsidiaries.

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.

Membership of the association for the reinsurance of pharmaceutical risks and the association for the insurance of German nuclear reactors gives rise to an additional call in accordance with the quota participation if one of the other pool members should fail to meet its liabilities.

Miscellaneous information

The names of the members of the Supervisory Board and Executive Board are listed on pages 1 to 5.

The average number of employees was 691 in the financial year.

Talanx AG holds a majority interest in our company.

Talanx AG, Hannover, and HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover, include our financial statements in their consolidated financial statements, which are published in the electronic federal gazette.

Events after the balance sheet date

As announced in a press release dated 23 January 2009, we reached agreement with Scottish Re Group Limited on the acquisition of the ING individual life portfolio under a reinsurance and asset purchase transaction. In addition to assuming the reinsurance portfolio, we are acquiring the policy administration systems of Scottish Re as well as other assets supporting the US mortality reinsurance business.

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 26.0 million.

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. In addition, the amount of the remuneration paid to the Supervisory Board 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 pursuant to § 285 of the Commercial Code (HGB). In addition, we took into account the provisions of DRS 17 "Reporting on the Remuneration of Members of Governing Bodies". Consequently, we have not provided any further explanation of the information discussed in the remuneration report in the management report or the notes.

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). 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 Rothschild 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.

Amount of remuneration received by the Executive Board

The total remuneration received by the Executive Board of Hannover Re 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	1,336.4	1,246.5
Variable bonuses for the previous year	1,882.4	1,560.1
Remuneration from Group companies netted with the bonus	101.7	102.0
(Stock appreciation rights awarded	369.1	838.5)
Stock appreciation rights exercised	314.8	303.7
	3,635.3	3,212.3
Taxable amount from non-cash compensation	63.8	59.4
Total	3,699.1	3,271.7

In the 2008 financial year stock appreciation rights totalling EUR 0.4 million (EUR 0.8 million) were granted for the 2007 allocation year; stock appreciation rights granted in previous years were exercised in an amount of EUR 0.3 million (EUR 0.3 million).

As at 31 December 2008 the members of the Executive Board had at their disposal a total of 338,962 (223,610) granted, but not yet exercised stock appreciation rights with a fair value of EUR 1.0 million (EUR 1.5 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 1.0 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 7.3 million (EUR 6.3 million) as at 31 December 2008.

The remuneration paid to former members of the Executive Board and their surviving dependants totalled EUR 0.6 million (EUR 0.6 million) in the year under review. Altogether, an amount of EUR 6.7 million (EUR 6.5 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 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. This is in compliance with § 113 Para. 3 Stock Corporation Act (AktG).

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.

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

Figures in EUR thousand		2008	2007
Name	Function		
Wolf-Dieter Baumgartl	Chairman of the – Supervisory Board – Standing Committee – Balance Sheet Committee – Nomination Committee	203.1	185.6
Dr. Klaus Sturany	Deputy Chairman of the Supervisory Board Member of the Standing Committee	71.6	49.7
Herbert K. Haas	Member of the – Supervisory Board – Standing Committee – Balance Sheet Committee – Nomination Committee	71.3	66.2
Dr. Paul Wieandt	Deputy Chairman of the Supervisory Board (until 20 March 2007)	17.7	74.1
Karl Heinz Midunsky	Member of the – Supervisory Board – Nomination Committee	47.8	43.6
Dr. Erhard Schipporeit	Member of the – Supervisory Board – Balance Sheet Committee	42.9	3.6
Dr. Immo Querner	Member of the Supervisory Board	47.8	23.6
Ass. jur. Otto Müller*	Member of the Supervisory Board	47.8	43.6
Ass. jur. 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	35.7
Uwe Kramp*	Member of the Supervisory Board	32.0	1.2
Gert Waechter*	Member of the Supervisory Board	32.0	1.2
Total		642.0	570.5

* 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 in excess of EUR 5,000 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 – are to be reported pursuant to § 15a Securities Trading Act (WpHG). The following reportable transactions took place in the 2008 financial year.

Security transactions

Name	Type of transaction	Type of security	ISIN	Transaction date	Number of securities	Price in EUR
Wilhelm Zeller	Sale	Bond	XS0126063386	23.01.2008	25 ¹⁾	101.95
Wilhelm Zeller	Purchase	Share	DE0008402215	23.01.2008	1,000	28.00
Wilhelm Zeller	Purchase	Share	DE0008402215	18.11.2008	2,115	20.90 ²⁾
André Arrago	Purchase	Share	DE0008402215	07.11.2008	4,100	16.80
André Arrago	Purchase	Share	DE0008402215	11.11.2008	25,900	16.80

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.

Responsibility statement

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

Hannover, 4 March 2009

Executive Board



Zeller



Arrago



Dr. Becke



Gräber



Dr. König



Dr. Pickel



Wallin

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of the Hannover Rückversicherung AG, Hannover, for the business year from 1 January to 31 December 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual 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 annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and 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 annual financial statements comply with the legal requirements 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 Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company'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
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REPORT OF THE SUPERVISORY BOARD

of Hannover Rückversicherung AG

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 Hannover Rückversicherung AG 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 market 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

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

DECLARATION

of conformity

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

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.

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.

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 premium), 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.

Capital, reserves and technical provisions: an insurer's capital and reserves, also including the provisions committed to technical business and the equalisation reserve. Total maximum funds available to offset liabilities.

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 reinsurance cessions.

Combined ratio: sum of the loss ratio and expense ratio.

Credit status (also: creditworthiness): ability of a debtor to meet its payment commitments.

Creditworthiness: cf. → credit status

Critical illness coverages: cf. → dread disease coverages

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).

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.

Equalisation reserve: provision for the equalisation of substantial fluctuations in the claims experience of individual lines of business over several years.

Excess of loss treaty: cf. → non-proportional reinsurance

Expense ratio: administrative expenses in relation to the (gross or net) premium 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 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

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).

IBNR (Incurred but not reported) reserve: provision for claims which have already occurred but which have not yet been reported.

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 business: this term is used to designate business activities in our life and health reinsurance business group.

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.

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) premium 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.

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 lines of non-life reinsurance business.

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.

(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 premium, the written premium is not deferred.

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.

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. → Premium 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 premium (also: unearned premium reserve): premium written in a financial year which is to be allocated to the following period on an accrual basis. This item is used to defer written premium.

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 reinsured 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) premium.

Retention: the part of the accepted risks which an insurer/ reinsurer does not reinsure, i.e. shows as → net (retention ratio: percentage share of the retention relative to the gross written premium).

Retro: cf. → Gross/Retro/Net

Retrocession: ceding of risks or shares in risks which have been reinsured. 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.

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.

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 premium

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.

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