Best's Rating Report

HANNOVER RUECKVERSICHERUNG AG - CONSOLIDATED

30625 Hannover, Germany

A

Composite Reinsurer

HANNOVER RUECKVERSICHERUNG AG - CONSOLIDATED

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Publicly Traded Corporation: Hannover Rueckversicherung AG
XETRA: HNR 1

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the company's Financial Strength, it is assigned a Best's Financial Strength Rating of A (Excellent). The company's Financial Size Category is Class XV.

RATING RATIONALE

Rating Rationale: The rating reflects Hannover Re's excellent risk-adjusted capitalization, its improving operating performance and its strong business profile. These factors are partly offset by the company's limited financial flexibility.

Excellent risk-adjusted capitalization — A.M. Best expects Hannover Re's consolidated risk-adjusted capitalization to remain excellent, underpinned by the company's decision not to pay a dividend during 2009. The impact of unrealized losses and impairments in 2008 on the company's capitalisation remained within tolerance at the current rating level, taking into account the remedial action taken by Hannover Re, including the suspension of dividend payments. In A.M. Best's view, Hannover Re's financial flexibility continues to be constrained by its dependence upon its majority shareholder, Talanx AG, which is a non-listed intermediate holding company. In addition, limited retrocessional capacity in the capital markets has been restrictive for Hannover Re in 2009, as the company historically intensively utilized these markets.

Improving operating performance — Hannover Re's earnings are likely to improve significantly in 2009 against the backdrop of a favourable rating environment for several of the company's main lines of business. A.M. Best believes that Hannover Re maintains strong controls for its underwriting of credit and surety business, although short-term earnings stability could be adversely affected by its participation in this business. Overall earnings will be positively influenced by the acquisition of the ING US individual life reinsurance business from Scottish Re Group Limited. Hannover Re is also likely to benefit from resilient investment performance following the sale of almost its entire equity portfolio in autumn 2008.

Strong Business Profile — Hannover Re's business profile remains excellent in the global reinsurance market. A.M. Best expects gross written premiums to rise significantly in 2009 to approximately EUR 9.7 - EUR 9.8 billion from EUR 8.1 billion in 2008. Non-life reinsurance is likely to contribute approximately EUR 5.5 - EUR 5.7 billion, up from EUR 5.0 billion in 2008, reflecting rate increases in credit and surety lines, U.S. property lines and the German and Japanese market. Life reinsurance is expected to contribute approximately EUR 4.1 - EUR 4.2 billion, an increase from EUR 3.1 billion largely due to the acquisition of the ING US individual life reinsurance portfolio.

Best's Financial Strength Rating: A **Outlook: Stable**

FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
07/20/09	A	08/29/06	A
07/16/08	A	11/08/05	A u
03/13/08	A	12/21/04	A
09/11/07	A		

BUSINESS REVIEW

Hannover Rueckversicherung AG (Hannover Re) maintains an excellent business position in the worldwide reinsurance markets and ranks among the four largest reinsurers.

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The group is majority owned by the German industrial insurance group, Haftpflichtverband der Deutschen Industrie V.a.G. (HDI), through its intermediate holding company, Talanx AG, with 50.2% of share capital while the remainder is free-float.

Hannover Re remains a well-diversified reinsurer with 61% of premium income from non-life and 39% from life/health reinsurance in 2008. The acquisition of ING's US individual life reinsurance will further diversify the portfolio, leading to a 57% non-life, 43% life anticipated premium split in 2009. Consolidated gross written premiums (GWP) are marginally down to EUR 8.12 billion in 2008 from EUR 8.26 billion in 2007, as growth in the life/health segment did not fully balance a premium decline in non-life as a result of deteriorating rates in combination with an unfavourable foreign exchange impact. A.M. Best expects premium income to rise significantly in 2009 to approximately EUR 9.8 billion with contributions from both non-life and life reinsurance. The company's main market remains the United States with approximately 26% of gross premiums, followed by the United Kingdom with 18% and Germany with approximately 14% of gross premiums. Other European countries contribute approximately 20% of gross written premiums.

NON-LIFE:

Hannover Re remains a market-leading non-life reinsurer with a strong market focus on the United States and Germany and growing premium income from Asia and the United Kingdom. The 2008 premium income stems primarily from casualty business (41%) and property lines (34%). Seven percent of the gross premium income is generated in marine, 7% in credit and surety and 6% aviation. Across all lines, non-traditional reinsurance contributes approximately 13% to the overall premium income. Having shifted its treaty portfolio to proportional during the past five years, Hannover Re has reached its desired split between proportional and non-proportional premiums in its treaty portfolio. As a result, the treaty portfolio comprises 56% proportional, with the remainder (44%) accounted for by non-proportional premiums during the January 2009 renewals.

Hannover Re's GWP premiums in property/casualty decreased by 3.9% to EUR 5.0 billion in 2008 mainly due to unfavorable foreign exchange developments in the first half of 2008 combined with the withdrawal from US direct specialty business. However, premium income is likely to rise to approximately EUR 5.5 to 5.7 billion in 2009 against the background of hardening rates during 2009.

Hannover Re's total German non-life consolidated premium income decreased to around EUR 750 million in 2008 from approximately EUR 980 million in 2007, primarily driven by a decrease in German casualty lines. Despite a competitive environment in the German primary motor market Hannover Re experienced adequate rate levels in the reinsurance market. E+S (Hannover Re's subsidiary focusing on the German Market) selectively enlarged its market share by way of increased treaty shares with existing customers and new clients, thereby supporting its position as one of the leading reinsurers in Germany. During the January 2009 renewals, Hannover Re kept its treaty portfolio at a constant premium level of EUR 710 million based on an 86% proportional and 14% non-proportional split.

Premium income from the United States contracted during 2008 as Hannover Re reduced its market share in property and casualty business. Against the backdrop of high rate reductions in property and property catastrophe business, as well as further softening rates in casualty lines such as directors' and officers' and professional indemnity, Hannover Re reduced its volume in line with an active cycle management strategy. However, the primary industry's capital base was significantly affected by the financial market crises resulting in decreasing investment income and eroding surplus capital, particularly during the second half of 2008. Hence, the demand for reinsurance has risen during the 2009 renewal season, resulting in more attractive rates across almost all lines of business.

Focusing on specialized niche business and scaling back catastrophe-exposed business, Hannover Re stabilized its premium income in the United Kingdom and the London Market at EUR 600 million in 2008. The UK portfolio predominately comprises marine lines, property and casualty lines, as well as aviation lines.

Hannover Re's retakaful business, established in 2007 in Bahrain, experienced continued significant premium growth in 2008. Hannover Re obtained a license as an "admitted reinsurer" in Brazil in July 2008 and writes both treaty and facultative business in this market. In Asia Hannover Re takes an opportunistic underwriting approach, focusing on profitable non-proportional business. During 2008, Hannover Re increased selectively its market share in worldwide credit and surety lines followed by a significant increase in premium volume during the January 2009 renewals, mainly driven by steep rate increases relating to the same underwriting exposure.

Hannover Re remains the third-largest market participant in the financial reinsurance market on a worldwide basis. The business is underwritten mainly through the group's Irish subsidiaries. During 2008, Hannover Re has further diversified its predominately US portfolio, triggered by a growing demand in Europe and Asia. However, premium development can be volatile due to the nature of the single premium transactions written by Hannover Re.

LIFE/HEALTH

Hannover Re continues to be one of the leading life reinsurers worldwide. The company operates in the five business fields: risk reassurance (39% of GWP), new life re markets (23%), bancassurance (14%), multinational life groups (13%) and financial solutions (11%). The United Kingdom remains Hannover Re's largest life market with 27% of GWP premiums, followed by North America (22%), Germany (12%), other European countries (15%) and Australia (10%).

Total life premiums remained broadly stable in 2008 at EUR 3.1 billion. In 2009, life reinsurance premiums are likely to grow significantly to approximately EUR 4.1 to EUR 4.2 billion, benefiting from a EUR 800 million GWP increase due to the acquisition of ING's US individual life reinsurance portfolio. Hannover Re will replace Scottish Re as a reinsurer to ING with this transaction. It will provide Hannover Re with a sizable position in the US mortality market. Furthermore, Hannover Re will benefit from infrastructure as well as from know-how transferred within the scope of the transaction.

In the United Kingdom, a significant expansion in the enhanced annuities sector could not balance the effect of scaling back risk-oriented covers resulting in a marginally decreasing premium income to EUR 857 million in 2008, from EUR 927 million in 2007.

Premium volume in North America rose significantly to EUR 614 million in 2008 (from EUR 509 million in 2007), with Hannover Re consolidating its position in private health insurance cover for senior citizens and block assumption transactions. In Germany, positive effects on new business from the government-assisted "Riester" annuity products were outweighed by the negative impact due to the implementation of the amended Insurance Contract Act which resulted in the restructuring of sales processes and decreasing new business in the primary sector. In addition, a further run-off of a large transaction from prior years and a reduction in financing new business acquisition costs for German primary insurers resulted in a premium decline to EUR 382 million in 2008, from EUR 429 million in 2007. However, Hannover Re's premium income in emerging markets such as the Asian and South American markets grew significantly in 2008.

FINANCIAL PERFORMANCE

Overall Earnings: Hannover Re's net income after minorities dropped to a net loss of EUR 127 million in 2008, down from a net profit of EUR 727 million in 2007. This drop was driven significantly by the turmoil in financial markets resulting in significant realized and unrealized losses and impairments on the company's investment portfolio adding up to EUR 714 million. In addition, Hannover Re benefited in 2007 from a one-off tax effect amounting to EUR 192 million before minorities whereas 2008 has been negatively impacted by German tax legislation due to which losses on equities are not tax deductible. This resulted in a tax burden of EUR 206 million on a pre-tax result of EUR 70.6 million. However, overall earnings are likely to recover into the range of EUR 580 million to EUR 620 million in 2009, benefitting from a non recurring net income effect from the acquisition of ING's US individual life reinsurance portfolio and a favourable non-life rate environment during 2009.

Underwriting Income: Non-life underwriting results increased in 2008 to EUR 185 million up from a negative underwriting result of EUR 27 million in 2007 as the reported combined ratio improved to 95.4% from 99.7% in 2007. Above budget catastrophe and large losses, as well as overall softening rates in non-life reinsurance, were fully offset by positive prior year development. In particular, hurricanes Ike and Gustav accounted for a net cost of approximately EUR 240 million which, along with several other storm events, pushed catastrophe and large losses marginally beyond budget amounting to a net impact of EUR 458 million. This represented 10.7% of net earned premiums in non-life reinsurance in 2008. Rates declined in some major markets and lines such as North America casualty and marine business, whereas in non-proportional business rates tended to stabilize in 2008.

The life technical result declined to EUR 121 million in 2008, from EUR 177 million in 2007. The deterioration is due mainly to decreasing investment income and unfavourable foreign exchange developments. Biometric risks and risks associated with the persistency of in-force reinsured portfolios, as well as counterparty risk on financing transactions proved to be consistent with expectations during 2008.

Investment Income: Hannover Re's investment income dropped by 75% to EUR 278 million in 2008, predominately as a result of impairments amounting to EUR 480 million, net realized losses of EUR 114 million and net unrealized losses of EUR 120 million. Ordinary investment income, however, only decreased marginally to EUR 834 million in 2008 down from EUR 870 million in 2007, impacted by a lower average yield due to a shift towards investments in low-risk securities. Assets under own management increased to EUR 20.1 billion in 2008, up from EUR 19.8 billion in 2007, mainly driven by a positive cash flow from the technical account. However, A.M. Best expects net investment income to recover to a range of EUR 880- 920 million during 2009 as a result of a higher resilience due to the disposal of almost the entire equity portfolio in the fourth quarter of 2008. Hannover Re reduced its quoted equity portfolio to below 1% of total investments and shifted its investment focus to fixed income instruments by predominately investing into government bonds. At year-end 2008, fixed income investments added up to 89% of the portfolio. Of these, 76% of fixed income securities are invested in high quality bonds rated "aaa" or "aa". Only 2% of the bonds are non-investment grade. The average duration of the bond portfolio remained at 3.8 years. Hannover Re's exposure to the subprime market is limited. Private equity exposure accounted for approximately 3%, real estate investments for less than 1% and short-term investments including cash remained stable at 6% of the total investment portfolio in 2008. A.M. Best believes that maturities match the liabilities adequately and that Hannover Re matched the currency of assets and liabilities appropriately.

CAPITALIZATION

In A.M. Best's view, Hannover Re's risk-adjusted capitalization remains supportive of the rating level despite the 2008 loss, fair value adjustments and realized losses. The 2009 capitalization will be supported by full earnings retention during 2009 and by recovering underwriting and investment results. However, once earnings have returned to a sustainable level, Hannover Re is likely to return to its target pay-out ratio between 35% and 40% in line with years prior to 2008. The company's capitalization is supported by extensive use of hybrid capital issues. Interest expense for hybrid capital remains stable at EUR 77 million in 2008 and is likely to remain at that level in 2009. Going forward, A.M. Best expects operating earnings to cover sufficiently the current interest expense as well as planned dividend payments.

Hannover Re's financial flexibility remains to some extent dependent on its majority shareholder, Talanx, which as an intermediate holding company of a mutual group has only limited flexibility to raise additional funds.

Hannover Re continues to transfer risks to the capital markets. During 2007, the company securitized a stop loss cover on the retained portion of the natural catastrophe portfolio, K5, which itself had been securitized in 2005. A.M. Best has given credit for this transaction as it provides full indemnity for this part of the portfolio. In addition, Hannover Re extended the K5 transaction in order to optimize the group's catastrophe protection during 2008. However, limited capacity in the non-traditional retrocession market is likely to adversely impact Hannover Re's retrocession buying in 2009 as the company has intensively utilized this market in the past.

In 2007, Hannover Re was the first insurer to securitize parts of its reinsurance recoverable portfolio. The synthetic CDO transaction, Merlin, transferred the default risk of a portfolio of recoverables with a nominal value of EUR 1 billion to the capital market. Investors bear the risk of default losses of up to EUR 95 million in excess of Hannover Re's net retention of EUR 60 million. During 2008, Hannover Re transferred a portfolio of unit-linked life and annuity reinsurance for European clients within the scope of the transaction, L7, to the capital market, monetizing an embedded value of EUR 100 million.

Reinsurance recoverables have reduced to 68% of shareholders' equity (including minorities) in 2008, down from 168% in 2005.

Reserve Quality: Despite a significant reserve release amounting to EUR 265 million in 2008, A.M. Best believes that Hannover Re's overall reserves remain adequate and that the confidence level has not significantly been impacted by this release. This release comprises prior development of short-tail lines, positive run-off from the hard market years of 2002-2004 in US casualty lines and from enhanced transparency with one specific client. Overall, A.M. Best believes that Hannover Re is prudently reserved.

In A.M. Best's view, Hannover Re holds adequate incurred but not reported (IBNR) reserves for its US casualty book. However, A.M. Best will continue to closely follow the development of this book. In A.M. Best's view, Hannover Re has sufficiently reserved for the major hurricane events, Gustav and Ike in 2008.

LIQUIDITY

Overall Liquidity: A.M. Best believes that Hannover Re's liquidity is sufficient to meet future cash flow requirements. Cash and short-term investments in its portfolio remained stable at 6% of total investments in 2008.

Liquid assets decreased marginally to 54.5 % in 2008, down from 56.1% of total liabilities in 2007. However, a significant proportion of technical reserves are matched by cedants' deposits, thus distorting the liquidity ratio.

SOURCE OF INFORMATION: Company Annual Report

Summarized Accounts as of December 31, 2008

US $ per Local Currency Unit 1.4097 = 1 Euro (EUR)

STATEMENT OF INCOME

	12/31/2008 EUR(000)	12/31/2008 USD(000)
General technical account:		
Reinsurance premiums assumed	4,987,823	7,031,334
Gross premiums written	4,987,823	7,031,334
Reinsurance ceded	711,075	1,002,402
Net premiums written	4,276,748	6,028,932
Net premiums earned	4,276,748	6,028,932
Total underwriting income	4,276,748	6,028,932
Net claims paid	3,028,007	4,268,581
Net claims incurred	3,028,007	4,268,581
Management expenses	148,751	209,694
Acquisition expenses	915,339	1,290,353
Net operating expenses	1,064,090	1,500,048
Total underwriting expenses	4,092,097	5,768,629
Balance on general technical account	184,651	260,303
Life technical account:		
Reinsurance premiums assumed	3,134,416	4,418,586
Gross premiums written	3,134,416	4,418,586
Reinsurance ceded	349,539	492,745
Net premiums written	2,784,877	3,925,841
Net premiums earned	2,784,877	3,925,841
Net investment income	245,518	346,107
Total revenue	3,030,395	4,271,948
Net claims paid	1,674,732	2,360,870
Net claims incurred	1,674,732	2,360,870
Net increase/(decrease) in long term business provision	421,342	593,966
Management expenses	70,062	98,766
Acquisition expenses	743,394	1,047,963
Net operating expenses	813,456	1,146,729
Total expenses	2,909,530	4,101,564
Balance on long term technical account	120,865	170,383

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	12/31/2008 EUR(000)	12/31/2008 USD(000)
Combined technical account:		
Reinsurance premiums assumed	8,120,919	11,448,060
Gross premiums written	8,120,919	11,448,060
Reinsurance ceded	886,621	1,249,870
Net premiums written	7,234,298	10,198,190
Increase/(decrease) in gross unearned premiums	113,480	159,973
Increase/(decrease) in reinsurers share unearned premiums	-59,193	-83,444
Net premiums earned	7,061,625	9,954,773
Net investment income	267,345	376,876
Other technical income	7,294	10,282
Total revenue	7,336,264	10,341,931
Net claims paid	4,702,127	6,628,588
Net claims incurred	4,702,127	6,628,588
Net increase/(decrease) in long term business provision	421,342	593,966
Management expenses	216,047	304,561
Acquisition expenses	1,647,617	2,322,646
Net operating expenses	1,863,664	2,627,207
Other technical expenses	12,166	17,150
Total underwriting expenses	6,999,299	9,866,912
Balance on combined technical account	336,965	475,020
Non-technical account:		
Net investment income	11,114	15,667
Other income/(expense)	-277,453	-391,125
Profit/(loss) before tax	70,626	99,561
Taxation	205,610	289,848
Profit/(loss) after tax	-134,984	-190,287
Dividend to shareholders	277,373	391,013
Other adjustments	-1,632	-2,301
Minority interests	-7,997	-11,273
Retained profit/(loss) for the financial year	-405,992	-572,327
Retained profit/(loss) brought forward	2,529,170	3,565,371
Retained profit/(loss) carried forward	2,123,178	2,993,044

ASSETS

	12/31/2008 EUR(000)	12/31/2008 % of total	12/31/2008 USD(000)
Cash & deposits with credit institutions	1,237,944	3.3	1,745,130
Bonds & other fixed interest securities	17,893,419	47.1	25,224,353
Shares & other variable interest instruments	22,589	0.1	31,844
Liquid assets	19,153,952	50.4	27,001,326
Real estate	25,514	0.1	35,967
Real estate for own use	42,019	0.1	59,234
Inter-company investments	128,680	0.3	181,400
Other investments	829,075	2.2	1,168,747
Total investments	20,179,240	53.1	28,446,675
Reins. sh. of tech. reserves - unearned premiums	23,582	0.1	33,244
Reinsurers' share of technical reserves - claims	1,985,309	5.2	2,798,690
Reinsurers' share of technical reserves - life	269,089	0.7	379,335
Total reinsurers share of technical reserves	2,277,980	6.0	3,211,268
Deposits with ceding companies	9,776,147	25.7	13,781,434
Inter-company debtors	153	0.0	216
Other debtors	3,120,914	8.2	4,399,552
Total debtors	3,121,067	8.2	4,399,768
Fixed assets	26,302	0.1	37,078
Prepayments & accrued income	2,416,753	6.4	3,406,897
Other assets	161,421	0.4	227,555
Goodwill	42,833	0.1	60,382
Total assets	38,001,743	100.0	53,571,057

LIABILITIES

	12/31/2008 EUR(000)	12/31/2008 % of total	12/31/2008 USD(000)
Capital	120,597	0.3	170,006
Paid-up capital	120,597	0.3	170,006
Non-distributable reserves	590,861	1.6	832,937
Other reserves	-4,577	0.0	-6,452
Retained earnings	2,123,178	5.6	2,993,044
Capital & surplus	2,830,059	7.4	3,989,534
Minority interests	501,434	1.3	706,872
Gross provision for unearned premiums	1,250,648	3.3	1,763,038
Gross provision for outstanding claims	15,499,260	40.8	21,849,307
Gross provision for outstanding claims - life	1,589,805	4.2	2,241,148
Gross provision for long term business - life	5,996,283	15.8	8,452,960
Total gross technical reserves	24,335,996	64.0	34,306,454
Long term borrowings	43,144	0.1	60,820
Other borrowings	1,376,883	3.6	1,940,992
External borrowings	1,420,027	3.7	2,001,812
Deposits received from reinsurers	565,952	1.5	797,823
Insurance/reinsurance creditors	1,236,912	3.3	1,743,675
Inter-company creditors	5,849	0.0	8,245
Other creditors	5,414,106	14.2	7,632,265
Total creditors	6,656,867	17.5	9,384,185
Accruals & deferred income	1,387,566	3.7	1,956,052
Other liabilities	303,842	0.8	428,326
Total liabilities & surplus	38,001,743	100.0	53,571,057

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HISTORY

The company was founded in Germany in 1966 as a reinsurance and direct insurance company and was incorporated under the name Aktiengesellschaft fuer Transport- und Rueckversicherung. In 1976, Hannover Rueckversicherung Aktiengesellschaft adopted its present title, after transferring its direct marine portfolio to its parent company, the HDI Haftpflichtverband der Deutschen Industrie V.a.G. Since then the company has written reinsurance only.

The company played a pioneering role in the securitising of insurance risk, and announced in 1998 the first financing securitized by life insurance policies. In 1997, Hannover Re acquired parts of the in-force reinsurance portfolios of Skandia International Insurance Company of Stockholm, as well as Skandia's related infrastructure. The transaction complemented Hannover Re's activity in certain growth segments, namely, life and health reinsurance, facultative reinsurance and aviation/space insurance. The transaction provided further geographic diversification and consequently positioned the group as a leader in the worldwide aviation market. The financing of the transaction imposed no material financial impact on the group's future earnings or capitalization. Hannover Re also acquired the renewal rights of all the property and casualty reinsurance business as January 1, 1998.

In 2001, Hannover Re established a reinsurer in Bermuda. Since then, Hannover Re has participated successfully in the catastrophe market in Bermuda.

With the disposal of Praetorian Financial Group Inc. in 2007, Hannover Re decided to concentrate on its core business of life and non-life reinsurance.

In 2009, Hannover Re Group acquired ING individual life reinsurance business from Scottish Re. With this transaction, Hannover Life Re became one of the top five traditional market participants in the United States.

MANAGEMENT

Hannover Re has a highly experienced and well-respected management team. The group's corporate structure is based on business units (such as life/health reinsurance) and the head of each business unit are represented on the executive board. During 2009, new appointments were made to the positions of chief executive officer and chief finance officer, the appointees are experienced managers within Hannover Re Group.

The strategic profit target is a return on equity of 750 basis points above the five-year average yield on government bonds and a double-digit EBIT growth per year.

Hannover Re intends to grow mainly organically in non-life, subject to meeting profitability targets. Acquisitions are only sought in life reinsurance. Except for its participation in Compass in South Africa and Inter Hannover in the United Kingdom, the group also excludes holding equity stakes in primary insurers following the sale of Praetorian Financial Group Inc.

A.M. Best believes that Hannover Re has a comprehensive enterprise risk management framework in place which addresses the relevant risks that the company faces. Hannover Re is more leveraged than some of its peers in terms of relying on capital substitutes, such as securitizations or hybrid equity.

Supervisory Board: Wolf-Dieter Baumgartl, Herbert K. Haas (Chairman), Uwe Kramp (Employee Representative), Karl Heinz Midunsky, Otto Mueller (Employee Representative), Dr. Immo Querner, Dr. Erhard Schipporeit, Dr. Klaus Sturany, Gert Waechtler (Employee Representative).

Board of Management: Andre Arrago, Dr. Wolf Becke, Juergen Graeber, Dr. Michael Pickel, Roland Vogel (Chief Financial Officer), Ulrich Wallin (Chief Executive Officer).

REINSURANCE

Since 2007, Hannover Re has substantially reduced its dependence on the highly traditional retrocession market. Hannover Re continued to deleverage its balance sheet through higher net retentions in non-life, which stood at 88.9% in 2008, up from 85.2% in 2007. Principally, the group has whole account protection for catastrophe claims above prudent net retentions. The retrocession program is largely placed with high quality reinsurers. Life retrocession cover is on an excess of loss basis with relatively low retention levels.

In 2007, Hannover Re restructured its whole account catastrophe protection to reduce its aggregates. The company did not renew its structured reinsurance covers and relies now on traditional covers and its securitization program. In 2008, most of Hannover Re's natural catastrophe exposure was covered by a 44% quota share retrocession to K5. The retention was limited by whole account catastrophe excess of loss protection with a capacity of EUR 297 million in excess of EUR 250 million in the major peak zones as well as swaps and insurance linked warranties of up to approximately EUR 140 million covering higher layers. With the placing of the Kepler securitization Hannover Re added a stop loss cover with a capacity of USD 200 million attaching following the utilization of K5 on the company's net retention on catastrophe losses in 2007. At the end of 2008, K5 had a limit of USD 386 million.

In 2009, however, the sharp decrease in availability of non-traditional cover resulted in the restriction in the capacity under K6 (following K5) to USD 180 million and Kepler was not renewed in 2009. The traditional whole account cover, however, has been renewed in 2009. In mid 2009, Hannover Re placed a catastrophe bond, Eurus II, with a capacity of EUR 150 million, covering European wind perils till 2012. Overall, the company's retention is likely to increase in 2009.

In order to alleviate new business strain from financing life business, Hannover Re has also securitized future profits from its life insurance portfolio through high quality banks and reinsurers (L1 - L7). The placement of L7 was successfully closed in January 2009.

Hannover Re closed a securitization transaction transferring its clients' risk directly to the capital market rather than its own risk using Globe Re, a special purpose vehicle. Globe Re pools and facilitates the transfer of US property catastrophe risk of several US clients.

The quality of Hannover Re's retrocessionaires is expected to remain stable following a strong improvement in 2006. The company actively manages counterparty risks and has developed appropriate monitoring tools. Cession limits are highly transparent and strictly enforced.

GEOGRAPHICAL DISTRIBUTION OF PREMIUMS WRITTEN

	EUR (000) 12/31/2008 Gross	12/31/2008 % of total	EUR (000) 12/31/2007 Gross
Other Africa	266,974	3.3	262,427
Total Africa	266,974	3.3	262,427
Other Asia	745,202	9.2	563,461
Total Asia	745,202	9.2	563,461
France	381,205	4.7	386,054
Germany	1,140,992	14.1	1,385,552
Other Europe	1,227,653	15.1	1,131,846
United Kingdom	1,453,402	17.9	1,512,164
Total Europe	4,203,252	51.8	4,415,616
United States	1,732,645	21.3	1,879,555
Total North America	2,090,514	25.7	2,269,930
Australia	420,381	5.2	476,560
Other World-Wide	394,596	4.9	270,907
Total	8,120,919	100.0	8,258,901

BALANCE SHEET ITEMS

	EUR (000) 2008	EUR (000) 2007	EUR (000) 2006	EUR (000) 2005	EUR (000) 2004
Liquid assets	19,153,952	18,929,133	18,653,447	18,124,196	15,135,862
Total investments	20,179,240	19,856,034	19,534,200	19,120,592	16,025,665
Total assets	38,001,743	37,068,407	41,386,356	39,789,207	36,177,471
Gross technical reserves	24,335,996	24,067,455	25,487,282	28,157,331	25,523,367
Net technical reserves	22,058,016	21,242,898	21,644,331	22,841,252	20,759,607
Total liabilities	35,171,684	33,719,318	38,488,521	37,188,173	33,652,318
Capital & surplus	2,830,059	3,349,089	2,897,835	2,601,034	2,525,153

INCOME STATEMENT ITEMS

	EUR (000) 2008	EUR (000) 2007	EUR (000) 2006	EUR (000) 2005	EUR (000) 2004
Gross premiums written	8,120,919	8,258,901	9,289,323	9,317,351	9,566,568
Net premiums written	7,234,298	7,221,951	7,089,964	7,379,979	7,423,706
Balance on technical account(s)	336,965	207,499	102,566	-578,347	-150,826
Profit/(loss) before tax	70,626	850,402	742,152	17,392	471,438
Profit/(loss) after tax	-134,984	802,950	517,075	60,829	333,280

Best's Rating Report

LIQUIDITY RATIOS (%)

	2008	2007	2006	2005	2004
Total debtors to total assets	8.2	8.5	7.8	9.3	9.7
Liquid assets to net technical reserves	86.8	89.1	86.2	79.3	72.9
Liquid assets to total liabilities	54.5	56.1	48.5	48.7	45.0
Total investments to total liabilities	57.4	58.9	50.8	51.4	47.6

PROFITABILITY RATIOS (%)

	2008	2007	2006	2005	2004
Loss ratio	70.8	74.7	73.7	86.6	81.6
Operating expense ratio	24.9	25.9	27.8	27.1	23.3
Combined ratio	95.7	100.6	101.5	113.7	104.9
Net investment income ratio	0.3	17.4	17.6	15.7	14.6
Operating ratio	95.4	83.2	83.9	98.0	90.3
Benefits paid to net premiums written (Life)	75.3	74.1	71.1	74.1	74.3
Expense ratio (Life)	29.2	30.1	37.1	32.9	33.0
Return on net premiums written	-1.9	11.1	7.3	0.8	4.5
Return on total assets	-0.4	2.1	1.5	0.2	1.0
Return on capital & surplus	-4.4	26.8	21.9	3.2	13.5

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E. . . . . Under Regulatory Supervision
F. . . . . In Liquidation
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