

Global Credit Portal

Insurance Markets

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Hannover Re Group

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Hannover Re Group

Please note that the ratings covered by this full analysis apply only to core entities of the Hannover Re group, which are listed below. These ratings do not apply to any noncore or unrated entities of the group. Ratings assigned to noncore entities of the group are published individually.

Major Rating Factors

Strengths:

- Very strong competitive position.
- Positive view on management and strategy.
- Strong enterprise risk management.

Weaknesses:

- Non-life operating performance not fully commensurate with the ratings.
- Lower group capital quality than peers'.
- Constrained financial flexibility.

Holding Company: Talax AG
Counterparty Credit Rating A-/Stable/--
Operating Companies Covered By This Report
Financial Strength Rating Local Currency AA-/Stable/--

Rationale

The ratings on Germany-based reinsurer Hannover Rueckversicherung AG and its core subsidiaries (collectively, Hannover Re) reflect Standard & Poor's Ratings Services' opinion of the group's very strong competitive position, positive view on management and strategy, and Hannover Re's strong enterprise risk management (ERM).

These strengths are partly offset by our assessment that Hannover Re's non-life operating performance is not fully commensurate with the ratings. In addition, we view Hannover Re's capital quality as relatively lower than peers' and believe that its financial flexibility remains constrained.

Hannover Re's competitive position is very strong in our view. Our assessment is based on our view of the group's established brand and long-standing relationships with brokers and clients, which benefit from the consistency of the group's corporate strategy and execution. Furthermore, the group's life and health operations are not significantly correlated to its property/casualty business and in our view continue to provide meaningful diversification and growth potential.

We have a positive view on management and strategy and believe it to be a positive rating factor. We believe that the management team under the new CEO since 2009 has demonstrated consistent and successful execution of the corporate strategy, demonstrated by delivering on financial and corporate targets. This includes adherence to profit-oriented underwriting, in our view, very conservative non-life loss reserving, and a prudent investment strategy.

We view Hannover Re's ERM as strong. We believe it is unlikely that the group will experience losses that are significantly greater than its risk tolerance. We note that an entrenched culture of risk management has fostered the development of strong risk controls and strong strategic risk management practices over time.

Hannover Re's non-life operating performance is strong and improving, in our view, but continues to represent a

relative weakness to the rating. Our opinion is based on the group's non-life combined (loss and expense) ratio of about 98.7% on average between 2006 and 2010, which we regard as less favorable compared with that of peers in global reinsurance. We however believe that in 2011 Hannover Re will outperform the global reinsurance industry average in non-life operating performance. This will largely be thanks to conservative loss reserving levels and potential reserve releases that will likely partly offset large natural catastrophes that occurred in the first quarter of 2011. We expect that the cushion resulting from the conservative reserving approach will continue to support earnings and capital stability. We expect the net combined ratio for the full year 2011 to reach about 104% or better, assuming natural catastrophes according to plan for the rest of the year.

We view the group's capitalization as strong, but believe that at the current level it remains a weakness for the rating. Our assessment reflects our belief that quality of capital is lower than that of peers. Capital adequacy, nevertheless, was extremely strong in 2010, in our view, and we expect it to remain at least very strong in 2011.

We also believe that Hannover Re's financial flexibility remains constrained. This is mainly because of the group's limited access to equity markets, owing to the reluctance of its majority shareholder Talanx AG (A-/Stable/--; core insurance operating entities rated A+/Stable/--) to support further capital injections other than in a stress scenario.

Outlook

The stable outlook reflects our expectation that Hannover Re will defend what we see as a very strong competitive position. Following large natural catastrophes in the first quarter of 2011, we expect Hannover Re to be able to raise its rates in the non-life business, allowing it to achieve growth of non-life gross premiums written (GPW) of at least 5% in 2011. In life and health, we expect Hannover Re to exploit additional business potential, particularly in the U.S., and show overall GPW growth of 8%-10%.

We expect the non-life reported combined ratio in 2011 to be 104% or better, largely because of releases of loss reserve surpluses, and the non-life return on revenue (ROR) to be at about 7%. In the absence of major catastrophes and assuming no major loss reserve releases, we expect improvements in 2012. The combined ratio should be 98% or better and the ROR at least 10%.

In absolute terms, we expect the non-life segment to contribute at least €400 million to the group's overall pretax profit in 2011 and €650 million in 2012.

We anticipate that the operating return on embedded value in life and health reinsurance could reach about 12%. In addition, we expect the value of new business from life insurance to reach about €150 million in 2011 and 2012, resulting in a new-business margin of more than 2% of the present value of new business. The contribution of the life segment to the group's pretax result should, we believe, be about €300 million in 2011 and 2012.

The group could, in our opinion, post net income of at least €450 million in 2011, in view of the large natural catastrophes in the first quarter. The return on equity (ROE) will likely be about 10%. For 2012, we expect net income to exceed €600 million and the ROE to be about 15%.

We expect capitalization to remain strong and capital adequacy to stay at least very strong.

The ratings could come under pressure if the group sustainably underperformed these earnings assumptions or if capitalization deteriorated materially, with capital adequacy continually below the 'AA' level. Upward rating

potential is, in our view, remote at this stage.

Corporate Profile: Leading Global Reinsurer, Core To Talanx

In 2010, Hannover Re was among the top four global reinsurers based on GPW of €11.4 billion, which was up 11.2% compared with 2009. Property/casualty reinsurance made up 55% of GPW and life and health reinsurance 45%.

By region, property/casualty reinsurance stemmed from North America (25%); Europe, excluding United Kingdom and Germany (20%); United Kingdom (16%); Germany (13%); Australasia (12%); Africa (5%); and other regions (9%). GPW in life/health reinsurance stemmed from North America (35%); United Kingdom (27%); Europe, excluding Germany and France (8%); Germany (7%); Asia (7%); Australia/New Zealand (7%); Africa (3%); France (3%); and Latin America (3%). Access to the German market is assisted by a majority shareholding in E+S Rueckversicherung AG (AA-/Stable/--).

HDI Haftpflichtverband der Deutschen Industrie VaG (A+/Stable/--) is Hannover Re's ultimate majority shareholder. It has a 50.2% stake in the group through intermediate holding company Talanx. Some 49.8% of the group's shares are in free float, of which German institutions and individuals hold the greater part.

Despite its operational independence, Hannover Re is, in our view, core to Talanx because of its strategic role and size. The ratings on Hannover Re are therefore underpinned by the financial strength of the core primary insurance entities of the Talanx group. The combination of Hannover Re's core status and its relative operating independence means that, under our current rating methodology, the ratings on Hannover Re will not fall below those on the core operating entities of the Talanx group and could remain up to two notches higher.

Competitive Position: Sustainable Competitive Advantage Through Geographic And Product Diversity

Table 1

Hannover Re Group/Competitive Position*					
	--Year ended Dec. 31--				
(Mil. €)	2010	2009	2008	2007	2006
Consolidated					
Total gross premiums written	11,428.7	10,274.8	8,120.9	8,258.9	9,289.3
Annual change (%)	11.2	26.5	(1.7)	(11.1)	(0.3)
Total net premiums written	10,301.3	9,515.7	7,234.3	7,222.0	7,090.0
Annual change (%)	8.3	31.5	0.2	1.9	(3.9)
Total revenue	11,153.0	10,312.0	8,048.9	8,312.2	8,025.0
Non-life (%)	53.9	56.5	60.7	62.3	66.7
Life/health (%)	46.1	43.4	38.8	37.4	33.3
Other (%)	(0.0)	0.1	0.5	0.3	0.1
EBITDA	1,048.2	964.9	861.8	844.4	602.4
Non-life (%)	74.3	79.1	69.6	65.2	77.8
Life/health (%)	25.1	17.1	24.9	29.6	21.8

Table 1

Hannover Re Group/Competitive Position* (cont.)					
Other (%)	0.6	3.8	5.5	5.2	0.4
Gross premiums written by line of business (%)					
Non-life	55.5	55.9	61.4	62.8	69.9
Life and health	44.5	44.1	38.6	37.3	30.1
Life and health business					
Gross premiums written	5,090.1	4,529.3	3,134.4	3,082.9	2,793.6
Annual change	12.4	44.5	1.7	10.4	15.2
Net premiums earned	4,653.9	4,078.7	2,784.9	2,795.3	2,373.4
Annual change	14.1	46.5	(0.4)	17.8	5.1
Gross premiums written by line of business (%)					
Life	66.5	70.0	70.2	74.0	77.0
Health	10.4	11.0	13.1	10.0	12.0
Personal accident	2.0	2.0	2.2	2.0	2.0
Annuity	21.1	17.0	14.6	14.0	9.0
Non-life business					
Gross premiums written	6,339.3	5,746.6	4,987.8	5,189.5	6,495.7
Annual change (%)	10.3	15.2	(3.9)	(20.1)	(12.4)
Net premiums earned	5,393.9	5,229.5	4,276.7	4,497.6	4,718.7
Annual change (%)	3.1	22.3	(4.9)	(4.7)	(14.2)

*From 2007, property/casualty reinsurance, including specialty insurance and financial reinsurance are included in the non-life segment.

In our opinion, Hannover Re's competitive position is very strong, based on the group's established brand, diverse portfolio, and long-standing track record of successful execution. In particular, Hannover Re's life and health operations are not significantly correlated to its property/casualty business and in our view continue to provide meaningful diversity and growth potential. In the U.S., we expect further growth, following the acquisition of ING's life reinsurance business.

In our opinion, Hannover Re's market credentials are very well established and should enable the group to defend its very strong competitive position. Hannover Re's competitive position is primarily founded on its established brand, perceived financial security, and the quality of the core underwriting and claims service it provides to brokers and clients. In its domestic market, Hannover Re benefits from its role as the main reinsurer of Talanx's primary insurance operations and from its durable long-term relationship with a number of mutual insurers, which are also shareholders of Hannover Re's core subsidiary E+S Rueckversicherung. The group's competitive advantage in Germany is reflected in its lead position on more than 50% of the reinsurance treaties that it underwrites. In foreign markets, particularly in non-life reinsurance, the group pursues a more opportunistic strategy, facilitated predominantly by broker distribution, and does not generally compete head-to-head with larger peers.

We consider that Hannover Re's competitive position demonstrates relatively greater reliance on third-party capital, particularly retrocession (transferring business to other reinsurers) and securitization, than that of similarly rated peers. Although the group could successfully place its targeted "K6" securitization transactions in the 2010 renewal season, we believe the capacity of financial investors to be uncertain, particularly after the natural catastrophe losses in the first quarter of 2011.

Hannover Re's somewhat limited access to funding could, in our opinion, reduce its strategic flexibility and constrain its ability to exploit opportunities as they arise.

Property/casualty reinsurance

The division's portfolio is diverse in terms of geography and line of business. Relatively low barriers to entry affect Hannover Re's competitive position in its core nondomestic property/casualty reinsurance segment, particularly in short-tail lines. Classes such as property catastrophe reinsurance have increasingly shown commodity-like characteristics and remain open to price-led competition. We believe active cycle management supports Hannover Re's competitive position, as does selective withdrawal from non-life reinsurance business that does not meet the group's risk-based return targets. In 2010, gross premiums income increased by 10.3% (6.7% after foreign currency adjustments) to €6.3 billion. This in our view mainly reflects rate increases in global treaty, facultative, and credit/surety business, as well as direct non-life business in the U.K.

The 2011 renewals and first-quarter 2011 results indicate a rise in premiums income by at least 5% for the full year. Growth will likely emanate from market rate increases in different business lines following the significant natural catastrophes in Japan, New Zealand, and Australia in the first quarter of this year.

Life and health reinsurance

Hannover Re is among the five largest life and health reinsurers globally and benefits from high and enduring barriers to entry within these markets. The group concentrates on establishing direct relationships with a select number of target markets and customers. We believe the acquisition of ING's life book offers Hannover Re significant growth and diversification potential in the U.S. The successful exploitation of the know-how and customer base in the U.S. to increase market share to 10%-15% is challenging, but achievable, in our view.

In the first quarter of 2011, GPW increased strongly by about 8% compared with the first quarter of 2010. Overall, we expect this segment's GPW to expand by about 8%-10% for the full year 2011.

Financial reinsurance

Hannover Re exploits its competitive advantages as a leading property/casualty reinsurer to access this business. The group has leading positions in its chosen niche markets of whole-account excess of loss, spread loss, and surplus relief contracts, where it is one of the top two global players. In 2010, about 42% of the group's gross premiums income in this segment was derived from North America. In 2010, Hannover Re reduced its Asian exposure and did not renew some larger Asian contracts, reflecting in our view its cautious underwriting strategy.

We expect Hannover Re's stringent internal governance regarding the preapproval of financial reinsurance transactions to mitigate the regulatory and reputational risks that accompanied alternative risk-transfer products in the late 1990s.

Management And Corporate Strategy: A Positive Rating Factor

We view the group's management and strategy as a positive rating factor, reflecting our view of a clear strategy, strong operational controls, and a track record of successful execution. We note that the consistency of the group's management and corporate strategy has continued under the current management team, including the CEO, who assumed leadership in July 2009. The management team has demonstrated a track record of delivering on its financial and strategic targets. It applies a strategy of strict profit-oriented underwriting, what we regard as very conservative non-life loss reserving, and a prudent investment strategy. We expect the group's well-established track

record of successful execution to continue prospectively.

Strategy

The group's central strategic objective is "to generate value-based growth as an optimally diversified and economically independent reinsurance group of above-average profitability." Key elements of this objective include:

- The flexible allocation of capital to those segments, regions, and business lines that offer the highest potential returns;
- Self-funding of primarily organic growth. As an example, the ING transaction did not require any upfront funding, but generated negative goodwill on completion; and
- The target of being one of the top three most profitable reinsurers in terms of ROE and annual growth in earnings per share.

Operational management

We observe that the management team has created a solid track record of credibility in the insurance broker and investor communities. The group has avoided industry issues such as asbestos and pollution. It continues to demonstrate effective underwriting cycle management and benefits from highly conservative loss reserve confidence levels. We expect management to somewhat reduce the loss reserve confidence levels in 2011, which in our view should reduce the losses from natural catastrophes in the first quarter of the year. The integration of the ING life portfolio, including sizable and complex operating platforms, is on track. Nonetheless, in our opinion, management has yet to demonstrate its ability to effectively generate meaningful and profitable new business growth from this acquisition to achieve the target market share in life/health in the U.S.

Financial management

With limited volatility, Hannover Re aims to achieve a minimum ROE of 750 basis points higher than the five-year average yield on 10-year government bonds (risk-free rate), as well as double-digit growth in operating profit (EBIT), earnings per share, and book value per share.

The group has met its ROE target every year except for 2001, due to the events of Sept. 11, 2001; 2005, due to hurricanes Katrina, Rita, and Wilma; and 2008, owing to the capital market dislocation. Our concerns regarding Hannover Re's ability to consistently deliver target earnings to shareholders have been mitigated by the results of our loss reserve analysis. We believe that the cushion resulting from the conservative reserving approach should allow management to reduce the negative impact on earnings and capitalization in a difficult operating environment, as expected for 2011 in view of the large natural catastrophes. We observe, however, that Hannover Re's capital management is more aggressive than that of some peers. The significant use of equity substitutes keeps the cost of capital low and enables attractive shareholder returns.

Enterprise Risk Management: Strong, Based On A Long-Standing Culture Of Risk Management

In our opinion, Hannover Re's ERM is strong and we believe it unlikely that the group will experience losses outside its risk tolerances.

ERM is of very high importance to our rating assessment, given the complexity of Hannover Re's business and operating structure and the group's exposure to financial volatility. The major factors supporting our overall assessment are a strong risk-management culture, as well as strong emerging risk and strategic risk management.

Risk controls for the group's most important risks related to investments, underwriting, and reserving are either strong or excellent, in our opinion. Hannover Re showed the efficacy of its ERM program during the economic and capital market crisis in 2008-2010 and we expect this to continue through the catastrophe loss environment in 2011.

We view Hannover Re's risk-management culture as strong. We observe a transparent risk strategy, senior management's strong commitment to effective risk management, and a comprehensive governance framework combining central group risk-management functions with local accountability. The group's overall risk appetite appears cross-linked with its risk tolerance and a comprehensive set of risk limits.

Investment risk controls, including equity, asset-liability management (ALM), and credit risk controls, are in our view excellent, based on consistent guidelines, multiple measures, clear limits, benchmarks, and minimum standards. Due to the group's effective equity and credit risk controls, losses from equity markets in the capital market crisis stayed within the group's limits and risk tolerances. Furthermore, the group was not significantly hampered by losses from subprime mortgages or counterparty defaults and has no material exposure to Greece, Ireland, Italy, Portugal, or Spain.

We believe life and non-life underwriting controls, including those related to catastrophe risks, are strong. The group exerts strong central control over the non-life reinsurance underwriting process, supported by centralized modeling and pricing. Catastrophe risk-related controls are based on the group's overall risk tolerances and include central catastrophe modeling and risk accumulation controls through group risk management.

Life underwriting processes are closely controlled through explicit guidelines and central controlling of treaty wording, pricing, and risk accumulation. We believe controls for reserve risk to be also strong. Group risk management coordinates and oversees the groupwide reserving processes. In addition to internal reserve adequacy reviews, third parties perform regular external reviews as a second line of defense.

In our opinion, Hannover Re's strategic risk management is strong. Hannover Re has implemented a fully-fledged economic valuation approach, which enables the group to optimize the trade-off between risk and returns, based on its defined risk appetite. We believe the group has a clear view of risk-adjusted minimum profit targets and a well-established methodology for allocating capital to business segments and managing the reinsurance cycle. Nonetheless, we believe that Hannover Re's ability to translate its strategic risk-management approach into a tangible competitive advantage is still to be tested in the continually difficult operating environment.

Accounting: Reporting Under IFRS And Market-Consistent Embedded Value

Hannover Re's published financial statements are prepared using International Financial Reporting Standards (IFRS). The key adjustments to reported figures under our risk-based capital model are:

- Credit for material, permanent differences in tax liability arising from the restatement of the group members' German statutory accounts under IFRS with respect to equalization reserves;
- Recognition of 50% of the non-life loss reserve redundancies based on our own loss reserve analysis;
- Recognition of loss reserve discount balances;
- Credit for the present value of future premiums of the life and health portfolios, calculated using market-consistent embedded-value (MCEV) principles; and

- Credit for hybrid equity in line with our criteria.

Our analysis of the life insurance business has mainly been fueled by the results of the MCEV calculations. In line with the MCEV principles published in June 2008 by the European Insurance CFO Forum, Hannover Re uses swap yield curves as reference rates without any adjustments or liquidity premiums.

Operating Performance: Strong And Improving, But Non Life Performance Is Not Fully Commensurate With The Rating

Table 2

Hannover Re Group/Operating Statistics*					
(Mil. €)	--Year ended Dec. 31--				
	2010	2009	2008	2007	2006
Consolidated					
Total revenue	11,153.0	10,312.0	8,048.9	8,312.2	8,025.0
EBITDA (excluding realized gains)	1,048.2	964.9	861.8	844.4	602.4
EBITDA (including realized gains)	1,210.2	1,077.9	748.2	1,018.8	819.7
Net income	830.9	774.1	(135.0)	838.0	602.8
Return on adjusted equity (%)	12.9	14.8	(2.7)	16.3	12.5
Return on equity (%)	18.2	22.4	(4.1)	23.1	18.7
Return on assets (ROA; %)	2.0	2.1	(0.4)	2.3	1.7
ROA (after minority interests)(%)	1.8	2.0	(0.4)	2.0	1.4
Return on revenue (ROR; %)	9.4	9.4	10.7	10.2	7.5
ROR (including realized gains) (%)	10.7	10.3	9.4	12.0	9.9
Realized gains/EBITDA including realized gains (%)	13.4	10.5	(15.2)	17.1	26.5
Administrative expense ratio (%)	3.2	3.1	3.2	3.1	3.2
Commissions expense ratio (%)	22.5	21.8	23.3	24.3	27.6
Non-life loss ratio (%)	71.8	72.8	70.8	74.7	73.7
Non-life combined ratio (%)	98.5	97.3	95.7	100.6	101.5
Net cash flow from operating activities	1,681.3	1,751.9	1,458.9	912.1	1,660.4
Net cash flow from investing activities	(1,993.7)	(1,786.3)	(1,034.1)	(570.6)	(1,708.1)
Net cash flow from financing activities	283.3	57.8	(318.7)	(341.3)	(37.3)
Non-life business					
Non-life revenue	6,014.5	5,824.4	4,885.5	5,174.9	5,349.1
Non-life technical result	703.0	738.4	793.4	650.6	559.4
ROR (%)	11.7	12.7	16.2	12.6	10.5
Realized gains/technical result	15.6	11.7	(15.8)	21.1	27.7
Admin expense ratio (%)	3.0	2.9	3.5	3.3	3.2
Commissions expense ratio (%)	23.6	21.6	21.4	22.6	24.6
Operating ratio (%)	87.0	85.9	81.4	85.5	88.1
Non-life underwriting result	82.4	143.5	184.7	(26.7)	(71.0)
Allocated investment income	620.6	594.9	608.7	677.3	630.4
Life and health business					
Life revenue	5,141.2	4,475.5	3,123.9	3,109.5	2,670.4

Table 2

Hannover Re Group/Operating Statistics* (cont.)					
Life technical result	210.4	144.4	214.4	197.7	100.7
Return on sales (%)	4.5	3.5	7.7	7.1	4.2
ROR (%)	4.1	3.2	6.9	6.4	3.8
Realized gains/technical result (%)	12.5	11.9	(1.8)	0.9	3.0
Administration expense ratio (%)	2.6	2.4	2.5	2.2	2.1
Commissions expense ratio (%)	22.0	22.7	26.7	27.9	35.0
Allocated investment income	487.3	396.9	339.0	314.2	297.1
Embedded-value profit	467.4	(319.0)	13.3	247.9	188.4
Embedded-value profit excluding currency movements	270.1	(375.6)	128.1	306.7	229.0
Return on embedded value (EV)	20.2	(17.2)	0.8	15.3	13.3
Return on EV excluding currency movements	11.7	(20.2)	7.6	18.9	16.2
Value of new business (VNB)/value in force	9.1	6.4	16.6	10.3	6.5
New-business margin - annual premium equivalent	22.4	4.4	10.9	20.5	4.7
New-business margin - present value of new business premiums	2.9	0.5	2.4	3.2	1.3

*From 2007 property/casualty reinsurance, specialty insurance and financial reinsurance are included in the non-life segment.

In our opinion, Hannover Re's operating performance is strong and keeps improving, but continues to represent a relative weakness to the rating at the current level. The group's earnings track record over a sustained period has been less volatile than that of many of its peers, supported by its diversity, effective underwriting cycle management, and cost leadership. Hannover Re reported an ROE of 18.2% in 2010 and 15.7% on average between 2006 and 2010. This in our view compares well with the average ROE of peers in the global reinsurance industry for 2010 and on average in 2006-2010. We regard Hannover Re's below-average cost ratios as a distinct competitive advantage.

The earnings diversity added by life reinsurance has been a resilient contributor, generating about 24% of the group's pretax earnings in 2010, and we believe this segment able to contribute about 30% prospectively. Nevertheless, we regard Hannover Re's non-life profitability as less favorable than peers'. The group's net combined ratio of 98.5% in 2010 and 98.7% on average in 2006-2010 appears higher than peers' in the global reinsurance industry, even after considering the impact of conservative loss reserving and the relatively higher proportion of low-risk financial reinsurance business. However, we believe Hannover Re's loss reserve cushion should enable it to offset large losses that occurred in the first quarter of 2011. We furthermore expect this to allow Hannover Re's non-life segment to outperform peers' in 2011. We expect the cushion resulting from conservative reserving to continue to safeguard earnings and capital against natural catastrophes and other shocks.

Property/casualty reinsurance

We believe the natural catastrophes of the first quarter of 2011 will significantly influence Hannover Re's and other global reinsurers' performance this year. However, we believe the catastrophes may also support rate increases in 2011 and 2012. Ordinary investment income should in our opinion stay flat or slightly below the level of 2010 because of the continually low interest rate environment. We expect the non-life reported combined ratio in 2011 to be 104% or better and the non-life ROR to be about 7%. In the absence of major catastrophes and assuming no major loss reserve releases, we expect the combined ratio to improve to 98% or better in 2012 and the ROR to be at least 10%. In absolute terms, we expect the non-life segment to contribute at least €400 million to the group's overall pretax profit in 2011 and €650 million in 2012.

Life and health reinsurance

We expect this division to maintain its overall positive trend of value creation. MCEV increased considerably by about 24% in 2010. The operating return on embedded value stood at 12%, the new-business value at about €150 million, and the new-business margin was 2.9%, exceeding our expectation of 2%.

Prospectively, we anticipate that the operating return on embedded value in life and health reinsurance could reach about 12%. In addition, we expect the value of new business from life insurance to reach about €150 million in 2011 and 2012, resulting in a new-business margin of more than 2% of the present value of new business. The contribution of the life segment to the group's pretax result should, we believe, be about €300 million in 2011 and 2012.

Consolidated group

The group could, in our opinion, post net income of at least €450 million in 2011, in view of the natural catastrophes in the first quarter, and an ROE of about 10%. For 2012, we expect net income to rise to more than €600 million and the ROE to reach about 15%.

Investments: Very Strong, Thanks To A Very Conservative Investment Strategy

Table 3

Hannover Re Group/Investment Statistics					
	--Year ended Dec. 31--				
(Mil. €)	2010	2009	2008	2007	2006
Total invested assets	37,919.5	33,164.6	30,073.5	28,871.1	28,619.5
Reinsurance deposits (%)	31.4	30.6	32.5	29.8	30.5
Net investment income	1,133.3	1,029.2	992.2	1,038.2	971.4
Realized gains/(losses)	162.0	113.0	(113.6)	174.3	217.4
Unrealized gains/(losses) - including revaluation reserves	52.9	68.8	(544.6)	(99.3)	(126.2)
Net investment yield (%)	3.2	3.3	3.4	3.6	3.5
Net investment yield including realized gains (%)	3.6	3.6	3.0	4.2	4.2
Net investment yield including realized and unrealized gains (%)	3.8	3.8	1.1	3.9	3.8
Portfolio composition					
Real estate (%)	1.0	0.7	0.1	0.1	0.1
Shares and variable yield securities (%)	1.6	0.2	0.2	7.0	5.7
Bonds (%)	56.5	59.4	59.5	54.2	55.9
Cash and bank deposits (%)	5.3	5.5	4.1	4.4	3.7
Reinsurance deposits (%)	31.4	30.6	32.5	29.8	30.5
Other invested assets, including hedge funds (%)	4.1	3.6	3.6	4.5	4.1

Hannover Re's investments are very strong, in our opinion. Hannover Re seeks to generate a return at least equal to the risk-free interest rate plus the cost of capital from asset allocation. The group's net investment income increased by 12% in 2010, mainly reflecting an increase in overall business volume, a larger asset base, and gains on highly rated bonds. Ordinary investment income remained relatively unchanged, as reflected in a net investment yield of 3.2% compared with 3.3% in 2009. Hannover Re's investment strategy will, in our view, maintain its aim of protecting the balance sheet, but we see potential for a moderate increase in exposure to corporate bonds and

property investments. We expect the group's strategy regarding equities to be opportunistic and depend on the capital market environment. The exposure is unlikely to be more than 5% of total investments in 2011.

Hannover Re actively seeks to match its liabilities by currency, and the asset duration is broadly in line with the group's liability profile. The use of derivatives is restricted to tactical asset allocation and hedging.

With the investment portfolio's heavy fixed-interest orientation, representing 84% of total investments at the end of first-quarter 2011, Hannover Re is significantly exposed to rising interest rates. However, we believe that the potential loss of €626 million from a stress scenario, assuming an increase in interest rates by 100 basis points, is manageable against the backdrop of the group's extremely strong capital adequacy. In addition, the group should benefit, in our opinion, from its excellent ALM risk-control capabilities to effectively manage the economic risk. The bond portfolio is of high quality, in our view, because about 58% represents government and semigovernment securities, as well as legislation-based covered bonds. About 91% of the bonds are rated 'A' or higher. We also believe that no major downside pressure on the group's financial profile should arise from exposure to the economies of Portugal, Ireland, Italy, Greece, and Spain, which accounted for less than 2% of total fixed-income securities at the end of March 2011.

Liquidity: Very Strong, Benefiting From Highly Liquid Investments And Strong Operating Cash Flows

We view Hannover Re's liquidity as very strong. It benefits from the group's highly liquid investment portfolio of about €25 billion, a very strong operating cash flow of about €1.7 billion, and about €2 billion in short-term investments and cash in 2010. We also regard potential pressure on liquidity from reinsurance credit risks to be limited, given the high quality of retrocession liabilities, with about 99.5% rated 'A' or better. In addition, about 26% of the total reinsurance liabilities are collateralized. High reinsurance deposits, accounting for more than 30% of total investments, mainly result from life reinsurance and are fully matched with the respective liabilities. The legal requirement to post substantial collateral with U.S. counterparties, however, is still a constraint in our view. We don't believe the group would need to use a material amount of liquidity to redeem subordinated debt in the short to medium term.

Capitalization: Extremely Strong Capital Adequacy, But Relatively Lower Quality Of Capital Compared With Peers'

Table 4

Hannover Re Group/Capitalization Statistics					
	--Year ended Dec. 31--				
(Mil. €)	2010	2009	2008	2007	2006
Consolidated					
Total assets	46,725.3	40,837.6	38,001.7	37,068.4	41,386.4
Equity	4,509.0	3,714.4	2,830.1	3,349.1	2,897.8
Total adjusted equity	7,174.7	5,737.9	4,751.5	5,336.7	4,935.3
Change in adjusted equity (%)	25.0	20.8	(11.0)	8.1	5.3
Total capital	7,174.7	5,737.9	4,751.5	5,336.7	4,935.3
Hybrid equity/total capital (%)	28.7	25.8	29.9	26.5	29.0

Table 4

Hannover Re Group/Capitalization Statistics (cont.)					
Minority interests/adjusted equity (%)	8.5	9.4	10.6	10.7	12.3
Fixed charge coverage (x)	12.3	12.6	11.1	10.9	7.7
Debt and preferred/total capital (%)	28.7	25.8	29.9	26.5	29.0
Investment leverage (%)	19.3	6.9	2.8	52.0	46.7

In our opinion, Hannover Re's capitalization is strong, but at its current level remains a relative weakness for the rating. Our assessment is based on extremely strong capital adequacy. However, compared with peers', the quality of capital is less strong, albeit improved. In 2010, Hannover Re continued to strengthen its capital base following a significant restoration of its risk profile in 2009 after the capital market crisis. The net catastrophe exposure is, in our view, at a tolerable level and the cushion stemming from very conservative loss reserving should allow the group to mitigate the effects of sizable natural catastrophe losses in first-quarter 2011. We expect that, despite reserve releases in 2011, the remaining cushion will remain sufficient to support earnings and capital stability.

Capital adequacy

Capital adequacy in 2010 was extremely strong, according to our model, benefitting from retained earnings and the recognition of 50% of the loss reserve redundancy. In addition, a conservative investment strategy, including low equity exposures, continues to boost capital adequacy. We expect capital adequacy to remain at least very strong in 2011. Even in a stress scenario, assuming a 100 basis point increase in interest rates results in a loss of €626 million, capital adequacy would remain very strong and commensurate with the current rating.

Quality of capital

The quality of Hannover Re's capital, although improved, remains a negative rating factor, in our view, because of the group's high reliance on third-party capital. In 2010, core shareholders' funds increased because of strong net income and relative to total adjusted capital, according to our model. However, it remains a minor contributor to total adjusted capital.

The group makes extensive use of equity substitutes such as hybrid debt, securitizations, and retrocession relative to similarly rated peers. Reserve discounts also constitute a material, less tangible component of total adjusted capital.

Reserves

Based on our non-life loss reserve analysis, we believe the group's non-life reserving is very strong and conservative. Unlike many peers, the group has consistently reported positive developments on prior-year loss reserves. Independent actuarial reviews have also been encouraging. In our view, the confidence level in the group's loss reserves will remain very strong, even after the expected reserve releases in 2011.

Reinsurance

Hannover Re's reinsurance protection is effective, in our view. We believe that incremental exposure would be covered by retrocession or securitization if it exceeded Hannover Re's risk tolerance. In 2010, the group was able to fully place its K6 securitization transactions, which led to a decline in aggregate net retention. This is because Hannover Re only slightly increased the underwriting of natural catastrophe exposure in peak zones. We anticipate that the retrocession usage ratio will be about 10% in 2011. Hannover Re's placement of about 85% of its uncollateralized recoverables to retrocessionaires rated at least 'A-' continues to mitigate reinsurance default risk. Risk is further mitigated in our opinion by the high diversity of insurance recoverables, owing to the group's strict concentration limits.

Table 5

Hannover Re Group/Reinsurance And Reserves					
	--Year ended Dec. 31--				
Consolidated	2010	2009	2008	2007	2006
Reinsurance utilization ratio (%)	9.9	7.4	10.9	12.6	23.7
Non-life loss reserves/adjusted equity (%)	205.9	240.6	282.0	238.8	270.2
Loss reserves/net premiums written (%)	165.4	164.8	205.3	195.0	205.2
Liquid assets/technical reserves (%)	87.6	86.4	87.7	90.0	87.1
Non-life business reinsurance result					
Loss and LAE reserves/net premiums earned (%)	273.9	264.0	313.3	283.3	282.4
Net loss and LAE reserves/gross loss and LAE reserves (%)	94.5	89.7	87.2	84.3	82.0
Net loss and LAE reserves/net loss and LAE incurred (%)	381.6	362.8	442.7	379.4	383.4
Life and health business					
Technical reserves/net earned premiums (%)	204.8	204.2	206.8	205.7	221.9
Change in reserves	1,204.5	2,569.9	9.8	481.3	214.1
Change in reserves (%)	14.5	31.0	0.2	9.1	4.2

LAE--Loss adjustment expenses.

Financial Flexibility: Strong, But Depends On Third-Party Capital

The group's financial flexibility is strong, in our view, but weaker than that of peers of similar financial strength. The group's business model relies to some extent on third-party capital such as hybrid issues, retrocession, and securitization. This is because its access to equity markets is restricted, owing to its majority shareholder Talanx's reluctance to support further capital injections other than in a stress scenario. We, however, expect the reinsurance usage ratio to remain within the group's target, at not more than 10%, which is considerably lower than historical levels (such as 22% in 2004). The group's somewhat limited access to funding, in our view, could partly constrain its strategic flexibility and its ability to exploit opportunities as they arise.

Because the ING transaction did not require external funding, it did not materially affect financial leverage and fixed-charge coverage. We therefore expect fixed-charge coverage to remain in line with the rating category in 2011.

Ratings Detail (As Of June 17, 2011)*

Holding Company: Talanx AG

Issuer Credit Rating	A-/Stable/--
Junior Subordinated (2 Issues)	BBB

Operating Companies Covered By This Report

Hannover Rueckversicherung AG

Financial Strength Rating	
Local Currency	AA-/Stable/--
Counterparty Credit Rating	AA-/Stable/--
Junior Subordinated (1 Issue)	A
Subordinated (3 Issues)	A

E+S Rueckversicherung AG

Financial Strength Rating	
Local Currency	AA-/Stable/--

Ratings Detail (As Of June 17, 2011)*(cont.)	
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Hannover Life Reassurance Bermuda Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Hannover Life Reassurance Co. of America	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Hannover Life Reassurance Ireland Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Hannover Life Reassurance of Australasia Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Hannover Life Reassurance (U.K.) Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Hannover Re Bermuda Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Hannover Reinsurance (Ireland) Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
International Insurance Co. of Hannover Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Domicile	Germany

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard

Ratings Detail (As Of June 17, 2011)***(cont.)**

& Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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