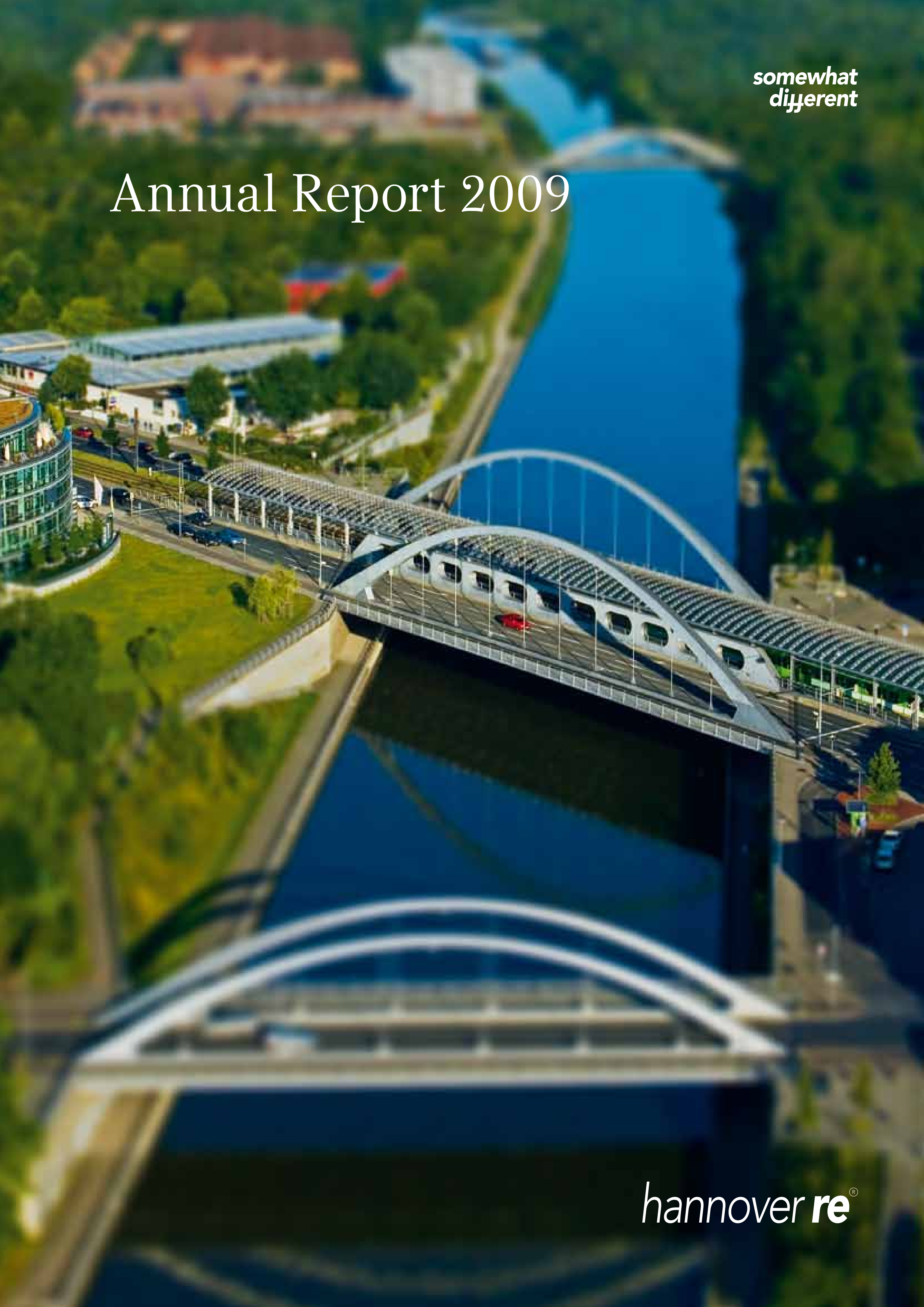
somewhat different

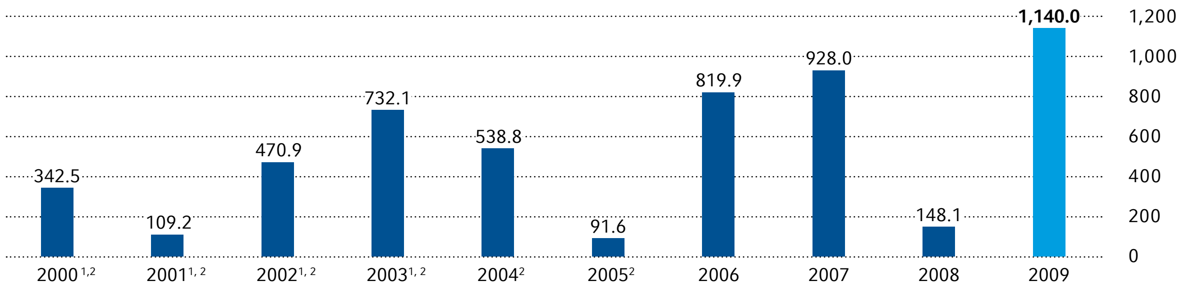
Annual Report 2009



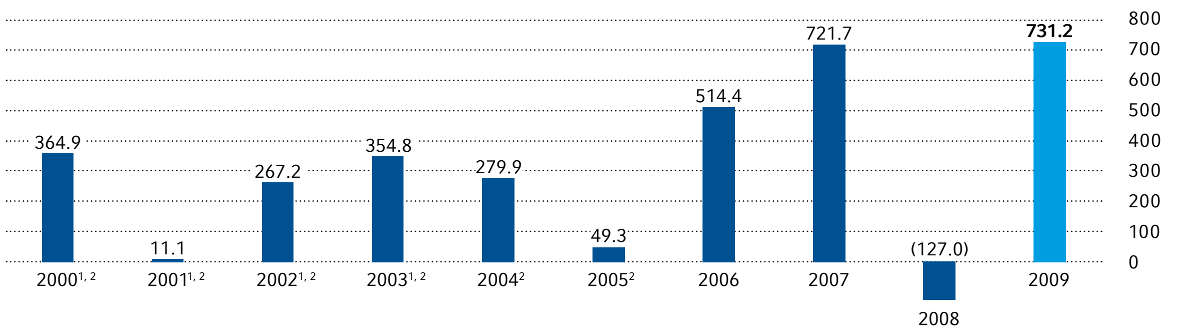
hannover re®

An overview

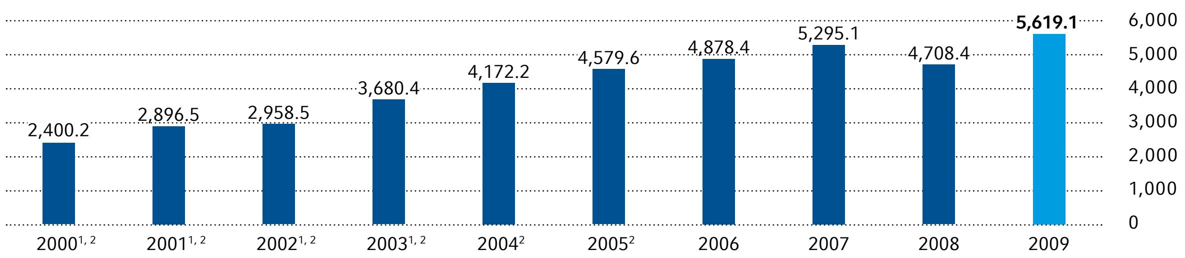
Operating result (EBIT) Figures in EUR million



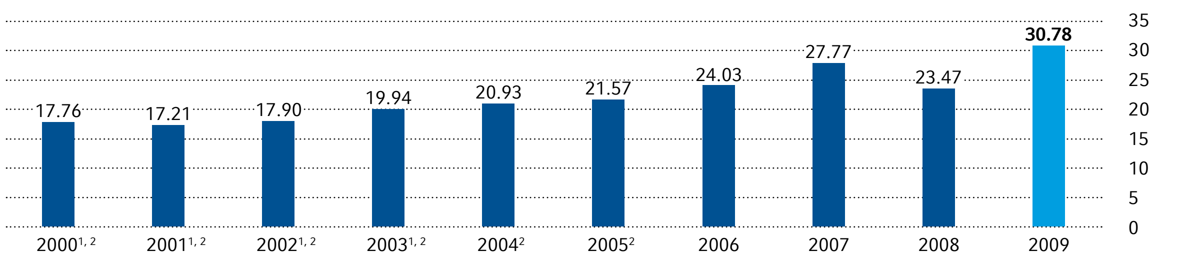
Group net income (loss) Figures in EUR million



Policyholders' surplus Figures in EUR million



Book value per share Figures in EUR



1 Based on US GAAP
2 Incl. financial reinsurance and specialty insurance

The Hannover Re Group

America

Hannover Rückversicherung AG Canadian Branch – Chief Agency
Toronto, Canada

Hannover Rückversicherung AG Canadian Branch – Facultative Office
Toronto, Canada

Clarendon Insurance Group, Inc.
New York, USA

Hannover Re Services USA, Inc.
Itasca/Chicago, USA

Hannover Life Reassurance Company of America
Orlando, USA

Hannover Life Reassurance Bermuda Ltd.
Hamilton, Bermuda

Hannover Re (Bermuda) Ltd.
Hamilton, Bermuda

Hannover Services (México) S.A. de C.V.
Mexico-City, Mexico

Hannover Rückversicherung AG Bogotá Representative Office
Bogotá, Colombia

Hannover Re Escritório de Representação no Brasil Ltda.
Rio de Janeiro, Brazil

Europe

Hannover Rückversicherung AG
Hannover, Germany

E+S Rückversicherung AG
Hannover, Germany
64.2%

Hannover Life Reassurance (Ireland) Limited
Dublin, Ireland
100.0%

Hannover Reinsurance (Ireland) Limited
Dublin, Irland
100.0%

International Insurance Company of Hannover Ltd.
Bracknell/London,
United Kingdom
100.0%

Hannover Life Reassurance (UK) Limited
Virginia Water/London,
United Kingdom
100.0%

Hannover Services (UK) Ltd.
Virginia Water/London,
United Kingdom
100.0%

Hannover Rückversicherung AG Tyskland filial
Stockholm, Sweden

International Insurance Company of Hannover Ltd. England filial
Stockholm, Sweden

Hannover Rückversicherung AG Succursale Française
Paris, France

Hannover Re Services Italy Srl
Milan, Italy
99.6%

HR Hannover Re Correduría de Reaseguros, S.A.
Madrid, Spain
100.0%

Asia

Hannover ReTakaful B.S.C. (c)
Manama, Bahrain
100.0%

Hannover Rückversicherung AG Bahrain Branch
Manama, Bahrain

Hannover Re Consulting Services India Private Limited
Mumbai, India
100.0%

Hannover Rückversicherung AG Korea Branch
Seoul, Korea

Hannover Re Services Japan KK
Tokyo, Japan
100.0%

Hannover Rückversicherung AG Shanghai Branch
Shanghai, China

Hannover Rückversicherung AG Shanghai Representative Office
Shanghai, China

Hannover Rückversicherung AG Taipei Representative Office
Taipei, Taiwan

Hannover Rückversicherung AG Hong Kong Branch
Hong Kong, China

Hannover Rückversicherung AG Malaysian Branch
Kuala Lumpur, Malaysia

Africa

Hannover Life Reassurance Africa Limited
Johannesburg, South Africa
100.0%

Hannover Reinsurance Africa Limited
Johannesburg, South Africa
100.0%

Compass Insurance Company Limited
Johannesburg, South Africa
100.0%

Australia

Hannover Rückversicherung AG Australian Branch – Chief Agency
Sydney, Australia

Hannover Life Re of Australasia Ltd
Sydney, Australia
100.0%

%-figures = participation

Key figures

Figures in EUR million	2009	+/– previous year	2008	2007	2006	2005[1]
Results						
Gross written premium	10,274.8	+26.5%	8,120.9	8,258.9	9,289.3	9,317.4
Net premium earned	9,307.2	+31.8%	7,061.6	7,292.9	7,092.1	7,494.9
Net underwriting result	(100.4)		69.6	(131.0)	(254.7)	(868.7)
Net investment income	1,120.4		278.5	1,121.7	1,188.9	1,115.8
Operating profit (EBIT)	1,140.0		148.1	928.0	819.9	91.6
Group net income (loss)	731.2		(127.0)	721.7	514.4	49.3
Balance sheet						
Policyholders' surplus	5,619.1	+19.3%	4,708.4	5,295.1	4,878.4	4,579.6
Total shareholders' equity	3,711.9	+31.2%	2,830.1	3,349.1	2,897.8	2,601.0
Minority interests	542.1	+8.1%	501.4	572.7	608.6	540.5
Hybrid capital	1,365.1	–0.9%	1,376.9	1,373.3	1,372.0	1,438.1
Investments (excl. funds withheld by ceding companies)	22,507.0	+11.8%	20,137.2	19,815.3	19,494.0	19,079.1
Total assets	42,264.2	+12.7%	37,490.2	37,068.4	41,386.4	39,789.2
Share						
Earnings per share (diluted) in EUR	6.06		(1.05)	5.98	4.27	0.41
Book value per share in EUR	30.78	+31.2%	23.47	27.77	24.03	21.57
Dividend	253.3		–	277.4	193.0	–
Dividend per share in EUR	2.10		–	1.80+0.50[2]	1.60	–
Share price at year-end in EUR	32.71	+45.4%	22.50	31.55	35.08	29.93
Market capitalisation at year-end	3,944.7	+45.4%	2,713.4	3,804.8	4,230.5	3,609.5
Ratios						
Combined ratio (non-life reinsurance)[3]	96.6%		95.4%	99.7%	100.8%	112.8%
Large losses as percentage of net premium earned (non-life reinsurance)[4]	4.6%		10.7%	6.3%	2.3%	26.3%
Retention	92.6%		89.1%	87.4%	76.3%	79.2%
Return on investment (excl. funds withheld by ceding companies)	4.0%		0.4%	4.6%	5.0%	4.4%
EBIT margin[5]	12.2%		2.1%	12.7%	11.6%	1.2%
Return on equity (after tax)	22.4%		–4.1%	23.1%	18.7%	1.9%

1 Incl. financial reinsurance and specialty insurance
2 Bonus
3 Incl. funds withheld
4 Natural catastrophes and other major losses in excess of EUR 5 million gross for the Hannover Re Group's share
5 Operating result (EBIT)/net premium earned

Contents

Ulrich Wallin
Chairman of the Executive Board

Dear shareholders, ladies and gentlemen,

The 2009 financial year closed with a very good result for your company, Hannover Re. For the first time we generated an operating profit (EBIT) in excess of one billion euro. What is more, the fact that we were able to boost the shareholders' equity of Hannover Re by more than 30% in 2009 is of special significance to the sustainable positive development of your company.

Both business groups, namely non-life reinsurance and life/health reinsurance, were instrumental in driving this favourable development. The performance of life and health reinsurance was also assisted by positive non-recurring effects. These materialised in part in connection with our acquisition of a large US life reinsurance portfolio, and can also be attributed to the reduced risk premiums for corporate bonds. Even if these one-off effects – which doubtless will not be repeated on this scale – are factored out, the outcome of the 2009 financial year was quite outstanding both for the life and health reinsurance business group and for Hannover Re as a whole.

The reinsurance industry in general displayed remarkable fortitude in the face of the financial and economic crisis. This also served to make very evident the value of reinsurance covers for risk management purposes. And this, in turn, ultimately prompted stronger demand for reinsurance on both the non-life and life/health sides. Thanks to our robust financial strength and our good market position – also vis-à-vis our competitors – we were able to reap particularly rich rewards from this stronger demand. This is borne out by the above-average organic growth of more than 15% in both business groups. After several years of shrinking premium income, we were thus able to again markedly increase our premium in the year under review.

With a view to turning the positive tendency that manifested itself in the year under review into a long-term trend, we are continuously refining our business models in non-life and life/health reinsurance and exploring new business opportunities. With this in mind, we put in place in the year under review the structures needed to systematically and consistently identify such opportunities and hence generate attractive new business.

The passing of the baton at the top of your company and the reshuffling of responsibilities on the Executive Board associated with this changeover passed off smoothly. Reflecting the division of responsibilities on the Board, we now split our non-life reinsurance portfolio into three segments – namely Target Markets, Specialty Lines and Global Reinsurance. In this context, we continue to systematically execute our strategy based on a sustainable, profit-oriented business policy.

In the non-life reinsurance business group I would like to highlight above all the good underwriting result that we achieved without infringing on our principle of highly prudent loss reserving. This testifies, firstly, to the good quality of our business, although it was also assisted by the rather modest burden of catastrophe losses in the year under review. The most expensive loss events for our company in 2009 from natural disasters were the bushfires in Australia and winter storm "Klaus" in Europe. A number of sizeable individual losses, such as in aviation business, were also incurred. Overall, though, the burden of major claims and catastrophe losses was below the expected level.

As you, our valued shareholders, are aware, the transfer of insurance risks to the capital market has also long played a special role for our company in the management of peak exposures. Although conditions on capital markets were still difficult in the year under review, we were able to renew our "Eurus" catastrophe bond – issued for the first time in 2006 – with an increased volume. We use this transaction to protect our account against the risk associated with European windstorm events.

In addition, 2009 marked the first time that we transferred a portfolio of facultative reinsurance risks to the capital market. This did not involve the protection of our own portfolio, but rather the direct transfer of our clients' business to the capital market.

In life and health reinsurance, as I have already mentioned, not only healthy double-digit organic growth but also an acquisition brought about a vigorous surge in premium income and results. The assumption of a large portfolio of US life reinsurance risks additionally marked a milestone in our strategic orientation: the transaction with an annual premium volume in excess of one billion US dollars in the year under review and subsequent years considerably strengthens our business segment of risk-oriented reinsurance in the United States – in which we had previously been under-represented. Yet the acquisition will also bring about even better diversification of our revenue streams, because life reinsurance – which is characterised by greater stability – will account for an even greater share of the total portfolio. The sharp surge in profitability in life and health reinsurance derives from the good performance of our worldwide activities in this area. The already mentioned non-recurring positive effects were a further factor here.

Our investment income is determined by our conservative asset allocation. More than 90% of our investments are made in fixed-income securities with a concentration on government bonds or bonds backed by government guarantees as well as corporate bonds of very good quality. In view of the current low level of interest rates, this risk-averse investment policy led, on the one hand, to a diminished return relative to the previous year. On the other hand, the write-downs taken were considerably lower than in the previous year as financial markets moved back towards normality. It should also be mentioned that the investment income positively reflected the one-off effect associated with the reversal of unrealised losses on so-called ModCo derivatives. Furthermore, we expanded our investments in real estate as planned in the year under review. In contrast, we refrained from investments in listed equities in the year under review, for two reasons: firstly, we do not yet consider the environment to be sufficiently stable and, secondly, investments in listed equities would result in a substantial capital commitment in the capital models used by rating agencies. In light of our good opportunities to acquire attractive reinsurance business, we decided to use the capital on the underwriting side rather than to invest in stocks.

Having fallen in 2008 against the backdrop of the financial crisis, our share price developed favourably in the year under review with an increase of 45%. To all intents and purposes, the price has climbed back to the level seen prior to the outbreak of the financial crisis.

As you, our valued shareholders, will recall, we announced a dividend of at least two euro per share prior to the end of the third quarter. In view of the good result, the Supervisory Board and Executive Board will propose to the Ordinary General Meeting that you should be paid a dividend of 2.10 euro per share.

We assess our point of departure for the current financial year as highly favourable. We believe that our positioning gives us a thoroughly realistic opportunity to build on the good performance of 2009 – adjusted for non-recurring effects. This is, of course, conditional on the burden of catastrophe losses remaining within the expected bounds and subject to the capital market being spared any fresh distortions.

The treaty renewals as at 1 January 2010 passed off satisfactorily for our company overall, although it should be noted that modest rate erosion was observed – especially in property lines. In credit and surety reinsurance as well as aviation reinsurance, on the other hand, we were able to obtain further rate increases. All in all, we still expect conditions to be commensurate with the risks, and this should enable us to generate our targeted margins. In life and health reinsurance, too, we have already been able to tap into promising business opportunities in many areas at the outset of 2010. Overall, at constant exchange rates we again expect to be able to generate moderate growth in our premium income for 2010.

I would like to thank you, our valued shareholders, for your confidence in Hannover Re. Rest assured: my colleagues and I on the Executive Board, working in concert with the staff of Hannover Re, will do everything in our power to equip your company to handle the opportunities and risks that lie ahead.

Yours sincerely,

Ulrich Wallin
Chairman of the Executive Board

Executive Board of Hannover Re

Ulrich Wallin
Chairman
- Controlling
- Internal Auditing
- Risk Management
- Corporate Communications
- Corporate Development
- Human Resources Management

André Arrago
- Non-Life Treaty Reinsurance worldwide excluding Great Britain and Ireland, North America, Germany, Austria, Switzerland and Italy
- Agricultural Risks and Facultative Business worldwide

Dr. Wolf Becke
- Life and Health markets worldwide

Jürgen Gräber
- Coordination of worldwide Non-Life Reinsurance
- Quotations Non-Life Reinsurance
- Specialty Lines worldwide (Aviation and Space, Marine, Offshore Energy as well as Credit, Surety and Political Risks)
- Non-Life Treaty Reinsurance Great Britain and Ireland
- Structured Products worldwide
- Retrocessions
- Insurance-Linked Securities

Dr. Michael Pickel
- Non-Life Treaty Reinsurance North America, Germany, Austria, Switzerland and Italy
- Group Legal Services, Compliance
- Run Off Solutions

Roland Vogel
Deputy Member
- Finance and Accounting
- Asset Management
- Information Technology
- Facility Management

From left to right: **Dr. Michael Pickel, Roland Vogel, Ulrich Wallin, André Arrago, Jürgen Gräber, Dr. Wolf Becke**

The Hannover Re share

Stock market environment

The international financial crisis and the ensuing global economic crisis continued to leave the world's stock markets in a tense state during the early months of 2009. The abrupt slump of around 20% in global trade caused a contraction in output and corresponding falls in the gross domestic product of many national economies. A string of bad news had pushed leading indices such as the Dow Jones, Nikkei and DAX down by around 20% by early March.

Yet the broad range of support measures and interest rate cuts initiated by central banks in the previous year as well as the bank rescue funds and economic stimulus packages launched by numerous governments started to have an effect: the financial sector began to stabilise, while the first pieces of good news and optimistic sentiment indicators brought about a trend reversal on equity markets towards the end of March. By the end of the first half-year most stock market indices had regained or even surpassed their levels at the opening of the year. Stock exchanges in many emerging countries enjoyed particularly marked surges.

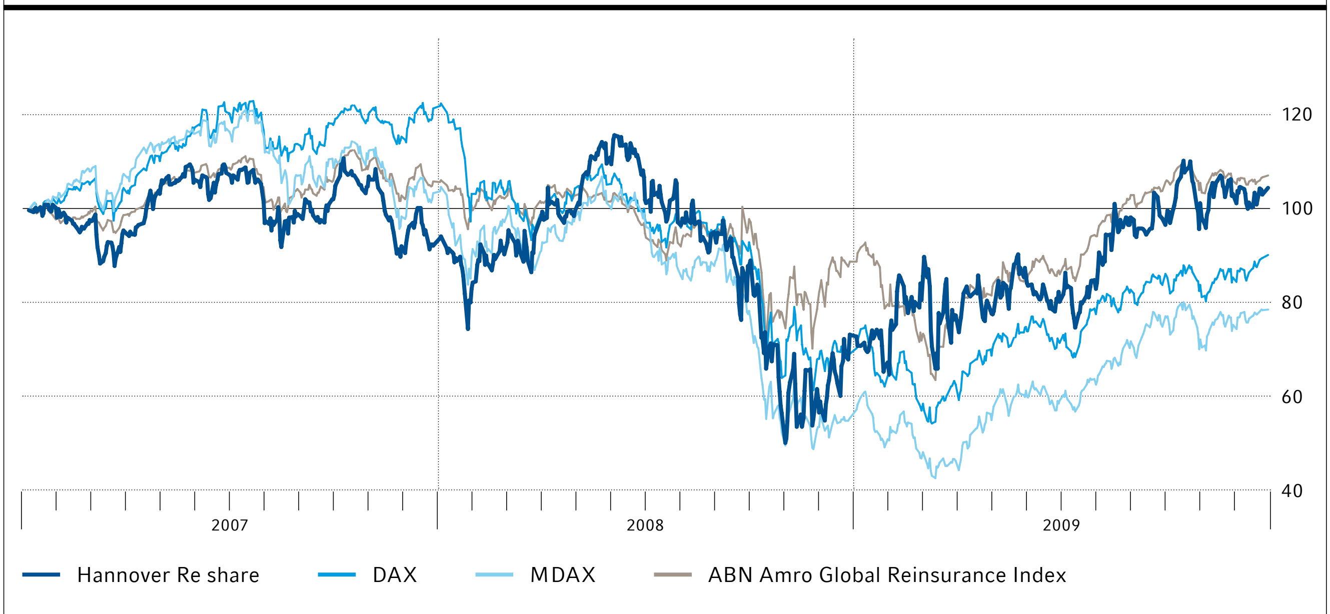
Thanks to improved economic data the recovery was sustained into the second half-year. By year-end the Dow Jones and the Nikkei had climbed by 22% and 19% respectively relative to the start of the year. The DAX put on 24% to close the year at 5,975 points. The MDAX performed even better with a gain of 34%.

Performance

The general downslide at the start of the year also impacted the Hannover Re share, which slipped to its lowest point of the year on 27 January 2009 with a closing price of EUR 20.64. However, it was subsequently able to decouple itself from the broad downward trend: initially, the share profited greatly from the outcome of our treaty renewals as at 1 January, and it then enjoyed lively demand following its surprising inclusion in Germany's bellwether DAX index. Even at the time, though, it was evident that inclusion in the DAX was due not only to our own strength, but more to the weakness of many major stocks as a consequence of the economic crisis.

In early May the publication of very good figures for the first quarter prompted another sharp upward surge, which was then followed by a period of consolidation. The unremarkable third quarter of 2009 – especially with an eye to hurricane events – as well as the very pleasing figures for the second quarter, which were published in early August, ultimately led to higher price targets for our share. Our share price climbed vigorously, reaching EUR 34.65 on 14 October – its high for the year. The exit from the DAX on 21 September, which was only to be expected after the general economic recovery, had no significant effect on the share price.

Relative performance of the Hannover Re share in %



Many analysts anticipated difficult treaty renewals at year-end, prompting a consolidation of the Hannover Re share in the range of EUR 32 to 34. Closing at EUR 32.71 on 30 December 2009, our share posted a performance of EUR 10.21 or 45% in the year under review, hence comfortably outperforming the DAX and MDAX. The price decline of the previous year was thus more than offset.

In a three-year comparison (see chart) the Hannover Re share including reinvested dividends delivered a performance of +4.5%. It thus clearly surpassed the DAX and MDAX. We fell only marginally short of our strategic objective of outperforming the weighted ABN Amro Global Reinsurance Index in a three-year comparison.

The market capitalisation of the Hannover Re Group totalled EUR 3,945 million as at year-end. With a free float market capitalisation of EUR 1,945 million our company ranked eighth in the MDAX at the end of December, while our share came in at number 5 according to the criterion "Trading volume over the past 12 months" with a volume of EUR 3,586 million for the year. According to both criteria the Hannover Re Group thus ranks among the 40 largest listed companies in Germany.

With a book value per share of EUR 30.78 the Hannover Re share showed a price-to-book (P/B) ratio of 1.1 as at year-end 2009; compared to the average MDAX P/B ratio of 1.4 the share is thus quite moderately valued.

As far as the dividend for the 2009 financial year is concerned, we intend to propose to our shareholders at the Ordinary General Meeting on 4 May 2010 that an amount of EUR 2.10 per share be distributed. Based on the year-end closing price of EUR 32.71, this produces a dividend yield of 6.4%.

Investor Relations activities

The increased need to meet and talk with us felt by many analysts and investors as a consequence of the financial market crisis was reflected in lively attendance at our analysts' conferences, which we again held simultaneously in Frankfurt and London one day after the press briefing on the annual results.

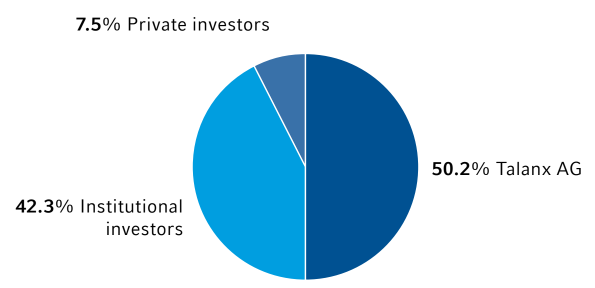
We expanded our Investor Relations activities in the year under review in order to counter the uncertainty among market players about Hannover Re's further development. A special highlight was the increased attendance at investor conferences; we also again took part in numerous roadshows in order to facilitate contacts between investors and our company's management. Along with multiple visits to London, Frankfurt and New York, we also travelled to Boston, Paris, Luxembourg, Zurich and Edinburgh as well as other business centres.

What is more, we again held a series of conference calls for analysts and investors with the management and hosted numerous visitors at our offices in Hannover for face-to-face meetings.

Our annual Investors' Day was again well attended by analysts and investors alike in 2009. Topics covered in the year under review included the acquisition of the US ING life reinsurance portfolio and the future development of our US subsidiary Hannover Life Reassurance of America, the life reinsurance market in the United Kingdom, credit and surety reinsurance and the level of our reserves.

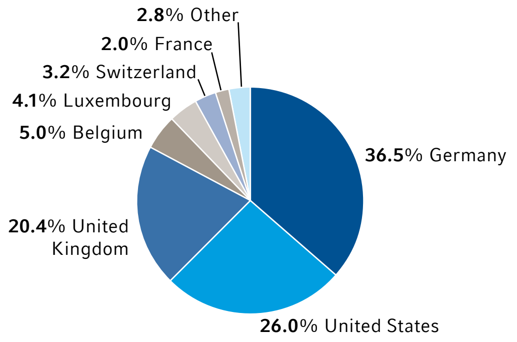
Our shareholding structure changed only marginally in the year under review. The interest held by Talanx AG remained unchanged, while the stake held by private investors fell by 0.2% to 7.5%, hence fractionally pushing up the proportion in the hands of institutional investors to 42.3%.

Shareholding structure



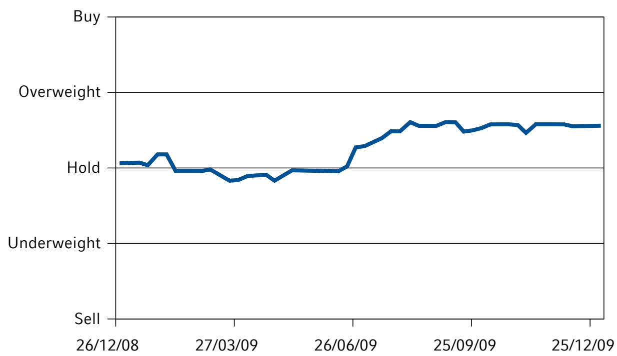
Turning to the breakdown of our free float by countries, the proportionate holding attributable to Germany fell by an appreciable 6% in the year under review to 36.5%, while the US share increased by 4.2% to 26.0%. Shareholders in Luxembourg also enlarged their stake, specifically by 1.8% to 4.1%. The relative holdings attributable to other countries changed only marginally relative to the end of the previous year.

Shareholding structure by countries (free float)

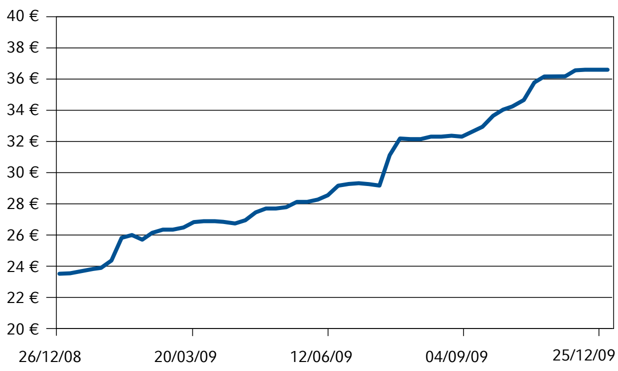


Interest in our company among analysts was again very lively in the year under review and gained added impetus from the inclusion of our share in the DAX. All in all, 38 analysts handed down more than 200 recommendations for Hannover Re in 2009. Based on the data for the first nine months of 2009, 32 analysts recently published the following opinions: fourteen recommended the Hannover Re share as "buy" or "overweight"; another fourteen opinions were a "hold", while only four recommendations to "underweight" or "sell" were issued. In the course of 2009 the average analysts' opinion clearly improved. At the same time the average target price for our share rose sharply to stand at EUR 36.71 at the beginning of 2010.

Average analysts' opinions of the Hannover Re share Source: Bloomberg



Average analysts' price target for the Hannover Re share Source: Bloomberg



We fundamentally revamped and progressively updated our Investor Relations website in the year under review. Most strikingly, along with a new design the structure was simplified, hence making more content accessible at a glance. Our newest service is the provision of information on the analysts' recommendations. Please visit http://www.hannover-re.com/ir/share/consensus/index.html for continuously updated and interactive insights into the latest analysts' opinions and their expectations as to Hannover Re's premium volume and profitability.

Basic information	
Share class:	No-par-value registered shares
International Securities Identification Number (ISIN):	DE 000 840 221 5
Securities identification number:	840 221
Exchange listings:	Germany: Listed on all German stock exchanges; XETRA, Frankfurt and Hannover in official trading USA: American Depositary Receipts (Level 1 ADR program; 2 ADR = 1 share)
Ticker symbols:	Bloomberg: HNR1 Thomson Reuters: HNRGn ADR: HVRRY
First listed:	30 November 1994
Common shares as at 31 December 2009:	EUR 120,597,134.00, divided into 120,597,134 no-par-value registered shares
Shareholding structure since February 2006:	50.2% Talanx AG, 49.8% free float
Annual General Meeting:	4 May 2010, 10:30 h Hannover Congress Centrum, Kuppelsaal Theodor-Heuss-Platz 1–3, Hannover, Germany

Key figures in EUR

	2009	2008	2007	2006	2005
Number of shares in million	120.6	120.6	120.6	120.6	120.6
Lowest price[1]	20.64	15.70	30.30	25.85	26.45
Highest price[1]	34.65	35.79	37.50	35.14	32.69
Year-end closing price[1]	32.71	22.50	31.55	35.08	29.93
Market capitalisation at year-end in EUR million	3,944.7	2,713.4	3,804.8	4,230.5	3,609.5
Shareholders' equity in EUR million	3,711.9	2,830.1	3,349.1	2,897.8	2,601.0
Book value per share	30.78	23.47	27.77	24.03	21.57
Earnings per share (diluted)	6.06	(1.05)	5.98	4.27	0.41
Dividend per share	2.10	–	2.30[2]	1.60	–
Cash flow per share	14.53	12.10	7.56	13.77	12.89
Return on equity (after tax)[3]	22.4%	–4.1%	23.1%	18.7%	1.9%
Dividend yield (after tax)[4]	6.4%	–	7.3%	4.6%	–
Price-to-book (P/B) ratio[5]	1.1	1.0	1.1	1.5	1.4
Price/earnings (P/E) ratio[6]	5.4	–	5.3	8.2	73.0
Price-to-cash flow (P/CF) ratio[7]	2.3	1.9	4.2	2.5	2.3

1 XETRA daily closing prices from Bloomberg
2 EUR 1.80 + EUR 0.50 bonus
3 Earnings per share/average of book value per share at start and end of year
4 Dividend per share/year-end closing price
5 Year-end closing price/book value per share
6 Year-end closing price/earnings per share
7 Year-end closing price/cash flow (from operating activities) per share

Our strategy

Profit and value creation are the basis of sustainable development in the interests of our shareholders, clients, employees and other business partners. We strive to be one of the three most profitable reinsurers in the world. We are a “somewhat different” reinsurer, meaning that we are a well diversified multi-specialist with whom our clients enjoy working and are driven by an aspiration to excellence in all our actions.

Strategic objectives

1. Profitable growth

Return on equity of at least 750 basis points above the "risk-free" interest rate. Triple-10 target; allocation of capital to generate the maximum risk-weighted profit; increase in the share price > Global Reinsurance Index. Lowest cost of capital in the industry

2. Capital protection

Positive return on equity in at least nine out of ten years

3. Preferred business partner

Highly capable – rating of at least "AA–" from S&P and "A+" from A.M. Best

4. Motivated employees

Skills and motivation just as crucial to success as capital resources

5. Lean organisation

Effective and efficient organisation geared to business processes; safeguarding of know-how and cost leadership

Strategic action fields

Performance Excellence

Our holistic management system of “Performance Excellence” ensures consistent execution of our strategy. We improve our performance systematically and continuously under all excellence criteria and subject our accomplishments to both internal and external assessments.

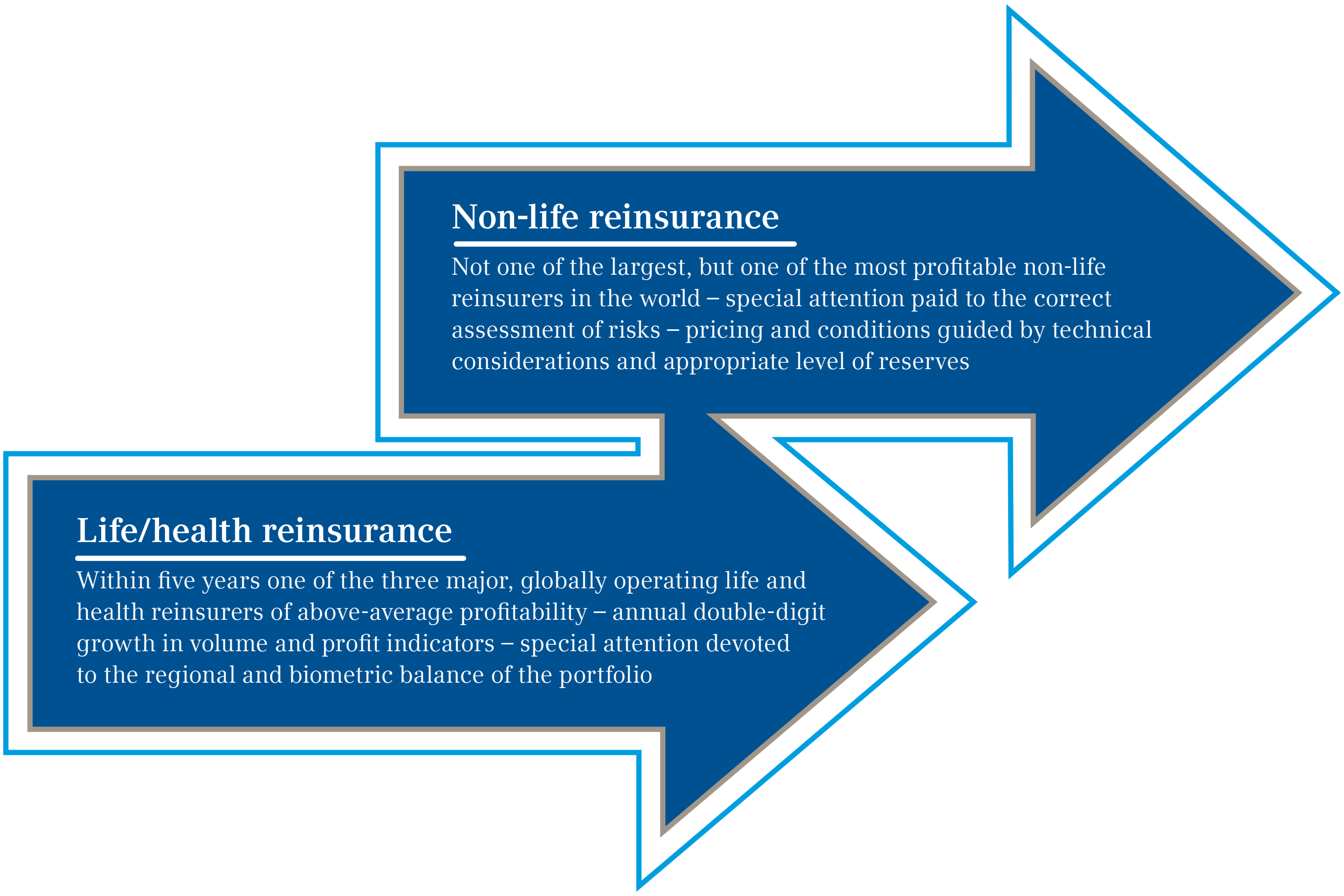
Corporate Governance

We support meaningful and pragmatic Corporate Governance principles and recognise these as guidelines for our activities. Ethical corporate conduct towards our business partners, employees, shareholders and all other stakeholders constitutes a core element of our Corporate Governance principles. We apply high ethical standards at all times, both in our strategy and in our day-to-day business operations.

Compliance

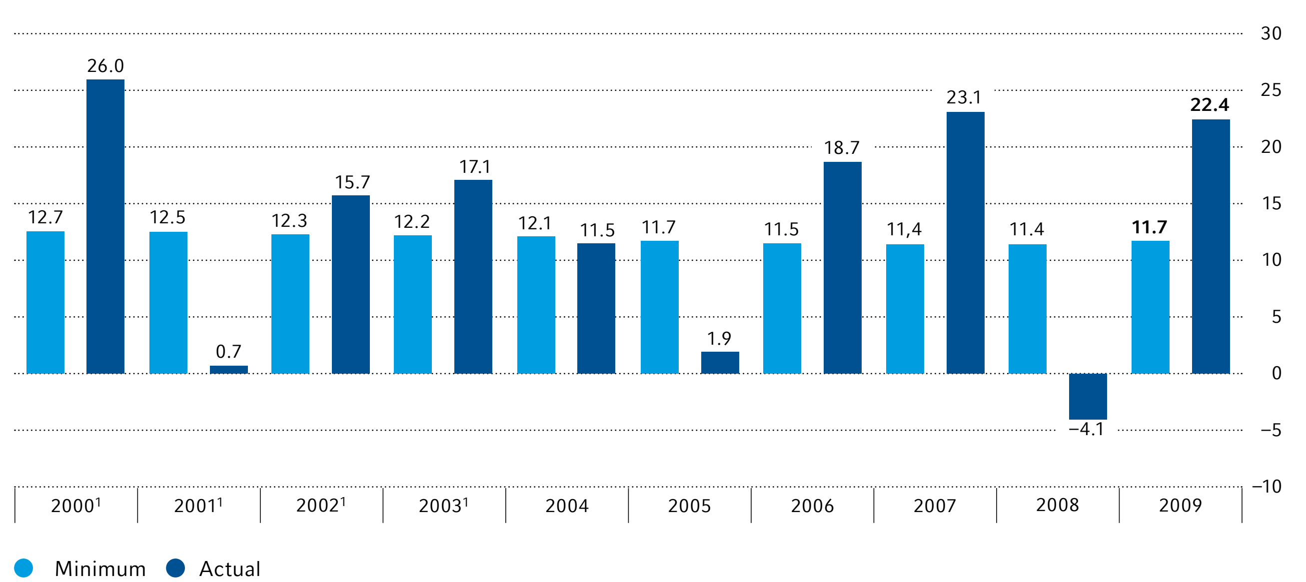
Our corporate guidelines and other rules and regulations as well as our business processes and daily actions are always consistent with external requirements. We thus avoid business, liability and reputational risks that could harm our commercial activities. By defining and implementing clear standards we also deliver efficient and effective support for attainment of our corporate objectives.

Business group strategies



The business center strategies/service center strategies are derived from the Group and business group strategies.

After-tax return on equity in %



1 Based on US GAAP

Management report of the Hannover Re Group

The 2009 financial year passed off highly satisfactorily for Hannover Re: for the first time we were able to generate an operating profit (EBIT) in excess of one billion euro. The appeal of reinsurance as a capital management tool for our clients grew in the year under review, enabling us to push through appreciable rate increases. After years of declining premium income we achieved substantial growth in non-life reinsurance in 2009. We are also highly gratified by the development of life and health reinsurance. Given the weakened solvency position of life insurers, there was stronger demand here for reinsurance solutions. With the acquisition of a large US life reinsurance portfolio we have set course for further profitable growth in life and health reinsurance. We are similarly satisfied with the development of our investments.

Economic climate

One of the overriding issues of the year under review was the global economic crisis. The winter of 2008/2009 witnessed the most severe crash in the world economy since the Second World War. Most notably, the sharp contraction in global trade at the beginning of the year ushered in a deep recession. It impacted first and foremost the large industrial nations, which had to absorb a record fall in their economic output. Since the spring the economy has been on course for recovery. A crucial factor here was the stabilisation of the financial markets, a success attributable primarily to massive central bank intervention as well as the announcement of state assistance programmes and guarantees for the financial sector. Government stimulus packages also left a positive mark on the real economy.

By year-end the situation on the world's financial markets had eased appreciably, and the economic climate had improved virtually everywhere. New orders, output and global trade all showed improvements. The experience of past economic phases shows that recessions associated with banking and real estate crises are usually only slowly overcome. The problems affecting the financial sector have still to be remedied, and the decline in capacity utilisation is expected to bring rising unemployment. Positive stimuli are anticipated from the continuing effects of the economic stimulus programmes and the robust development of emerging markets.

USA

The United States experienced a steep decline in GDP of 2.4% in 2009. Gross investment in fixed assets was dramatically reduced and inventories scaled back as a consequence of the economic crisis. In addition, rising unemployment, loss of assets and much more restrictive access to credit caused private consumption to contract – despite tax relief measures and the "cash for clunkers" programme (similar to the German car scrappage scheme). As the year progressed, however, the US too began to gather fresh momentum. In the third quarter GDP grew for the first time in a year, and an end to the recession was in sight.

Germany

Against the backdrop of the global recession and the financial market crisis, GDP in Germany contracted by 5.0% in the year under review. Owing to its strong export orientation the German economy suffered under softer international demand. From the second quarter onwards the situation recovered somewhat as exports stabilised and thanks to the car scrappage scheme, which had a positive effect on consumption. Economic activity was fostered by fiscal stimuli and a continued expansionary monetary policy. Unlike in most countries, a massive surge in unemployment was avoided – in large measure thanks to short-time working arrangements. By the beginning of 2010 the German economy had entered a period of recovery, although it remains in a highly fragile state.

Europe

In the rest of the Eurozone, too, the economic situation began to pick up in the middle of the year. Total economic output was expanded in the third quarter for the first time since the first quarter of 2008. The trend in manufacturing in the various member states of the Eurozone nevertheless varied widely. While Germany and Italy, for example, recorded appreciable growth rates, output in Spain and Greece continued to fall.

Asia

In contrast to the United States and the Eurozone, the Chinese economy developed extremely favourably. By the summer half-year it had already almost bounced back to its previous growth rates. Business activity was considerably boosted, not least thanks to an extensive economic stimulus programme implemented by the government.

The Japanese economy was also hard hit in the winter of 2008/2009 on account of its dependence on exports. As early as the second quarter of the year under review, however, exports enjoyed renewed moderate growth. By the end of the year Japan, too, had entered a very clear recovery phase – albeit one that is driven very heavily by exports.

Capital markets

In the aftermath of the historic price falls on international stock markets in 2008, many investors became far more risk-averse – safe government bonds and gold were preferred investment vehicles. By the end of the first quarter risk premiums on the bond market had reached a record level, although the framework conditions for the markets changed appreciably as the year progressed. With the situation in the banking sector also stabilising, investors became more willing to take risks again. Many market segments saw the onset of a marked recovery in March, which has been sustained to date. At the same time, yields on long-dated government bonds increased, although they are still relatively low.

On stock markets, too, the negative trend continued until March of the year under review. The shift in sentiment was attributable to the sharp cuts in key lending rates implemented by the world's major central banks, the various national economic stimulus programmes and bank rescue funds as well as the realisation that after the collapse of Lehman Brothers governments would not allow any more banks of systemic importance to fail.

Driven by an expansionary monetary policy in the year under review, key interest rates fell to new record lows in the euro and pound sterling currency zones. In the United States, Japan and the United Kingdom interest rates were close to zero, while in Europe the ECB slashed the prime rate to 1.0%. At the same time all key central banks massively stepped up their efforts in 2009 to prop up the supply of liquidity to the banking sector.

The US dollar lost ground against other currencies, including the euro, in the year under review. The weakness of the greenback fanned demand for gold, which enjoyed an upward trend in 2009 – the consistency of which was unmatched by any other form of investment – and reached a new record price in December. By year-end the dollar was able to move slightly higher against the euro.

Industry-specific environment

Most insurance undertakings have hitherto withstood the crisis relatively well. In this context, the focus in the year under review was on prices commensurate with the risks. The financial standing of market players has assumed even greater importance as a consequence of the crisis – something which is especially true of reinsurers.

Despite the financial and economic crisis German insurers were well positioned in 2009 and remained on an expansionary course in the year under review. Against the backdrop of robust insurance demand, they were able to boost their premium income even in these difficult economic times. The most significant contribution in this regard was delivered by private health insurers. In this way the German insurance industry emerged as a stabilising factor for the economy in 2009. In the current year, too, the effects of the economic crisis on the insurance industry should be moderate.

Regulatory changes

With a view to averting any repetition of the financial market crisis, the federal government proposed the "Act for the Strengthening of the Supervision of Financial Markets and Insurance" in the year under review. The legislation gives the Federal Financial Supervisory Authority greater powers to regulate the financial market. The intention is to restore trust in the financial system and put in place a solid foundation going forward for business transactions between financial institutions.

In addition, the federal government backed up its previous steps to further stabilise the financial market with the "Act on the Further Development of Financial Market Stabilisation". Ailing financial institutions now have the possibility to set up so-called "bad banks", enabling them to offload toxic assets from their balance sheets and hence step up their lending again to the business community.

The Solvency II Directive of the European Commission continues to be of great significance to the insurance industry. Solvency II is intended to provide Europe with a risk-based solvency system. The specifics are currently under consideration by various government bodies in consultation with the insurance industry. Many insurance undertakings are already preparing for implementation of the regulations that will apply in the future. In April 2009 the EU institutions – namely the European Parliament, the Council and the Commission – agreed upon a compromise for the Solvency II Framework Directive. The insurance industry's various interest groups also see this political settlement as a major step towards a modern system of insurance supervision. The standards contained in the EU Solvency II Directive are to be implemented by the member states in national law by 2012.

Business development

As anticipated, the financial market crisis and the associated shortage of capital among primary insurers in the year under review had a stimulating effect on our operational business.

As a capital management tool for our clients, the appeal of reinsurance grew in the year under review – especially in capital-intensive segments of non-life reinsurance. We were consequently able to push through appreciable rate increases in 2009, which even ran into the double-digit percentages in some lines such as credit and surety reinsurance. Although our expectations exceeded the price increases achieved in certain areas, we were highly satisfied overall with the development of the non-life reinsurance business group. In the context of these market opportunities we succeeded in growing our premium income in the year under review – appreciably so – after years of declining volume.

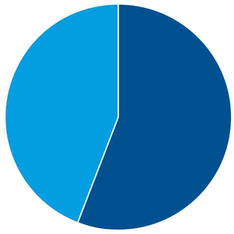
The various rounds of treaty renewals again demonstrated that ceding companies attach considerable importance to a reinsurer's rating, especially where the underwriting of long-tail casualty business is concerned. In this case a very good rating is a prerequisite for any provider seeking to be offered and awarded the opportunity to write the entire spectrum of business. With our very good ratings ("AA–" from Standard & Poor's and "A" from A.M. Best) we are one of the reinsurers to satisfy this condition.

Our second business group, life and health reinsurance, developed exceptionally satisfactorily. Given the significantly weaker solvency position of life insurers, the need for reinsurance solutions continued to grow; demand thus increased in the year under review for risk- and financially oriented products.

Another positive factor was the reversal of unrealised losses on securities deposits held by ceding companies for the account of Hannover Re.

The central event for our life and health reinsurance in the year under review was the acquisition of a large US life reinsurance portfolio. We have thus set a course for further profitable growth. The transaction strengthens our segment of risk-oriented reinsurance in the United States, in which we had hitherto been underrepresented. This acquisition served to improve the diversification of our revenue streams, since life reinsurance – noted for greater stability and less volatility – now accounts for an even greater share of the total portfolio.

Gross premium by business group



We are satisfied with the development of our investments. The portfolio of assets under own management showed further growth to reach EUR 22.5 billion thanks to positive cash inflows from the technical account. Ordinary income fell slightly short of the comparable figure for the previous year at EUR 810.5 million (EUR 829.8 million) owing to generally lower interest rates. Deposit interest rose to EUR 276.8 million (EUR 199.6 million). Write-downs of EUR 141.3 million (EUR 479.9 million) were taken on securities (excluding real estate), including EUR 92.6 million (EUR 26.9 million) on alternative investments – primarily private equity and real estate funds. Given the minimal holding of equities, write-downs of just EUR 3.2 million (EUR 356.1 million) had to be taken here, while on fixed-income assets they were halved to EUR 45.4 million (EUR 96.9 million).

In view of increased fair values, the write-downs were opposed by write-ups of EUR 20.1 million on fixed-income securities written down in previous periods. Further positive effects stemmed from the recognition of financial derivatives embedded in insurance contracts as well as from structured products subject to mandatory separation requirements, hence causing their fair values to rise by an amount of altogether EUR 100.6 million (–EUR 119.7 million) that was recognised in income.

Despite the prevailing difficult market climate, especially in the first half of the year, we were thus able to boost net investment income from assets under own management year-on-year back to the expected level of EUR 843.6 million (EUR 78.9 million). Our net investment income including income on funds withheld and contract deposits amounted to EUR 1.1 billion (EUR 276.8 million).

Gross premium in total business climbed by 26.5% to EUR 10.3 billion (EUR 8.1 billion). At constant exchange rates the premium volume would have grown by 26.1%. As a consequence of the financial market crisis our capital market transaction "K6" was placed with a reduced volume; the retention therefore increased from 89.1% to 92.6%. Net premium earned consequently surged even more strongly by 31.8% to EUR 9.3 billion (EUR 7.1 billion).

We are highly satisfied with the development of our business results. The operating profit (EBIT) increased exceptionally vigorously to EUR 1.1 billion. The EBIT of just EUR 148.1 million booked in the 2008 financial year had been shaped by the repercussions of the financial market crisis. Group net income for 2009 soared by EUR 858.2 million to EUR 731.2 million, in part assisted by special effects associated with the ING life reinsurance portfolio as well as by funds withheld by ceding companies. Earnings per share stood at EUR 6.06 (–EUR 1.05).

We use retrocession, i.e. the passing on of portions of our covered risks to other reinsurers, as a means of risk reduction. In the course of the year the reinsurance recoverables on unpaid claims – i.e. receivables due to us from our retrocessionaires – decreased to EUR 1.7 billion (EUR 2.1 billion). We continue to attach considerable importance to the quality of our retrocessionaires: 96.0% of the companies with which we maintain such business relations have an investment grade rating of "BBB" or better from Standard & Poor's.

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

Our business groups

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

Non-life reinsurance

Non-life reinsurance is our largest and most important business group. We do not pursue any growth targets here, but are instead guided by active cycle management according to which we expand our business if the rate situation is favourable and scale back our portfolio if prices are inadequate. In view of the positive state of the market we extended our involvement in various regions and segments in the year under review. While rates in the previous year had still been notable for softening tendencies, we were able to obtain stable prices – and in some cases even increases – in the treaty renewals as at 1 January 2009, the time of year when roughly two-thirds of our portfolio is renegotiated. In some markets and lines the increases even ran into double-digit percentages. This was especially true of catastrophe business, which had suffered losses in 2008, as well as worldwide credit and surety reinsurance. German business continued to be attractive.

Even though we were not able to realise all the price rises that we had envisioned, the capital squeeze in the global insurance industry triggered by the financial market crisis stimulated demand for reinsurance. The treaty renewals as at 1 June and 1 July also passed off well for our company overall: prices were broadly commensurate with the risks, although the rate increases in some segments – such as US casualty business – were still not adequate. In accordance with our profit-oriented underwriting policy, we therefore further reduced our exposures in these areas.

In aviation reinsurance we were able to push through higher prices for both loss-impacted and loss-free programmes in the autumn 2009 treaty renewals owing to an above-average claims experience. We therefore stepped up our involvement. Capacities in credit and surety insurance shrank appreciably in the year under review against the backdrop of higher loss ratios prompted by the financial market crisis. We used the associated sharp price rises to selectively enlarge our portfolio. Premium increases were also recorded for structured products and in facultative reinsurance.

The already existing licence to transact life and health reinsurance in China was extended in 2009 to include non-life reinsurance. Going forward, both business groups will be operated directly out of our Shanghai office. This strengthened presence enables our clients to

Key figures for non-life reinsurance						Figures in EUR million
	2009	+/- previous year	2008	2007	2006	2005[1]
Gross written premium	5,746.6	+15.2%	4,987.8	5,189.5	6,495.7	4,639.3
Net premium earned	5,229.5	+22.3%	4,276.7	4,497.6	4,718.7	3,922.9
Underwriting result	143.5	–22.3%	184.7	(26.7)	(71.0)	(500.5)
Net investment income	563.2		11.1	783.3	831.7	544.8
Operating result (EBIT)	731.4		2.3	656.7	670.1	(28.3)
Group net income	472.6		(160.9)	549.5	478.5	4.3
Earnings per share in EUR	3.92		(1.33)	4.56	3.97	0.04
Retention	94.1%		88.9%	82.5%	72.4%	85.9%
Combined ratio[2]	96.6%		95.4%	99.7%	100.8%	112.8%

1 Including financial reinsurance and specialty insurance
2 Including expenses on funds withheld and contract deposits

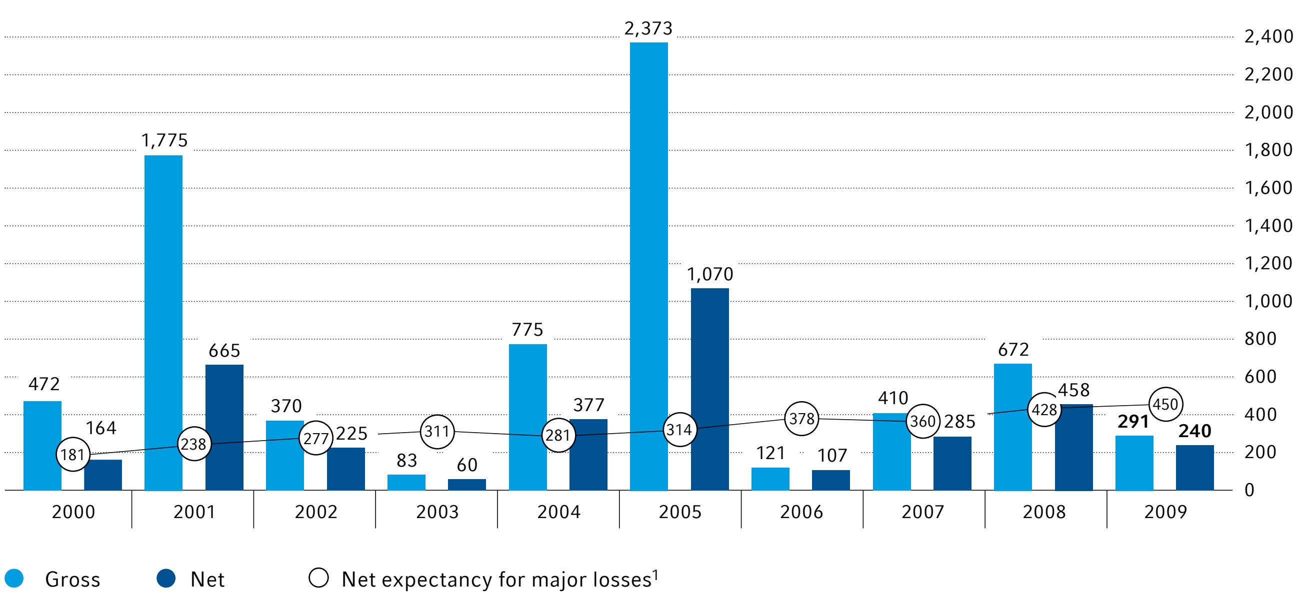
access all services from a concentrated source. At the same time, it gives us an optimal platform to further expand our position in China.

In the year under review eleven leading reinsurers came together to form the "Global Reinsurance Forum". Hannover Re, too, is a member of this interest group, which will focus on supervisory issues, legal concerns, tax matters and accounting questions.

As far as new business developments are concerned, we are now also participating in the area of micro-insurance. In Pakistan an initial project has been launched in cooperation with a locally based insurer: low-income individuals are now able to obtain insurance protection. Hannover Re is active in this sector as a reinsurance partner and also provides support, especially with its know-how. It is our expectation that micro-insurance products will continue to grow in importance going forward, and hence further cooperative ventures will follow.

Within the scope of our extended activities in the field of Insurance-Linked Securities we transferred for the first time in the year under review a portfolio of facultative reinsurance risks – i.e. individual risks worldwide – to the capital market. As with our previous transaction of this type, what is at stake here is not the protection of our own portfolio, but rather the direct transfer of our clients' business. The "Fac Pool Re" transaction consists of a quota share cession and two non-proportional reinsurance ces-

Major loss trend[1] Figures in EUR million



1 Losses >EUR 5 million gross

sions. The amount of capital made available totals altogether USD 60 million, of which Hannover Re keeps a share of around USD 5 million in addition to carrying losses that exceed the capacity of "Fac Pool Re". The transaction has a term of two and a half years.

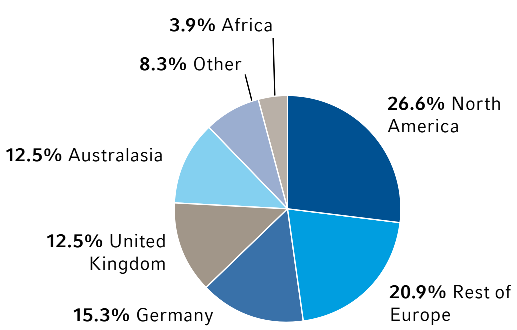
After several years of premium declines, the gross premium volume for our non-life reinsurance business group climbed by 15.2% to EUR 5.7 billion (EUR 5.0 billion) in the year under review. At constant exchange rates, especially relative to the US dollar, growth would have come in at 13.4%. The level of retained premium rose from 88.9% to 94.1% as a consequence of lower retrocessions. Net premium earned grew by 22.3% to EUR 5.2 billion (EUR 4.3 billion).

The burden of catastrophe losses remained below average in the year under review, in part thanks to a rather unremarkable hurricane season. Despite a series of devastating natural disasters, the repercussions on the reinsurance industry were mostly slight. The largest single event in 2009 for our company was the severe bush fires in Australia at a cost of EUR 34.7 million, followed by winter storm "Klaus" with a strain of EUR 33.8 million. The crash of the Air France Airbus resulted in a loss of EUR 33.8 million for Hannover Re.

Total net expenditure on catastrophe losses and major claims in 2009 amounted to EUR 239.7 million (EUR 457.8 million), a figure less than the expected level. The combined ratio stood at 96.6% (95.4%) in the year under review.

The underwriting result slipped to EUR 143.5 million (EUR 184.7 million). Net investment income improved markedly to EUR 563.2 million (EUR 11.1 million), having been impacted by the need to take heavy write-downs on equities in the previous year. The operating profit (EBIT)

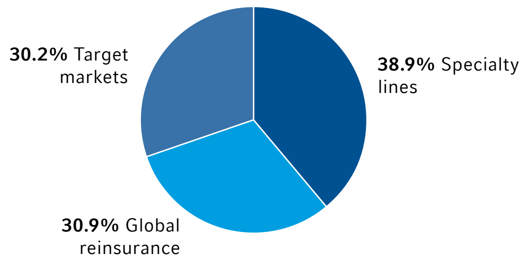
Geographical breakdown of non-life reinsurance



in non-life reinsurance surged exceptionally strongly to EUR 731.4 million (EUR 2.3 million). Group net income grew to EUR 472.6 million (–EUR 160.9 million). Earnings per share amounted to EUR 3.92 (–EUR 1.33).

The modified responsibilities associated with the changes on the Executive Board presented an opportunity to restructure our non-life reinsurance business group. We now split our portfolio into three sections: target markets, specialty lines and global reinsurance. The following remarks reflect this revised breakdown.

Gross premium in non-life reinsurance



Our target markets

We consider Germany and North America to be target markets. The development of business here was satisfactory. The premium volume grew to EUR 1,737.9 million (EUR 1,586.3 million). The combined ratio stood at 104.7% in the year under review, after 99.0% in the previous year. The operating profit (EBIT) for the target markets totalled EUR 118.8 million (–EUR 90.4 million).

Germany

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

The general economic environment in Germany was difficult on account of the repercussions of the financial market crisis. Most significantly, the protracted economic downturn – which bottomed out towards the middle of the year under review – led to a historically low interest rate level. Results in lines such as motor insurance – which needs not only a satisfactory underwriting performance but also good investment income – consequently came under pressure. The industrial insurance lines – such as business interruption, public liability or marine – also suffered losses of premium, since for the most part premiums are calculated on the basis of company turnover. An unremarkable loss situation had a positive effect on industrial business.

The German primary insurance market was dominated by sustained fierce competition in the year under review – both in industrial lines and private customer insurance. In the latter case this was especially true of motor business, an important line for our company. Compared to the original market, however, the climate on the reinsurance side was more favourable, i.e. rates and conditions continued to be broadly adequate.

In motor liability insurance the positive trend towards a falling claims frequency observed in recent years was not sustained. It increased slightly in the year under review – while original premiums continued to decline –, hence enabling us to generate only a barely adequate result in our proportional motor liability business.

The state of the market in industrial fire and fire loss of profits insurance improved: the combined ratio nudged below 90% on the back of lower loss ratios year-on-year. For the first time in quite a while we were therefore able to recoup the cost of capital. The situation in homeowners' comprehensive insurance also took a brighter turn, although we were unable to generate an adequate result here.

The loss situation in the engineering lines was satisfactory overall in the year under review, although the insurance of wind turbines has still to turn a profit on account of various serial losses.

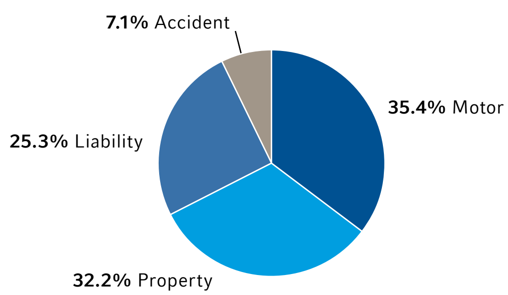
Business developed favourably in general liability insurance, which delivered a positive profit contribution thanks to a combined ratio under 100% and good cash flow revenue.

Personal accident insurance, which remains one of our target lines, continued to develop favourably. Our clients again benefited from our product innovations in the year under review, including for example a combined personal accident annuity, a product designed to protect the insured's livelihood that constitutes a cost-effective supplement to disability insurance. An innovative product for children was also unveiled on the market in 2009, with two further product launches pending. Yet it is not only in personal accident insurance that we are able to assist our clients; we also support them with our own self-developed tools, namely "ES HagelT" – for measuring the exposure of a motor portfolio to hail events – and "ES FluteT" – for calculating the flood risk to portfolios of residential property.

The burden of catastrophe losses and major claims in Germany was moderate in the year under review; we incurred a loss in the low double-digit million euros in 2009 as a result of the collapse of the Cologne City Archive. The month of July also saw hail events that caused heavy losses in motor own damage insurance and, above all, agricultural insurance. These hailstorms had no particular impact on the reinsurance side, however. The combined ratio for our German business stood at 103.1%.

We succeeded in cementing our position as one of the leading reinsurers in the profitable German market in the year under review.

Breakdown of gross written premium in Germany by line of business



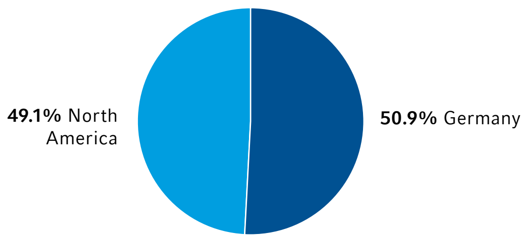
North America

The North American (re)insurance market is the world's largest single market and currently the second-most important for Hannover Re's portfolio. It accounted for 14.8% of our premium volume in non-life reinsurance.

In the second half of the year the economic climate in the United States recovered somewhat from the adverse effects of the financial and economic crisis. Consumption also picked up slowly, aided by continued low interest rates. With write-downs returning to normal levels and investment income bouncing back, the equity position of primary insurers improved surprisingly sharply relative to 2008. According to an analysis carried out by an institute specialising in insurance stocks, the financial


"Do you know what our clients really want?"
"Individual solutions."

Breakdown of gross written premium in target markets



situation of insurers in the United States has returned to the previous year's level after a vigorous recovery in the second quarter. For this reason, demand for reinsurance grew only insignificantly in the US. The trend towards carrying increased retentions was not, however, sustained in the year under review.

We welcome the efforts being made in the US to optimise oversight of the insurance industry and put in place a point of contact on the federal level for foreign agencies and associations. In view of the global financial crisis and constantly growing international integration, this is of special importance – not only for cooperation with the International Association of Insurance Supervisors (IAIS), but also for negotiations over unilateral or mutual recognition of regulatory bodies. Similarly, we view the efforts of the National Association of Insurance Commissioners (NAIC) as well as of individual US states to improve conditions for foreign reinsurers as a very sensible move.

Based on its long-standing business relationships, its expertise and especially its excellent financial standing, Hannover Re is a valued partner in North America. Given the cyclical nature of the North American market, it is important to play an active role even in softer phases so as to safeguard the possibility of renewed business expansion in coming "hard" market years. Market surveys confirm that we continue to be qualitatively very well positioned in the broker market.

With a view to further diversifying our portfolio we again scaled back the share of larger cedants in the year under review, while at the same time expanding our business relationships with mid-sized regional players and mutual insurers. This business segment has been progressively enlarged over the past five years. Our concentration on these clients will continue to be the focus of our activities, with greater weight attached to strategically oriented customer relationships.

We quite deliberately did not seek to extend our market share in 2009, since we still do not consider business to be sufficiently attractive in certain segments. We nevertheless continue to form part of the small group of reinsurers that are preferentially approached for placement and pricing on account of their rating and market standing.

In property business it was still possible to obtain appreciable rate increases in the first half-year, although the extent of the gains flattened off as the year under review progressed. The absence of catastrophe losses put an end to any further price rises.

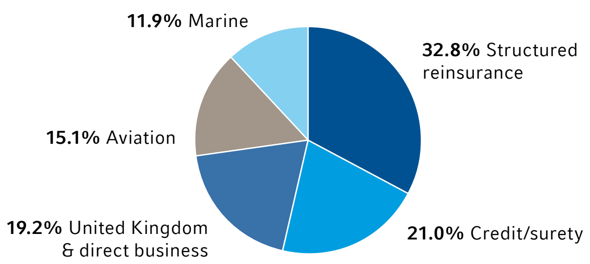
Rates in casualty business are, in our assessment, broadly inadequate. Although price increases were possible in workers' compensation reinsurance, they were not sufficient; in the general liability lines and in professional indemnity business rates merely held stable. We therefore put any portfolio expansion on ice; the premium volume in general liability was largely maintained on a constant level. Having drastically scaled back our acceptances in the professional indemnity segment in recent years, we did not make any further reductions in the year under review. On the contrary, we made the most of opportunities to reshuffle our portfolio that emerged as a result of the effects of the financial market crisis.

No catastrophe loss events with a bearing on our company occurred in the United States. We were, however, affected by a hailstorm in the Canadian province of Alberta, which produced a net strain in the order of EUR 5 million for our account. The combined ratio stood at 106.4%.

Specialty lines

The development of our specialty lines was satisfactory. This segment includes marine and aviation business, credit/surety, structured products, ILS (Insurance-Linked Securities), the London Market and direct business. The premium volume climbed from EUR 1,893.5 million to EUR 2,233.9 million. The combined ratio stood at 96.5%, compared to 97.2% in the previous year. The specialty lines delivered an operating profit (EBIT) of EUR 256.4 million (EUR 2.7 million).

Breakdown of gross written premium in specialty lines



Marine

Hannover Re ranks among the market leaders in international marine reinsurance business.

The recession triggered by the financial market crisis had significant repercussions on global trade: fewer goods were shipped at lower prices, causing the premium volume in cargo insurance to contract. Since the values of vessels have fallen, premiums in hull insurance also declined. Taken together with lower commodity prices, however, this trend had positive effects with regard to claims inflation.

On the reinsurance side demand was stable: thanks to risk-adequate conditions the market was in a good state, and we were able to obtain higher prices. Prices surged especially vigorously in offshore business owing to the heavy burden of losses in the previous year. Our underwriting policy focuses first and foremost on more profitable non-proportional business. In the Gulf of Mexico we consolidated our exposures and further reduced our limits of liability. In this line we were seeking to accelerate the enlargement of our portfolio outside the United States and Western Europe – efforts which proved successful.

The contraction in marine volume prompted by the economic crisis led to sizeable losses of premium in Germany – not only in cargo and carrier's liability insurance but also in hull insurance. A further factor was the rise in insurance expenditures, which ultimately caused profitability to deteriorate after the more relaxed climate of previous years.

As far as major claims were concerned, 2009 was a relatively untroubled year worldwide. The largest single event was the total loss of a drilling rig off the coast of Australia with a net strain of EUR 16.9 million.

All in all, we are satisfied with the development of our marine business. The combined ratio stood at 78.1%.

Aviation

In international aviation reinsurance we similarly rank among the market leaders. These risks are written predominantly through the London Market.

Primary insurers were able to increase their premiums in 2009 following losses in previous years, hence prompting significant hardening of the airline sector. In general aviation and product liability prices stabilised on a low but nevertheless adequate level. On the reinsurance side, too, rates picked up in non-proportional business – by around 10% to 15%. In view of limited capacities for lower layers, prices here rose more sharply than under higher layers.

We stepped up our own involvement in non-proportional reinsurance and further improved the diversification of our portfolio through new acceptances in general aviation reinsurance.

Premium income climbed, while the exposure was reduced owing to lower passenger numbers.

The year under review suffered under higher-than-average loss expenditure. The largest individual loss for our company was the crash of an Air France jet with a net strain of EUR 33.8 million. Other major claims to impact our account were a plane crash in the United States and two satellite losses.

The combined ratio stood at 86.3%.

Credit and surety

The situation in credit and surety insurance was challenging on account of the recession. The effects were especially evident in countries that were either hard hit by the real estate crash, such as the US, Spain, Ireland and the UK, or heavily dependent on exports, for example Germany and Japan. Some bottoming out was nevertheless observed in the fourth quarter.

Against the backdrop of higher insolvency figures, insurers were faced with significantly increased claims rates in the year under review; this was particularly true of the credit line. Dramatic rehabilitation of the business was therefore initiated. Premiums thus climbed by low double-digit percentages while exposures were reduced. In some cases it was even possible to obtain increases in the range of 50% to 100%. In surety business, too, rates picked up, although the average increases were less appreciable due to lower claims rates.

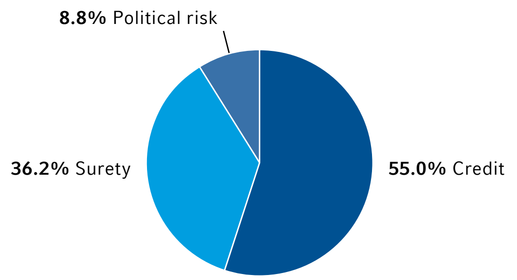
Parallel to the measures undertaken to restore credit insurance to profitability, government assistance programmes were launched in most European countries; they are intended to facilitate access for risks of a lower quality to credit insurance covers. In Germany, too, such a programme was implemented. Experience to date has shown that these measures do not, however, call into question the business model operated by credit insurers.

For the reinsurance industry the claims situation was similar to that seen in the primary sector, although non-proportional business was scarcely impacted by losses.

Hannover Re is one of the market leaders in worldwide credit and surety reinsurance. We concentrate, as we have in past years, exclusively on the core business of the credit and surety lines. We do not write financial guarantees or credit default swaps; peripheral business, such as shipbuilding guarantees, is avoided. We were also able to reduce the extent of our exposure in some areas. All in all, we wrote our business even more restrictively than before and improved the diversification of our portfolio – both by products (credit, surety and political risk) and regions. In the year under review we profited from higher premiums and improved conditions.

Regardless of the above, the credit line was overshadowed by claims rates that rose particularly sharply in the first half of the year. Rehabilitation measures served to reduce the claims frequency in the second half of the year. Compared to previous years, however, the year under review was notable for a substantially increased loss burden. Despite the difficult economic climate, a positive factor was that no single loss exceeded EUR 5 million. In credit reinsurance business we achieved average rate increases of 10% to 25% in the year under review – and in certain cases even as much as 50% to 100%.

Breakdown of gross written premium in credit/surety



The situation in surety insurance was more favourable. Claims rates here were largely acceptable. The premium income booked by many ceding companies fell in part due to reduced transaction numbers, but also owing to an appreciably more restrictive underwriting policy. We obtained premium increases averaging 5% to 10% in the surety line.

The experience of our political risks business was satisfactory. In this segment, too, significant rate increases were pushed through.

We made the most of the appreciable price increases in the year under review and enlarged our portfolio highly selectively. Gross premium in credit and surety reinsurance was substantially boosted. Even though the result only broke even on account of higher default rates and our prudent reserving policy, we expect to move back into the black in 2010 once loss ratios recover. The combined ratio stood at 104.2% in the year under review, reflecting the high claims frequency in trade credit insurance.

Structured products

We are thoroughly satisfied with the development of structured reinsurance products. Implementation of the insurance supervision act regulating structured reinsurance products in Germany as well as an ordinance issued by the Federal Ministry of Finance brought about greater legal certainty regarding the handling of financial reinsurance contracts and hence generated new business potential.

The surge in demand was also driven by capital depletion at primary insurers – induced by the financial market crisis. This was especially true of surplus relief contracts. The requirements placed on insurers as a consequence of IFRS (International Financial Reporting Standards) Phase II and Solvency II generated further growth in Europe. What is more, increased demand could be felt around the world for loss portfolio transfers and multi-year excess of loss arrangements to provide combined protection for retentions. The latter reduces the volatility of results and thus also optimises equity requirements according to Solvency II.

With the capital market environment improving over the course of the financial year, demand for surplus relief contracts normalised in the United States. It nevertheless continued to grow at smaller companies, including for example mutual insurers.

In keeping with our strategy of regional diversification, we further enlarged our portfolio in Europe. Yet we were also able to raise our profile and write new business in Asia and Australia.

We are one of the two largest providers of structured covers in the world and can draw upon many years of experience as regards actuarial, balance sheet, accounting and underwriting expertise. Our range of products is geared to optimising our clients' cost of capital.

In the year under review we further intensified the cooperation with our regional departments writing traditional reinsurance, thereby enabling us to offer our clients the full spectrum of our company's products and services.

We succeeded in enlarging our premium volume in the year under review.

Insurance-Linked Securities (ILS)

In view of the repercussions of the financial market crisis, catastrophe bonds and similar securitisation instruments played a minor role in the year under review. It was therefore all the more gratifying that we were able to renew our "Eurus" catastrophe bond – first issued in 2006 – in the year under review. Instead of the originally planned EUR 75 million, we were able to place double the volume, i.e. EUR 150 million. Eurus II Ltd. covers severe windstorm events in Belgium, Denmark, Germany, France, the United Kingdom, Ireland and the Netherlands from 30 July 2009 to 31 March 2012. It protects our capital against events with a return period of 50 to 80 years. We thus retain our ability to offer our European clients protection against windstorm risks.

The "Fac Pool Re" facility marks the first time that we transferred a portfolio of facultative risks to the capital market. At stake here is not the protection of our business, but rather the direct transfer of our clients' business. With this type of risk structuring and packaging we enable ceding companies to pass on individual risks to the capital market. At the same time investors are able to access risks that would otherwise be out of their reach. The amount of capital made available under "Fac Pool Re" totalled USD 60 million, of which we assumed around USD 5 million. Further transactions are in the planning stage. What is more, the ILS fund managed by our subsidiary Hannover Insurance-Linked Securities GmbH & Co. KG – which currently administers exclusively own funds of Hannover Re – was boosted from USD 100 million to USD 150 million on account of the successful experience.

United Kingdom and the London Market

The financial market crisis left its mark on the United Kingdom, and especially on Ireland. The building industry there saw a decline of some 30%, as a consequence of which less insurance coverage was purchased. In the UK the adverse effects primarily impacted the banks. Prices for professional indemnity insurance consequently also rose sharply, particularly for financial institutions. In the casualty sector Hannover Re again profited from its very good rating.

In motor business we were able to secure moderate rate increases. Although we maintain a small number of long-term business relationships, we generally pursue an opportunistic underwriting policy in the London Market. Our premium volume was slightly enlarged in the year under review. We were broadly satisfied with the development of our business.

Direct business

Through two of our subsidiaries, International Insurance Company of Hannover Ltd. (Inter Hannover) in the United Kingdom and the South African company Compass Insurance Ltd., a subsidiary of Hannover Re Africa, we write direct business that complements our principal business activity as a reinsurer. This involves, inter alia, acceptances concentrated on tightly defined portfolios of niche or other non-standard business.

The rate situation in this sector improved in the year under review. Prices in the UK climbed on the back of the effects of the financial market crisis and the flood damage of the previous year. Especially in the area of professional indemnity covers for financial institutions we booked vigorous rate increases.

The strategic focus of our business relationships in the United Kingdom is on smaller and mid-sized enterprises. In the year under review we stepped up our involvement in the professional indemnity lines for these clients and generated substantial premium growth. Covers for attorneys, an area in which we expanded in 2009, were an especially prominent factor here. A new addition to our portfolio in the UK is legal protection insurance, a segment which we expect will bring attractive business opportunities. We considerably enlarged the overall premium volume in the year under review.

Our second operation for specialty business, namely Compass Insurance Ltd., is one of the leading companies in this segment in South Africa. Its strategic objective, which was successfully accomplished in the year under review, is to expand profitable business with underwriting agencies. The reinsurance of this business is in large measure assumed by Hannover Re Africa. Through capital participations in most of the managing general agents we are able to incorporate our expertise into the business processes. Above and beyond the actual coverage of their risks, clients profit from our extensive expertise in – among other things – actuarial matters.

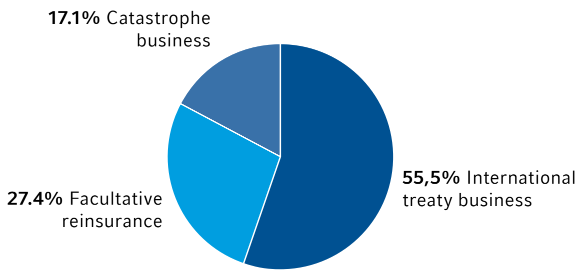
In the year under review we successfully converted the South African MUA Insurance Company Ltd., which was acquired in the previous year, to an underwriting agency. Its core business is the insurance of high-value motor vehicles. Thanks to expanded activities in this sector as well as in the insurance of minibus taxis, we were able to substantially enlarge our motor portfolio. An increase in premium income was also booked in the fire line.

We are satisfied with the development of our direct business in the year under review.

Global reinsurance

We combine all markets worldwide under global reinsurance, with the exception of our target markets of Germany and North America and the specialty lines. This segment also encompasses a number of specialised areas such as worldwide catastrophe business, facultative reinsurance, agricultural risks and Sharia-compliant retakaful business.

Breakdown of gross written premium in global reinsurance



The development of our markets within the global reinsurance segment gave grounds for satisfaction. The premium volume here was boosted by 18% to EUR 1,774.7 million. The combined ratio improved to 87.9%, after 88.5% in the previous year. The operating profit (EBIT) climbed by 295.8% to EUR 356.2 million (EUR 90.0 million).

Western and Southern Europe

Italy

Hannover Re is considered one of the leading reinsurers in the Italian market. Despite cutthroat competition, we were able to consolidate our core portfolio of qualitatively high-value business and moderately extend our involvement. Assisted by an above-average rating, we are thus in a position to tap into a sizeable business potential.

Yet we are not aiming to gain market shares. Rather, our overriding goal is to avoid impairing the profitability of our portfolio. We make every effort to convert low-margin proportional business to a more profitable non-proportional basis.

In terms of results, the year under review was unable to build on the very good performances of the past six years. This was due to the major loss experience. The severe earthquake in Abruzzo cost our company EUR 11.2 million. The train accident in Viareggio left us with a burden of around EUR 5 million.

France

Rates in France largely held stable. Our goal was to preserve the profitability of our portfolio in the face of a sometimes unsatisfactory premium level. We largely accomplished this aim, although the motor line – in which prices are insufficient – still proved problematic. Hannover Re is the number two player in the market, and we are the leader in the builder's risk and personal accident lines.

In builder's risk insurance we are pursuing a long-term strategy of consistent expansion. We therefore continued to grow our portfolio in 2009, and now rank among the market leaders.

We enlarged our overall premium volume. France was impacted by a number of natural catastrophe events in the year under review, including winter storm "Klaus". The resulting loss burden was modest, however, owing to our low share of catastrophe-exposed business.

Netherlands

Faced with higher capital requirements in order to fulfil Solvency II standards, smaller insurers in the Netherlands are finding themselves forced to merge. This trend was observed again in the year under review. The more exacting requirements placed on risk management ultimately prompted the purchase of more catastrophe covers.

In the Netherlands we devote special attention to non-proportional business. Hannover Re's strategic objective is to increase the share of its Dutch business deriving from the casualty lines. In light of the favourable rates situation in long-tail casualty business, we therefore moderately enlarged our portfolio. The fierce competition prevailing in property business, however, remained undiminished.

We incurred a high frequency of property claims in the year under review, hence pushing up the loss ratio relative to the previous year.

Our premium volume from the Dutch market remained virtually unchanged.

Northern Europe

In the markets of Northern Europe we strive to play a leading role, especially in the mutual insurers segment. We prefer client relationships that are geared to the long term. In cases where we do not consider loyalty considerations a relevant factor, we write our business opportunistically. The intense competition in both the insurance and reinsurance sectors shows no signs of diminishing. Rates were largely stable in the Scandinavian markets. In the year under review we transferred our portfolio of business from the Nordic countries to our operation in Stockholm.

Central and Eastern Europe

Against the backdrop of the economic and financial market crisis the pace of growth on the primary insurance markets of Central and Eastern Europe slowed. Although rates in original business for the most part declined in the face of increased competition, on the reinsurance side they broadly remained on a level commensurate with the risks. On average we were able to secure price increases in the order of 10%, hence posting healthy profit margins in the year under review.

Hannover Re has defined the countries of Central and Eastern Europe as growth markets. Over the coming years we intend to continue generating above-average growth – always assuming that we are able to write profitable business. First and foremost, therefore, we prefer non-proportional covers.

Hannover Re ranks among the top three players in the reinsurance industry in Central and Eastern Europe. In customer surveys we again received plus points for our know-how and security, and also for our undogmatic and quick decision-making. We are well positioned and quote our business in all lines and markets. In the year under review we observed growing demand for additional capacity for natural catastrophe covers as well as for higher limits in casualty business. Here, too, we successfully stepped up our involvement on the basis of profitable excess-of-loss covers.

All in all, we are thoroughly satisfied with the development of our business in Central and Eastern Europe. Our premium volume was once again enlarged in the year under review – while maintaining unchanged our high profit margins.

Latin America

The most important Latin American markets for our company are Mexico, Argentina, Brazil, Colombia, Venezuela and Ecuador. Along with the writing of agricultural risks, catastrophe covers are especially interesting here. In the latter segment we generally achieved price increases of around 10%, with the exception of Mexico and Central America – where rates broadly held stable. In other property business and the casualty sector rates were steady, albeit on a level that was commensurate with the risks.

In Brazil we have maintained a representative office and operated as an "admitted reinsurer" since 2008. We were thus able to acquire additional market shares in the year under review, first and foremost in the casualty lines.

We boosted our premium volume from the Latin American markets in 2009, especially in casualty business which – with the exception of Argentina – was previously under-represented in our portfolio. No major losses were incurred. All in all, we are thoroughly satisfied with the development of our business.

Japan

Japan is far and away our largest Asian market. Our service company in Tokyo affords us good insight into the Japanese market. Long-term business relations are traditionally of great importance in Japan. Thanks to our very good rating we were again a particularly highly sought-after partner for our cedants in the year under review. We transact business across all segments and enjoy the status of "core reinsurer" with most major primary insurers.

Conditions in property business – which is written predominantly on a proportional basis – continued to adequately reflect the risks. We obtained broadly stable prices for casualty covers. Our primary focus here was on the general liability line; our involvement in professional indemnity, on the other hand, was minimal. The most important single line for our company in Japan is natural catastrophe business, and we accept covers for the most part on a non-proportional basis. In the year under review we reduced our peak exposures as part of our risk management activities. For this reason, and also as a consequence of the rise of the Japanese yen, our premium volume contracted.

The loss experience in the year under review was moderate. Typhoon "Melor" produced only minimal strains for our account. Overall, we are very satisfied with the results of our Japanese business.

Southeast Asia

Hannover Re's main markets in Southeast Asia are Malaysia, India, the Philippines and Indonesia. Our portfolio here, which we further diversified in the year under review, is composed predominantly of property business. Lines such as personal accident, crop and livestock insurance as well as terrorism covers and structured reinsurance products were systematically expanded.

Existing catastrophe-exposed proportional covers were significantly scaled back in the year under review; in India we completely withdrew from proportional business owing to a drastic rate slump in the original market. The area of micro-insurance products in hitherto relatively undeveloped markets is attracting increasing interest. In Pakistan we launched an initial project in cooperation with a locally based insurer. This means that low-income individuals in this country will now also be able to purchase insurance protection.

We slightly enlarged our premium volume in the year under review.

Both the Philippines and Indonesia were impacted by natural disasters, although the effects on our underwriting result were only minimal. Altogether, losses remained in the low double-digit million euro range.

China

China continues to rank as the most prominent growth market in Asia. Government subsidy programmes helped to drive sales of domestically built motor vehicles sharply higher. As a result, considerable growth in motor insurance – the dominant line in China – was recorded in the year under review.

In view of the fierce competition among local insurers, market conditions remained soft overall. The number of insurers is consistently rising, while at the same time an oversupply of reinsurance capacity prevails on the market.

Rates and conditions in the original market – aside from engineering business – again failed to improve in the year under review. Reinsurance, on the other hand, developed more favourably in some areas. We pursue an opportunistic underwriting policy in China, but were able to expand our treaty portfolio in the year under review thanks to good conditions. Our overall premium volume came in considerably higher in 2009.

We received a licence from the CIRC (China Insurance Regulatory Commission) in the year under review to write non-life reinsurance from our existing Shanghai branch. Hannover Re had previously only been licensed to transact life/health reinsurance in China. This licence extension gives us the optimal point of departure for further enlarging our position in China, one of Asia's largest insurance markets.

Australia

Hannover Re still ranks third in the Australian non-life reinsurance market. For almost 25 years we have been represented by a branch office in Sydney. Our clients value us as an attractive and reliable partner on account of this local presence as well as our very good rating.

Both the repercussions of the financial market crisis and a series of natural disasters took a toll on the insurance industry in the year under review. Most importantly, losses on the investment side and low interest rates stepped up the pressure to stabilise underwriting results. Rate increases were therefore evident across all segments. Significantly higher prices could sometimes be obtained under loss-affected programmes.

Our strategic objective was to grow selectively and strengthen our market position, without neglecting our high profitability standards. We were successful in achieving this goal. It remains the case that we are the leading provider of natural catastrophe covers and in the field of medical malpractice.

Our premium volume grew somewhat more strongly than anticipated in the year under review. The claims situation was very strained, with the largest single event being the devastating bush fires in southeast Australia.

Global catastrophe business

The bulk of Hannover Re's catastrophe business is written out of Bermuda, which is considered the centre of competence for this line worldwide. Along with the expertise of our local team, our financial strength and excellent rating have made us a particularly highly sought-after partner for ceding companies and brokers for a number of years.

The strategy guiding our global catastrophe business in the year under review was to reduce peak risks and assume exposures in smaller markets as well as in regions where the risks are not as great. We successfully accomplished this goal.

We were broadly satisfied with the treaty renewals as at 1 January 2009. Price increases were obtained in many markets. Rates in Europe rose by an average of 5% to 7.5%. Business that had suffered losses in 2008, such as in the United States, recorded rate increases sometimes running into double-digit percentages.

The movement of the yen was one of the major factors shaping the situation on the Japanese market. Many reinsurers responded to its resurgence by scaling back their involvement there, as a consequence of which reduced capacities ultimately pushed rates higher. For the purposes of our own risk management we too substantially scaled back our peak exposures in Japan.

Although reinsurance capacities for catastrophe covers were scarce in the United States, they were certainly adequate. The rate increases obtained in Florida – one of the largest markets for catastrophe business – nevertheless fell short of expectations. We therefore reduced our peak exposures in this region too. Appreciable rate increases were possible in the rest of the US under programmes that had been impacted by loss events such as hurricane “Ike” or other natural disasters.

While the major loss picture in global catastrophe business was moderate in the year under review in terms of loss expenditure, there were again numerous human tragedies. In January the European winter storm “Klaus” left our company with a net loss burden of EUR 33.8 million. The devastating bush fires in Australia cost almost 200 people their lives. Hannover Re incurred loss expenditure of EUR 34.7 million in this regard. In April the Italian region of Abruzzo was struck by a severe earthquake. The medieval city of L'Aquila was almost entirely destroyed, and many residents perished. The cost of this event to our company was EUR 11.2 million. Hurricane events were the exception in the year under review and had no bearing on our technical account.

We slightly reduced our premium volume for global catastrophe business.

Agricultural risks

Agricultural risks have taken on greater importance in our portfolio in recent years. While the insurance density in western industrial nations is relatively high – 80% of agricultural land in the United States is insured, for example – it is rather low in developing and emerging markets. Yet here, too, agricultural insurance is increasingly being adopted as a means of risk protection. The deregulation of the Brazilian market is just one of the factors that have led to sharply rising premium income. All in all, growing demand can be observed worldwide for reinsurance capacities in the area of agricultural covers. Our company, for its part, has launched new products and cemented our shares in traditional markets. In developing markets such as Brazil, Peru, China, Southeast Asia and Eastern Europe – where we are one of the market leaders – we have also gained shares.

We considerably boosted our premium volume.

Losses resulted from bush fires in Australia, forest fires in Chile as well as the damage caused in South America by extreme drought conditions.

"I like best being on
the spot at my desk."

"I prefer to be at home,
where a market is
developing."

Retakaful business

We write retakaful business – that is to say, insurance business transacted in accordance with Islamic law – in both Southeast Asia and on the Arabian Peninsula. With the Bahrain-based Hannover ReTakaful we maintain a subsidiary that bears exclusive responsibility for transacting this line of business; we also have a local branch that writes traditional reinsurance in the Arab world.

Given a number of new start-ups by regional reinsurers, the year under review was notable for growing competition. Although the economic situation failed to build on the prosperity of the previous year, we were able to increase our premium income in 2009. The country with the largest volume was Saudi Arabia.

Overall, we are highly satisfied with the development of our retakaful business – which in our assessment continues to offer considerable potential.

Facultative reinsurance

In contrast to obligatory reinsurance, which covers an insurer's entire portfolio, a reinsurer underwrites primarily individual risks in facultative business. The general environment in the various markets was, however, for the most part comparable in the year under review.

In facultative (re)insurance, too, we noted stronger demand in some areas as a consequence of the financial market crisis. Competition in virtually all segments remained fierce. The picture on the reinsurance side was a mixed one: rates and conditions generally remained stable, while in certain markets – such as Asia and the Middle East – a downward tendency could be discerned. In some Latin American countries, on the other hand, premiums increased.

In the year under review we profited from the capacity shortages affecting a number of reinsurers. Yet neither in Asia nor in Europe was the scarcity of capacity in industrial insurance reflected in higher prices. The rate increases anticipated for 2009 consequently only partially materialised. We made the most of the opportunities that presented themselves, for example in US professional indemnity covers for small and mid-sized enterprises and in motor business. Generally speaking, we were able to improve our market penetration in these lines in the United States.

We grow only in those areas that we believe offer adequate profitability. Overall, our premium volume increased in the year under review. We have consistently expanded our market position in recent years and continue to see considerable potential for profitable growth in facultative reinsurance.

The explosion at a hydroelectric plant in Russia produced a net loss of EUR 11.9 million. We were satisfied with the development of our facultative reinsurance business in the year under review; the combined ratio stood at 94.9%.

Life and health reinsurance

Reinsurance activities in the life, annuity and health insurance lines are combined under the worldwide Hannover Life Re brand. We also reinsure personal accident insurance in this business group, insofar as it is transacted by life insurers.

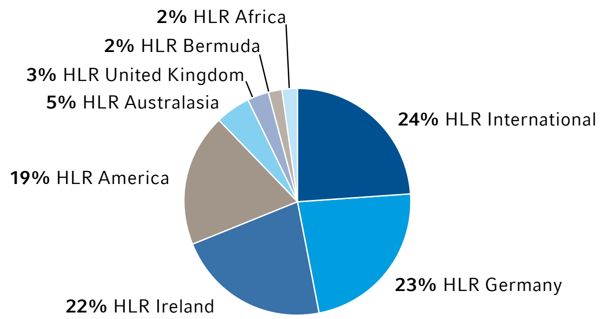
The effects of the international financial market crisis, which made themselves felt in 2008, heavily impacted our operating results in the year under review in various respects.

In terms of markets, the weakening of the capital and solvency position of many life insurers around the world triggered brisk demand for tailored reinsurance solutions – with a central focus on financially oriented reinsurance models. We have placed particular emphasis on block assumption transactions, under which we assume existing blocks of policies that are closed to new business via quota share reinsurance arrangements. In several cases our clients indicated their interest in reinsurance solutions of this type in the 2010 year as well.

Internationally, we strengthened our market position – in some cases significantly – in our focus markets of the United States, United Kingdom, Germany, Australia and France; yet we also made appreciable progress in the key emerging markets of Greater China and India.

Our strategic orientation in the US market reached a milestone with the assumption of a large portfolio of US life insurance risks containing more than four million reinsured policies and generating annual premium income in excess of USD 1.0 billion. Along with this diversified portfolio, we also took over a number of other asset items – above all on the systems side – as well as 130 professional staff at locations in Charlotte/North Carolina and Denver/Colorado.

Breakdown of gross premium by business centers before consolidation



The life branches established in Asia in 2008 in the cities of Shanghai and Seoul have successfully executed their strategies for market entry and are now recognised providers in the local life markets – in China, for example, we have now built up more than 40 customer relationships.

In India, too, our cooperation with the market's leading reinsurer GIC Re is living up to expectations, and we were able to acquire the first sizeable treaties. In Brazil, with the backing of our representative office in Rio de Janeiro, we are systematically pursuing the cooperation with Malucelli Re and were able to acquire the first four cedants.

In the area of Sharia-compliant products, which are marketed through our subsidiary Hannover ReTakaful in Bahrain, we are similarly making good advances. In this context we provide reinsurance in the countries of the Gulf region for so-called family takaful products, mostly on a group basis. Such products are designed to satisfy various family protection needs, including for example ensuring that education expenses for children can be paid.

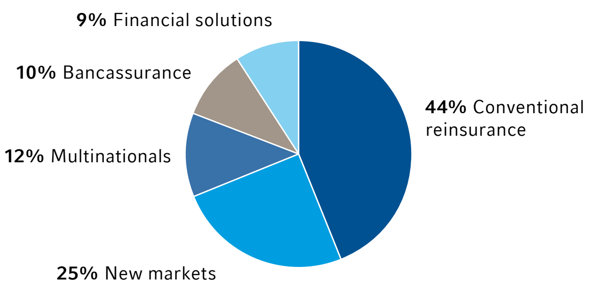
Overall, we considerably strengthened our international market position and now rank among the leading providers in a number of major insurance markets. In the year under review we thus moved another significant stride closer to attaining our goal of claiming the number 3 spot in the global market within the foreseeable future.

Business model

Our acquisition and underwriting policy continues to be based on the "Five Pillar" business model under which five distinct customer-oriented product and service offerings are brought together under a single strategic umbrella. Each pillar features a specific marketing approach, which is supported by the worldwide network of Hannover Life Re.

The conventional reinsurance business of mortality and morbidity risks traditionally accounted for the lion's share (almost 40%) of Hannover Life Re's total premium volume. The US acquisition in the spring of 2009 for the first time boosted this share to more than 44%, i.e. an amount of around EUR 2.0 billion, in the year under review. The four specialty segments of financial solutions, partnerships with multinational clients, new markets and banc-

Breakdown of gross written premium according to the Five Pillar model



assurance also continued to grow in absolute figures, but – with the exception of new markets – they contracted in relative terms.

Within the four specialty segments we observed particularly dynamic growth in the European bancassurance sector and in the area of new markets – and in the latter case especially with respect to UK enhanced annuities.

The UK pension market also constitutes a strong growth segment. We cooperate here with a number of specialist providers and cover the biometric risk of longevity by way of so-called longevity swaps.

We are also thoroughly satisfied with the financial solutions segment, in which we were able to close several small and mid-sized transactions at attractive conditions in the United States, United Kingdom, Germany, South Africa and Hong Kong. Demand for reinsurance solutions of this type reached a level in the year under review that we had never experienced in the past 20 years.

In the traditional business segment Asian markets – and above all Greater China – as well as South Africa showed vigorous growth, while Central European markets were more sluggish.

As in the past, we continue to place great emphasis on the cultivation of long-term relationships with our major cedants and we attach paramount importance to the principle of identity of interests between insurers and reinsurers.

Systematic Customer Relationship Management plays a central role in this context, reinforced by the regular sharing of experiences among our managers with regional sales responsibility.

Development of premium income

The gross premium income booked in the year under review totalled EUR 4.5 billion, an increase of 44.5% relative to the previous year's figure of EUR 3.1 billion. While the assumption of the US portfolio accounted for EUR 0.8 billion in premium volume, organic growth in the year under review was also on a pleasing double-digit percentage level. At constant exchange rates the gross premium would have grown by 46.2%. Net premium earned came in at EUR 4.1 billion, while the retention stood at 90.7%.

The United States took over as the most important single market for the first time thanks to the acquisition of the US mortality portfolio: it accounted for 37.3% of total premium income in the year under review. The United Kingdom, by far the largest European life reinsurance market, now ranks second with 24.0%, while the German market occupies the number three slot with 9.6%.

Further key markets for Hannover Life Re are Australia, France, South Africa, Italy and Luxembourg, while the Asian markets and those of Latin America are of less importance in terms of their absolute volume.

Our acceptances continue to be concentrated on the life and annuity lines, i.e. the assumption of mortality and longevity risks, which altogether contributed 86.6% of total premium income booked worldwide.

The morbidity risk spectrum, which encompasses above all US senior health Medicare Supplement products, long-term care covers in German-speaking countries and some Asian markets as well as disability annuities in Australia, accounted for 11.5% of premium volume, while 1.9% was attributable to individual accident business from various countries. We do not participate in the reinsurance of long-term financial guarantees in connection with deferred unit-linked annuities.

Results

The main factors with a bearing on the results of Hannover Life Re are derived from our business model and encompass the three components

- development of the three biometric risks of mortality, morbidity and longevity, the structural risk associated with the persistency of the business in force as well as the specific client-related counterparty risk in connection with financing transactions,

Key figures for life and health reinsurance						Figures in EUR million
	2009	+/- previous year	2008	2007	2006	2005
Gross written premium	4,529.3	+44.5%	3,134.4	3,082.9	2,793.6	2,425.1
Premium deposits	2,331.8	+6.9%	2,181.2	854.5	1,166.2	308.1
Gross premium incl. premium deposits	6,861.0	+29.1%	5,315.6	3,937.4	3,959.8	2,733.2
Net premium earned	4,078.7	+46.5%	2,784.9	2,795.3	2,373.4	2,257.6
Premium deposits	2,125.9	± 0%	2,126.9	783.6	1,084.4	274.5
Net premium incl. premium deposits	6,204.5	+26.3%	4,911.8	3,579.0	3,457.8	2,532.1
Investment income	520.1	+111.8%	245.5	293.9	313.2	275.3
Claims expenses	2,743.0	+63.8%	1,674.7	1,672.2	1,495.3	1,415.2
Change in benefit reserves	563.7	+33.8%	421.3	397.9	192.8	258.0
Commissions	926.2	+24.6%	743.4	780.5	831.7	684.1
Own administrative expenses	98.3	+40.3%	70.1	61.2	50.0	59.3
Other income / expenses	104.6		(0.2)	52.7	22.7	(23.1)
Operating result (EBIT)	372.2		120.7	229.8	139.5	93.1
Net income after tax	295.5		78.3	187.7	102.6	59.6
Earnings per share in EUR	2.45		0.65	1.57	0.85	0.49
Retention	90.7%		89.3%	90.8%	85.4%	92.8%
EBIT margin[1]	9.1%		4.3%	8.2%	5.9%	4.1%

1 Operating result (EBIT)/net premium earned

- developments on international capital markets and movements in exchange rates, especially in our most relevant currencies of EUR, GBP, USD, AUD and ZAR,
- development of our own administrative expenses.

In this context developments on international financial markets – especially with respect to the valuation of fixed-income securities in the US and UK – took on a particular relevance in the year under review.

These developments had a bearing principally on our benefit reserves deposited with ceding companies. They also significantly affected the additional assets of USD 1.3 billion assumed in February 2009 in connection with the US portfolio acquisition.

The risk situation as regards the three biometric risk categories of mortality, morbidity and longevity was satisfactory overall, although we did observe increased mortality rates in some sub-portfolios in the United Kingdom and a higher claims frequency in disability annuity business in Australia.

The mortality in the portfolio assumed under our US life portfolio acquisition was in line with our expectations for gross account, while it was slightly higher than projected for the retention.

The structural risks associated with the persistency of the business in force as well as the counterparty risk were subjected to a stress test in the context of the worldwide financial market crisis. Especially in German-speaking markets, in which we operate as a leading reinsurer of unit-linked life and annuity products, we observed sharply higher lapse rates in the first half of 2009, in particular, although they stabilised towards year-end. Our actuarial analyses in this regard showed that moderate additional reductions in the deferred acquisition costs were advisable under certain contracts.

Of relevance to the financial solutions pillar is the counterparty risk, which would manifest itself in the inability of a specific client to amortise the prefinancing that it had received; this has not had any impact to date on our worldwide portfolio of ceding companies.

It should, however, be borne in mind that many life insurers have been downgraded by the rating agencies or assigned a poorer outlook – overall, then, the credit quality of the life insurance market has deteriorated. Our clients typically have a very respectable Standard & Poor's rating of A+/AA–.

Developments on financial markets had far-reaching implications in the year under review, especially with respect to fair value adjustments for securities deposits furnished to US cedants under certain contracts (so-called ModCo derivatives). Unlike in the previous year, however, the effects on the income statement were very positive this time with an overall amount of EUR 121.8 million recognised in the operating result.

Total investment income came in at EUR 520.1 million; this was equivalent to an increase of 111.8%. Of this amount, EUR 280.2 million was generated by assets under own management and EUR 239.9 million derived from amounts credited on deposits with ceding companies.

We traditionally devote particular attention to lean processes, an efficient personnel structure and short lines of decision-making. Internal administrative expenses totalled EUR 98.3 million in the year under review, corresponding to 2.2% of gross written premium. Our administrative expense ratio is thus significantly lower than that of our major competitors.

The operating profit (EBIT) climbed to a new record high of EUR 372.2 million, generating an EBIT margin of 9.1%.

If we factor out the non-recurring special effects associated with assumption of the ING life reinsurance portfolio as well as with the fair value adjustments taken on reinsurance deposits furnished to cedants in the United States and United Kingdom, the ordinary operating profit stands at EUR 230.0 million, a figure in line with our expectations.

With a tax ratio of 19.7% and after allowance for minority interests, consolidated net income after tax thus came in at EUR 295.5 million (EUR 78.3 million), an all-time record for Hannover Life Re. This was equivalent to earnings of EUR 2.45 per share.

Germany

Developments on the German life and annuity insurance market were shaped in the year under review by the ongoing implementation of the amended Insurance Contract Act, which entered into force on 1 January 2008. This reform brought significant changes in market practices with respect to the transparency of policies, premature contract termination and the participation of customers in life insurers' hidden reserves.

While German life insurers were largely able to steer clear of the direct balance sheet repercussions of the global financial market meltdown, the crisis had appreciable effects on customer behaviour, hence triggering a significant shift on the level of supply and demand.

Unit-linked products tied to euro equities achieved less resonance in new business. Particularly in the case of deferred unit-linked annuities launched by some providers in the years 2006 to 2007, considerable product adjustments and simplifications had to be made.

At the same time, there was a resurgence of interest in traditional life and annuity insurance products, under which a certain level of interest income – currently 2.25% per annum – is guaranteed for customers. These guarantees are supplemented by annual bonuses, which at most companies are in the range of 1.75% to 2.50% – hence producing an attractive overall return in the order of 4.00% to 4.75%.

Equally notable was the marked rise in lapses, which for the market as a whole grew in the space of twelve months from 5.5% to over 6% of the portfolio, i.e. by around 15% to 20% in relative terms.

New business benefitted in the year under review from single premiums, which reached a record level with growth of around 60% year-on-year. Altogether, the premium income booked by German life and annuity insurers totalled EUR 81.2 billion according to provisional figures released by the German Insurance Association (GDV); this represents growth of 6.7%.

Our life reinsurance activities in the German market are led by E+S Rück, which generated premium income of some EUR 390 million. The slight rise in premium volume year-on-year despite the prevailing difficult market climate was attributable to the acquisition of two new clients, thereby boosting the total number of German clients to 41 companies. In the German market, too, we noted stronger demand for reinsurance solutions geared towards the capital market.

Another noteworthy development was the sharply growing interest shown by insurers in reshaping their application processes; in this respect E+S Rück is optimally placed thanks to its long-standing experience in the area of system-supported application processes. Based on this positioning it was possible to write several reinsurance treaties in the year under review with new and existing clients.

With net premium of EUR 344.5 million and given the favourable experience of the biometric risks of mortality and morbidity, another gratifying operating result (EBIT) was generated overall.

United Kingdom

In the UK life and annuity insurance market, Europe's largest reinsurance market, we continue to operate through our subsidiary HLR United Kingdom as a full-service provider in the conventional market segment, with a focus on risk-oriented covers (protection business).

For a number of years now the UK life market has been characterised by exceptionally fierce cut-throat competition, which has carried over into the reinsurance market. Against this backdrop HLR UK pursues a conservative underwriting policy which concentrates on maintaining existing customer relationships and promotes innovative types of coverage – such as the new generation of critical illness policies with graded benefits according to the severity of the disease. We also stepped up our activities in the area of individual UK disability covers and intensified our marketing efforts in Ireland in the year under review.

When translating the financial data to our balance sheet currency (the euro), it is important to bear in mind the abrupt fall of the pound sterling, which from a 12-month perspective lost 12.3% of its value against the euro.

In light of this devaluation, the gross premium income booked by HLR UK of EUR 182.5 million (EUR 186.1 million) and the company's operating profit of EUR 19.7 million (EUR 22.8 million) are highly satisfactory. The EBIT margin stood at 17.1%.

From our Home Office in Hannover we cover the specialised UK sectors of enhanced annuities with a reduced payment period and – to an increasing extent – the reinsurance of the longevity risk associated with acceptances of existing pension funds. Both segments enjoyed vigorous growth in the year under review, in part due to new customer relationships and partly through the expansion of existing accounts. Our premium income consequently rose by 78.3% to EUR 656.9 million.

Hannover Life Re continues to be the market leader for the reinsurance of UK enhanced annuities with a reduced payment period. Their profitability in the year under review was hampered by a widening of interest rate spreads on investments furnished to one of our cedants in connection with securities deposits. It is our expectation that these losses will be largely made good by the middle of 2010.

From a holistic perspective that also takes account of the UK business placed with HLR Ireland and HLR Bermuda, our reinsurance business from the United Kingdom generated a premium of EUR 1.1 billion; of this amount, 60.3% was attributable to business written by Hannover Re, 19.9% to HLR Ireland, 16.4% to HLR UK and 3.4% to HLR Bermuda.

Ireland

Established ten years ago in Dublin, our subsidiary HLR Ireland writes worldwide business ceded by highly respected primary insurers – principally from the US, UK and Continental Europe – under specially tailored reinsurance solutions.

The central position of HLR Ireland within the worldwide HLR network was reinforced in February 2009 through the extensive assumption of mortality risks under our acquisition in the United States. The company received an equity injection of EUR 410 million to assist with solvency and capital requirements. The premium volume was double that of the previous year, surpassing the one billion euro mark for the first time to reach EUR 1.2 billion.

The operating result (EBIT) amounted to EUR 188.7 million (EUR 0.8 million), while the EBIT margin generated by this subsidiary stood at 16.9%. Net income after tax consequently came in at EUR 176.6 million. This can be attributed to a satisfactory risk experience and an excellent investment result, influenced not least by the aforementioned non-recurring effects – which played a decisive part here.

France, Maghreb and Arab countries

This market region – which also includes French-speaking Canada – is served by our Paris branch. The development of business was very pleasing.

The premium volume grew by 32.8% to EUR 494.1 million, and margins were again good. Key growth drivers – as in previous years – were the bancassurance segment, most notably our successful efforts to support French banks as they moved into European markets abroad, as well as the Near East. In this region we were able to further extend our leading position as a life reinsurer.

In Arab markets we attach special strategic importance to insurance business transacted in accordance with Islamic standards; this sector is served by our Bahrain-based subsidiary Hannover ReTakaful. The Islamic life business – known as family takaful – written by Hannover ReTakaful enjoyed vigorous growth thanks to the acquisition of several new clients; with a premium volume of EUR 7.9 million it was already able to cover its costs in the first financial year.

Italy, Spain and Southeastern Europe

As in past years, reinsurance acceptances in this region are written from Hannover Home Office, although our offices in Milan and Madrid are closely integrated into key aspects of customers support and service provision on a local basis.

Premium income climbed 8.7% to EUR 76.5 million, reflecting above all the enlargement of our Italian portfolio; profitability was again highly satisfactory.

Scandinavia, Eastern Europe, Turkey and Israel

Scandinavian markets including the three Baltic countries as well as Turkey and Israel are served by our branch in Stockholm.

The focus of our Nordic activities is on Sweden and Norway, where we have enjoyed a leading market position for some years now. Along with the financing of new business acquisition costs in connection with unit-linked products in Sweden, our emphasis is on reinsurance of the biometric risks of life and disability. We responded to the growing demand for system-supported solutions to handle the acquisition process in life insurance by launching a version of our point-of-sale system that was developed specifically for the Scandinavian market.

The premium volume booked by the Stockholm life branch fell from EUR 81.3 million to EUR 66.7 million owing to the weakness of the Swedish krona and Norwegian krone as well as a reduced share in a major Swedish contract. Profitability was again better than average.

We stepped up our acquisition efforts in Eastern European markets, Russia and the CIS states by forming a self-contained market unit in Hannover staffed by an expert team of native-speaker underwriters and actuaries. Our attention here is directed primarily towards the bancassurance sector, with a focus on Poland, Hungary and Russia.

North America incl. Bermuda

Responsibility for the US life market is borne by our subsidiary Hannover Life Re America, which is headquartered in Orlando and maintains an underwriting office for group life business on Long Island/New York.

Our activities in the year under review were concentrated on financially oriented covers for US clients and on those areas of health insurance for seniors handled by the private sector, namely Medicare Supplement and Medicare Advantage.

The assumption of a significant portfolio of US mortality risks in the first quarter of 2009 under a specially tailored reinsurance transaction marks a turning-point for our positioning in the traditional US mortality market.

In conjunction with the portfolio we also took over a number of underwriting and administration systems together with the relevant databases and offered a new working home to a group of 130 expert reinsurance professionals in Charlotte and Denver. With a portfolio of more than four million individual policies and annual premium income in excess of USD 1.0 billion, we are in a position to immediately realise appreciable economies of scale for the future run-off.

The assumed portfolio of cedant relationships was a complementary benefit: previously, HLR America had itself only been able to establish relationships with five of the forty most prominent cedants included in the acquired portfolio. Looking ahead, then, this group of cedants will offer outstanding opportunities to enlarge new business in the conventional US mortality market.

The premium income booked by HLR America totalled EUR 1.0 billion (EUR 613.6 million) in the year under review, while net premium earned increased by around 8.6% to EUR 262.5 million.

The development of the mortality risk – also with respect to the portfolio assumed effective 1 January 2009 – was satisfactory, and profitability in the area of financially oriented covers was excellent once the US capital market had largely normalised. What is more, here, too, the aforementioned non-recurring effects were a positive factor. The operating profit (EBIT) consequently improved substantially to EUR 40.7 million, following a loss of EUR 17.7 million in the previous year. This was equivalent to an EBIT margin of 15.5%. Net income after tax climbed to EUR 25.3 million.

Our subsidiary Hannover Life Re Bermuda can report a highly gratifying business development in the year under review. It offers a broad spectrum of reinsurance solutions on a worldwide basis, maximising Bermuda's edge as a favourable insurance business environment to the benefit of our ceding companies.

A special focus is on bancassurance business from North America and Japan. In its second full financial year the company wrote six new reinsurance treaties.

The gross premium of HLR Bermuda totalled EUR 113.2 million, of which the company retained EUR 112.8 million. The operating profit (EBIT) grew to EUR 15.9 million (EUR 9.2 million), producing an EBIT margin of 14.1%. This pre-tax result is identical to the net income after tax.

Other international markets

Africa

Our subsidiary Hannover Life Re Africa, which is based in Johannesburg, bears responsibility for life business in South Africa and most English-speaking African markets. It concentrates on traditional risk-oriented individual and group life business, although for a number of years it has also written sizeable financing transactions in the South African market with rapidly growing life insurers.

Cooperation with a number of new insurers specialising in alternative distribution channels such as direct marketing or internet marketing has also proven to be a promising business segment. In addition, we gave our support to a new life insurer in South Africa that has launched the UK model of enhanced annuities on the local market.

Our other African business, which accounts for roughly 7.5% of the premium volume booked by HLR Africa, is showing a pleasing trend. Through a strategic alliance with a professional reinsurer based in Lagos we have gained access to the important life insurance markets of Nigeria and Kenya, and we are planning to systematically extend this cooperation.

The gross written premium generated by HLR Africa totalled EUR 110.5 million in the year under review, of which EUR 78.0 million was retained for own account. The operating profit (EBIT) amounted to EUR 10.0 million thanks to positive special effects, producing an EBIT margin of 12.8%.

Central and South America

Reinsurance acceptances from these markets are written from Hannover Home Office with the support of our offices in Mexico City (for Central American markets) and Rio de Janeiro (for the Brazilian market).

The premium volume generated from this region, in which we have singled out bancassurance for special emphasis, remained almost unchanged year-on-year at EUR 101.5 million. Conditions are satisfactory given our adherence to a conservative underwriting policy, and profitability in the year under review again lived up to our expectations.

Our strategic cooperation with the professional reinsurer Malucelli Re, the first Brazilian reinsurer after IRB to have received a licence on the basis of the new insurance law, is bearing initial fruit in the market.

Asia

As in previous years, Hannover Life Re divides the Asian markets between its two regional centres in Kuala Lumpur and Hong Kong. While our Malaysian branch handles the ASEAN markets and South Asia, Hong Kong serves Greater China as well as the key life markets of Korea and Japan.

We observed greater demand for financing solutions in all Asian markets in the year under review, enabling us to write four contracts with clients in Hong Kong, China and Japan. In many markets we also noted a resurgence of interest in risk-oriented offerings designed to provide income and asset protection for policyholders.

In Korea and China we now rank among the leading reinsurers for new business, having attained a high market penetration of more than 80% in China. In Japan we have repositioned ourselves with a new team equipped with special actuarial expertise.

In Southeast Asia we consolidated our position in Malaysia and Singapore, and appreciably strengthened our presence in Vietnam. In India we built up the local infrastructure in Mumbai and – assisted by our strategic cooperation with GIC Re – were able to acquire our first sizeable reinsurance participations.

Premium income from Asia climbed by 41.7% to EUR 147.2 million. Despite fiercer competition among international reinsurers, further exacerbated by some local reinsurers from Japan, Korea, China and Malaysia, the results posted by Hannover Life Re remain gratifying.

Australia and New Zealand

Business written in Australia and New Zealand is the responsibility of our subsidiary Hannover Life Re Australasia. The company focuses on risk-oriented business in the context of life, critical illness and various disability covers.

For many years now HLR Australasia has also been involved in the segment of occupational retirement provision, known as superannuation funds. It concentrates on assuming the biometric risks of mortality and disability, but does not take any part in the capital accumulation of these provision schemes.

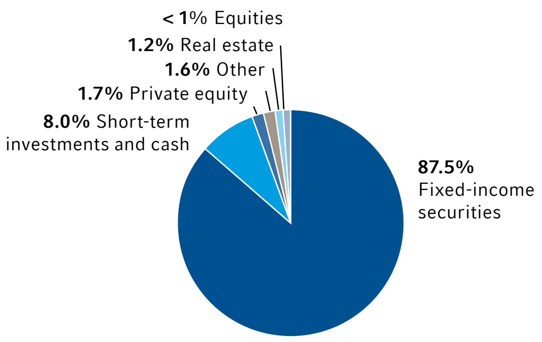
The company also supports new marketing models in Australia and New Zealand which are designed to directly address policyholders and handle the purchase of policies quickly and efficiently through call centres.

Premium income fell by 13.5% to EUR 251.3 million due to withdrawal from an earlier block assumption transaction with an Australian cedant. Although the claims experience with disability annuities was not satisfactory, the company posted an improved result thanks to higher income from retrocessions: the operating profit (EBIT) rose to EUR 28.4 million, corresponding to an EBIT margin of 25.0%. Net income after tax was also very attractive at EUR 24.6 million.

Investments

Overall, our investment income in the year under review was favourably affected by the turmoil on international capital markets in the first half of the year and the recovery that set in during the second six months.

Breakdown of investments



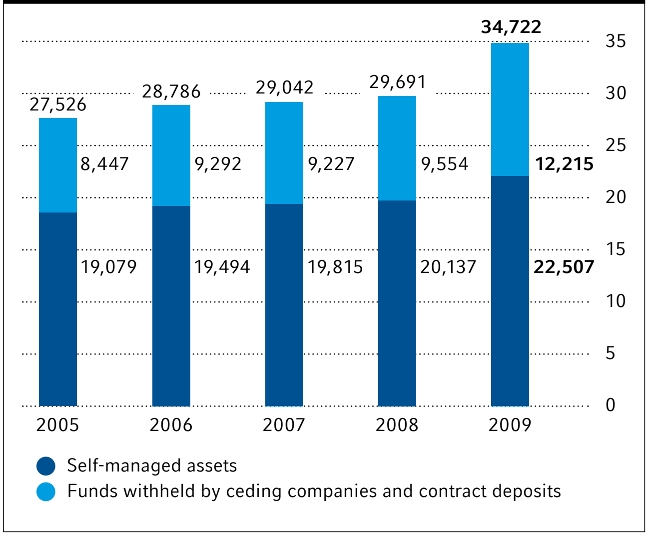
Market development

While yields fell on European government bonds – especially those with short and medium-dated maturities –, they increased in the longer-dated range. Yields on US treasury bonds increased across virtually all maturity segments, sometimes markedly so. The resulting negative fair value effects were, however, more than offset by the reduction in risk premiums for corporate bonds. Overall, this had positive implications for the development of the fair values of the fixed-income portfolio, hence considerably boosting unrealised negative gains in the course of the year. While the US Federal Reserve left its key interest rates unchanged during the period under review at 0.00% to 0.25% after the dramatic cuts of the previous year, the European Central Bank lowered its prime rate incrementally as the year progressed from 2.50% to 1.00%.

The return on ten-year US treasury bonds climbed appreciably from 2.1% to 3.8% in the course of the year. A comparable development was also observed for European government bonds, although in this case the increase from 2.9% to 3.4% was more moderate. Differences in the yield trends of the two currency zones were evident in the short and medium-dated maturity segments. While interest rates on European instruments in this maturity range tended to decline, their US counterparts saw increases. In the area of corporate bonds sharp falls in risk premiums were noted across virtually all credit rating classes and industries in the year under review.

Having scaled back our exposure to listed equities to a marginal holding in the previous year and refrained from any investments whatsoever in this asset class during the year under review, stock market volatility obviously had a very limited effect on our investment income.

The euro moved slightly higher against the US dollar and pound sterling – after substantial fluctuations within the year –, although it lost ground heavily against the Canadian and Australian currencies.



Investment policy

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

- generation of stable and risk-commensurate 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 are intended to safeguard the generation of an appropriate level of return while at the same time staying within our clearly defined risk appetite.

In so doing, it must be ensured that we are able to meet our payment obligations at all times – always making allowance for the positive cash flow from our technical account.

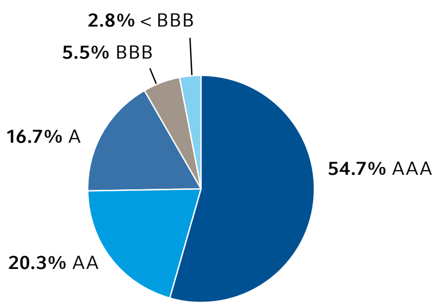
Thanks to a positive cash flow from the technical account and the investments, and assisted by the development of our fixed-income investments, our portfolio of assets under own management grew to EUR 22.5 billion (EUR 20.1 billion).

Net investment income Figures in EUR million

	2009	+/- previous year	2008	2007	2006	2005
Ordinary investment income[1]	810.5	–2.3%	829.8	859.0	792.6	654.6
Result from participations in associated companies	(5.0)	–218.4%	4.2	11.0	6.3	3.9
Appreciation	20.1		–	–	–	–
Realised gains/losses	113.0	–199.5%	(113.6)	174.3	217.4	162.2
Impairments on investments[2]	142.5	–70.3%	480.4	72.0	19.0	15.5
Unrealised gains/losses[3]	100.6	–184.0%	(119.7)	(18.8)	19.2	14.5
Investment expenses	53.1	+28.2%	41.4	52.0	49.5	55.4
Net investment income from assets under own management	843.6		78.9	901.6	967.0	764.3
Net investment income from funds withheld	276.8	+38.7%	199.6	220.1	221.9	351.6
Total investment income	1,120.4		278.5	1,121.7	1,188.9	1,115.9

1 Excluding expenses on funds withheld and contract deposits
2 Including depreciation/impairments on real estate
3 Portfolio at fair value through profit or loss and trading

Rating of fixed-income securities



Investment result

Ordinary investment income fell slightly short of the previous year at EUR 810.5 million (EUR 829.8 million). This was due to lower reinvestment yields than those attainable in the course of the previous year.

The balance of our deposit interest and expenses was sharply higher at EUR 276.8 million (EUR 199.6 million).

Write-downs of EUR 141.3 million (EUR 479.9 million) were taken on securities. Of this total amount, EUR 92.6 million (EUR 26.9 million) were attributable to alternative investments – principally private equity and real estate funds. Owing to the minimal holding of equities, write-downs of a mere EUR 3.2 million (EUR 356.1 million) were taken here. In the area of fixed-income assets they were halved to EUR 45.4 million (EUR 96.9 million).

In light of increased fair values, these write-downs contrasted with write-ups of EUR 20.1 million (previous year: –) on fixed-income securities and funds that had been written down in prior periods. Net gains of EUR 113.0 million were realised on disposals, as against a net loss of –EUR 113.6 million in the previous year. Unrealised gains on our asset holdings measured at fair value through profit or loss amounted to EUR 100.6 million, contrasting with unrealised losses of –EUR 119.7 million in the previous year. The positive development can be attributed primarily to the derivatives embedded in US life reinsurance contracts.

We were able to substantially boost our net investment income to more than EUR 1.1 billion (EUR 278.5 million) thanks first and foremost to the development of unrealised gains and the considerably lower volume of write-downs.

The portfolio of fixed-income securities climbed again to EUR 19.7 billion (EUR 17.9 billion), first and foremost due to inflows of cash from the technical account. The funds were invested predominantly in government bonds and corporate bonds. Yet we also tapped into opportunities that opened up in the area of asset-backed securities. Hidden reserves for fixed-income securities recognised in shareholders' equity totalled EUR 252.3 million (EUR 101.7 million). This increase was also similarly reflected as an increase in the shareholders' equity recognised in the balance sheet. The spread of asset classes naturally shifted towards sovereign risks at the expense of semi-governmental bonds owing to the numerous state guarantees invoked in the public financial sector. The quality of the bonds – measured in terms of rating categories – was maintained on a consistently high level. The proportion of securities rated “A” or better – at 91.7% – was slightly lower than in the previous year (92.9%).

We held a total amount of EUR 1.8 billion (EUR 1.2 billion) in short-term assets and current assets at the end of the year under review. Funds withheld by ceding companies amounted to EUR 12.2 billion (EUR 9.6 billion).

Holdings of alternative investments remained on a broadly stable level. As at 31 December 2009 an amount of EUR 375.3 million was invested in private equity funds, a further EUR 353.2 million in high-return bond funds and loans as well as CDOs and altogether EUR 108.6 million in structured real estate investments. The uncalled capital with respect to the aforementioned alternative investments totalled EUR 328.8 million.

In the year under review we continued our strategy of investing more heavily in real estate. Various properties have already been acquired in Germany and the United States, and further buildings are under review; the real estate allocation will therefore keep rising steadily as planned, and currently stands at 1.2%.

Human resources

Our staff

Highly skilled and motivated staff have been instrumental in the success enjoyed by Hannover Re today. Continuously fostering our employees' expertise and motivation therefore continues to be one of the most important keys to securing our company's future and constitutes the foundation of our human resources policy. Our personnel management activities in the year under review were concentrated on the areas of employer branding, competency management, succession planning and training.

Key personnel ratios

The Hannover Re Group employed 2,069 (1,812) staff as at 31 December 2009. The turnover ratio at Home Office in Hannover of 2.3% (3.3%) was lower than in the previous year. The rate of absenteeism – at 3.2% – was slightly higher than in the previous year (2.7%). The turnover ratio and rate of absenteeism thus continued to be comfortably below the industry average.

Breakdown of employees by country	2009	2008
Germany	1,032	963
United States	336	217
South Africa	164	150
United Kingdom	126	111
Sweden	84	81
Australia	58	57
France	43	41
Ireland	36	30
China	35	26
Bermuda	33	30
Malaysia	33	28
Bahrain	22	15
Colombia	14	14
Italy	11	12
Korea	8	7
Japan	7	7
Spain	6	6
Canada	5	4
Taiwan	5	5
India	4	2
Mexico	4	4
Brazil	3	2
Total	2,069	1,812

Employer branding

Strong demand for expert staff has been the hallmark of competition on the reinsurance labour market in recent years. The economic crisis did not bring any relief in the year under review. In certain cases both the time required to fill vacancies and the costs of recruitment increased. The demographically-induced decline in graduate numbers will exacerbate the situation going forward. Hannover Re accepts these challenges and is developing measures to ensure that it continues to succeed on the recruitment market.

With a view to formulating a targeted strategy in the "War for Talents", it was first necessary to obtain valid information on the relevant target groups for Hannover Re (university graduates in the disciplines of economics and mathematics with an international orientation). We commissioned a company specialising in this field to conduct a nationwide study. Data was collected on the expectations directed towards a future employer, the preferred media used by jobseekers and the current image of Hannover Re. The findings also included a competition analysis broken down into industries and rivals with whom Hannover Re is competing on the labour market.

The external survey was supplemented by an internal workshop carried out with employees of our company in order to identify the qualities that – from an insider's perspective – set Hannover Re apart.

The combination of the results of the internal and external surveys gave rise to an "employer value proposition", i.e. an answer to the question of why a qualified candidate should join Hannover Re rather than a competitor and, what is more, an answer that is tailored to specific target groups. The following criteria, among others, emerged as crucial strengths of Hannover Re – and at the same time as important requirements on the part of jobseekers:

- Hannover Re offers attractive jobs and further training activities.
- Colleagues are cooperative and ready to help.
- The working environment is modern, flexible and offers individual development opportunities.
- Hannover Re is growing strongly and is internationally positioned.

Going forward, we shall foreground these aspects in our presentation of Hannover Re as an attractive employer.

"How do clients differ in the various markets?"


“Not at all –
every client
is unique.”

Our new profile combines images of nature with catchy adjectives and stimulating job titles that bring out the company's dynamism, diversity and modernity. What is more, the appeal of the tasks available at Hannover Re is made even clearer through in-depth job descriptions. Image advertising and job adverts, our employment fair stand, careers website and brochures have all been modified to fit the new look.

In order to embed the project more deeply into the company and leverage our staff's strong identification with Hannover Re, we decide to use only our own employee photos and quotations in the Internet and in brochures. Hannover Re stepped out with its new look for the first time in November 2009 at Germany's most prestigious recruiting fair, the graduate job fair ("Absolventenkongress") held in Cologne.

Competency management

The goal of competency management is to effectively leverage the potential available to our company thanks to the talents of its staff, to sort this potential with an eye to the future and on this basis to draw up the competency profiles needed for sustainable competitiveness. Competency management forms an important part of any undertaking's strategic human resources planning and development. It will enable us to render the increasingly complex and imponderable external and internal framework conditions more easily manageable and controllable – provided competency management is closely dovetailed with corporate strategy.

The basis of our competency management is Hannover Re's own specific competency model, which encompasses the specialist qualifications of the various function groups and regularly reviews them with an eye to the relevant market requirements.

Succession planning

In 2009 Hannover Re again carried out systematised succession planning. This survey is generally conducted in a biennial cycle. It constitutes an important component of both risk management and competency development.

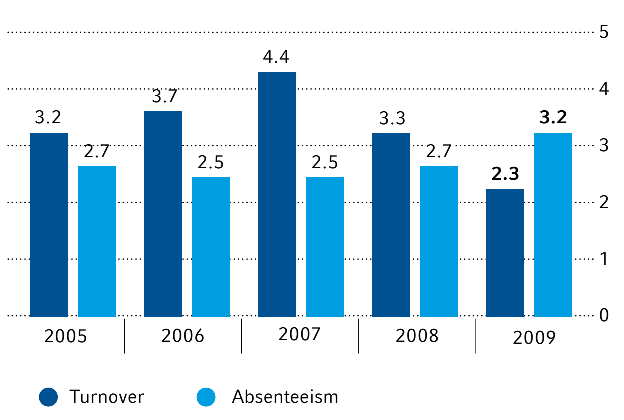
Detailed discussions with the highest management levels of our company constitute the basis of succession planning. In general terms, it may be stated that our company does not face any serious succession problems. Potential successors already stand ready within the company for the vast majority of current management positions – both at home and abroad.

Internal training

For many years Hannover Re's personnel development programme has offered a broad range of internal training measures that reflect our aspiration to optimally qualify employees for their duties and promote lifelong learning. Along with expert seminars, we offer personality development seminars as a regular fixture to strengthen the methodological, managerial and social skills of our staff.

Another issue that dominates our human resources activities is demographic change. An internal study revealed that we can preserve and enhance the already high job satisfaction and performance capability of our staff by fostering improvement of their work/life balance. We offer a variety of measures in this connection, having added stress management sessions to our range of activities in 2009.

Staff turnover/absenteeism Home Office Hannover (in %)



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.

Corporate social responsibility

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

External standards shape our corporate guidelines and hence also our daily actions. Hannover Re thus minimises business, liability and reputational risks that could have a detrimental effect on its commercial activities. By defining clear parameters we support the efficient and effective accomplishment of our corporate objectives. Company-wide guidelines, such as the Code of Conduct, help our staff to successfully master the often complex ethical and legal challenges encountered as part of their day-to-day work.

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

Environmental responsibility

In 2007 Hannover Re joined forces with other companies and organisations in the city of Hannover and Greater Hannover region to participate in the "Ecological Project for Integrated Environmental Technology" (Ecoprofit). The basic idea underlying this project is to combine economic profit with ecological benefit through preventive environmental protection. The energy-saving successes already achieved by our company are regularly publicised in the relevant project publications. In the year under review we were once again a recognised Ecoprofit operation.

In addition, as part of the "Climate Alliance Hannover 2020", we play our part in efforts to accomplish the state capital's goal of cutting climate-threatening greenhouse gas emissions to levels 40% lower than in 1990 by the year 2020. Our specific contributions will be regularly checked every two years from 2011 onwards.

In the year under review we cut the power consumption of our computer centre and approved a videoconferencing concept that – once implemented in 2010 – is intended to reduce the carbon emissions caused by staff travelling on business trips.

Since 2008 we have compensated for the CO_2 pollution caused by business flights through voluntary offsetting payments to the international organisation "atmosfair", thereby supporting selected climate protection projects in developing and emerging countries. We pay similar voluntary offsets for train travel too.

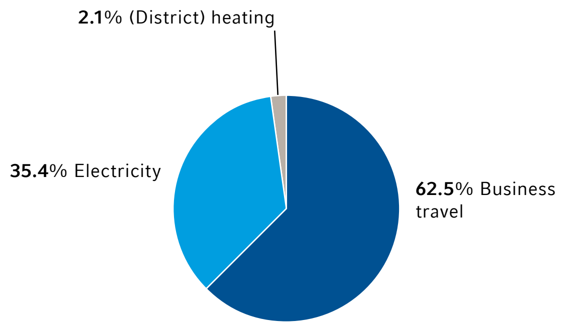
We have purchased RECs (Renewable Energy Certificates) from our electricity supplier to promote the use of renewable forms of energy.

Within the German Insurance Association (GDV) we are participating in a working group to develop a method of CO_2 accounting for insurance undertakings.

Hannover Re reviews other activities that contribute to the conservation and sustainable preservation of resources within the scope of regular Business Excellence assessments.

The CO_2 pollution of 9,000 tonnes caused in 2009 (calculated for the Hannover Home Office location) was 98% offset. All in all, we reduced and offset 833 tonnes of carbon emissions relative to the previous year.

Carbon emissions of Hannover Re at its Home Office location



For a number of years Hannover Re has participated in the survey conducted as part of the "Carbon Disclosure Project" (CDP). The CDP serves to gather and publish qualitative data on the subject of climate change in order to motivate investors, businesses and countries to contribute actively to climate protection. Through our involvement we receive information on where we stand with our efforts to economise – especially as regards carbon emissions – relative to international standards. Regular participation in the study supports our ongoing process of internally reviewing the steps we have taken to cut back.

Hannover Re's commitment to climate protection is rounded off with our attendance at a number of conferences, including the one organised as part of the "Climate and Insurance" initiative.

Research and development

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

Yet we also set great store by our dialogue with universities. We assist a number of institutions of higher learning in Germany in a variety of ways – for example the University of Hannover, where we sponsor an endowed professorship in actuarial science.

Social commitment

We are aware of our responsibility as a major company in the Greater Hannover region, and we strive to award contracts locally where possible so as to foster businesses based here.

Social commitment is also something that Hannover Re takes very seriously, and the assumption of social responsibility constitutes a core element of our corporate culture. For the second time we organised a Christmas tree campaign, in which staff at Hannover Re helped to realise the dreams of children at a local children's home.

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

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

These are just two examples of Hannover Re's various projects on the international level.

We also consider it part of our social responsibility to offer internships as a means of career orientation that are appropriately compensated, but are in no way intended to replace full-time positions. Our equitable approach to placing interns is certified by the "Fair Company" quality seal which we were awarded by the magazine "karriere".

Support for the arts

E+S Rück, the subsidiary of Hannover Re with responsibility for the German market, organises so-called examination concerts in cooperation with Hannover University of Music and Drama. Since the first concert was held some twelve years ago E+S Rück has assisted three or four of the university's "master students" each year as they seek to embark on their career as soloists; at the same time the company is able to offer its clients a musical highlight as part of its "Hannover Forum" seminar event. The involvement of E+S Rück gives graduating students the rare opportunity to play with the accompaniment of a large orchestra.

For many years Hannover Re has also dedicated itself to supporting the fine arts. In 1991, 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. Guided tours make this collection accessible to interested sections of the broader public.

Hannover Re also supports the Kestnergesellschaft in Hannover through its participation in the latter's partner programme: in our role as a "kestnerpartner" we are able to promote the society's work on a continuous and lasting basis.

Opportunity and risk report

Risk report

Risk strategy

The risk strategy derived from the company strategy constitutes the basis for our handling of risks and opportunities. The parameters and decisions of the Executive Board with respect to Hannover Re's risk appetite are fundamental to the acceptance of risks. The risk strategy – as a self-contained set of rules – serves as the foundation for Group-wide risk management. It is thus an integral component of entrepreneurial actions and is reflected in the detailed strategies of the various divisions.

As an internationally operating reinsurer we are confronted with a broad diversity of risks that are indivisibly bound up with our entrepreneurial activities and which manifest themselves differently in the individual business groups and geographical regions. Both the company strategy and the risk strategy are therefore subject to regular review. Through this regular scrutiny of our assumptions and any resulting adjustments, we ensure that our strategic principles and hence also our actions are guided by the latest insights.

Overriding goals and organisation of our risk management

The overriding goal of our risk management is to adhere to our strategically defined risk positions and to ensure that sufficient capital resources are available at all times. We attach central importance to the following elements of our risk management system:

- Management and monitoring of individual risks so that the total risk remains within the permissible tolerances
- Separation of functions between divisions that enter into and manage risks, on the one hand, and those that monitor risks (Group Risk Management), on the other
- Process-independent monitoring by Internal Auditing
- Regular review of the efficiency of systems and, as appropriate, adjustment to the business environment and/or the changed risk situation within the scope of our internal risk management and control system
- Systematic and comprehensive monitoring of all conceivable risks from the current perspective that could jeopardise the company's profitability or continued existence with the aid of efficient and practice-oriented management and control systems
- Reporting to the Risk Committee and the Executive Board that is counterparty-oriented and encompasses all the various types of risk
- Ad hoc reports as necessary
- Documentation of the vital elements of the system in mandatory instructions
- Good financial strength and risk management ratings from the rating agencies of greatest relevance to our company

In the year under review our risk management was assessed by Standard & Poor's as "Strong", the second-best S&P rating. This evaluation testifies to the quality of our holistic approach to risk management. The current financial strength rating from Standard & Poor's is "AA-" ("Very strong", negative outlook), while that of A.M. Best is "A" ("Excellent", stable outlook).

Functions within the risk management system

The interplay of the individual functions and bodies within the overall system is vital to an efficient risk management system. Hannover Re has clearly defined roles and responsibilities in order to ensure smooth interaction.

Quantitative risk management methods

Hannover Re has developed an internal capital model for risk quantification as a central risk management tool. The purpose of risk quantification is inter alia to evaluate the capital resources of the Hannover Re Group and its individual companies. In addition, the model is used to establish the risk contribution made by individual business segments to the total company risk as well as the risk-appropriate allocation of the cost of capital.

The internal capital model of Hannover Re is a stochastic enterprise model that establishes probability distributions

Central elements of the risk management system	
Controlling elements	Key risk management tasks
Supervisory Board	• Advising and monitoring the Executive Board in its management of the company, inter alia with respect to risk management
Executive Board	• Overall responsibility for risk management • Definition of the risk strategy • Responsible for the proper functioning of risk management
Risk Committee	• 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	• Responsibility for holistic risk monitoring across business groups (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	• Process-integrated risk monitoring function • Methodological competence, inter alia for – 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	• 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	• Process-independent review of all functional areas of Hannover Re

for key performance indicators and balance sheet variables, such as company profit and shareholders' equity, in light of all major internal and external influencing factors, such as the insurance and investment portfolio, tax ratio and capital market developments. In so doing, the model draws on statistical, stochastic and actuarial methods and practices in order to ensure the most realistic possible representation of the company and its environment. The risk capital is calculated on the basis of a Value at Risk (VaR) with a confidence level of 99.97% (default probability of 0.03%) for an observation period of one year. As a vital subsidiary condition, this level of confidence also ensures that we exceed future regulatory capital requirements (e.g. the required confidence level of 99.5%).

The available capital rose sharply in the course of the year under review. Owing to the enlarged business volume, the required risk capital also increased. There was an increase in the diversification effect – a measure of risk spreading –, due particularly to the acquisition of the ING life reinsurance portfolio.

The available economic capital is composed of the three components of IFRS shareholders' equity (including minority interests), valuation reserves and hybrid capital. The valuation reserves for non-life reinsurance business primarily involve the difference between the nominal loss reserves according to IFRS and their discounted value, increased by the cost of capital needed to cover the fluctuation

Required and available risk capital for the 99.97% VaR		in EUR million
	2009	2008[1]
Non-life reinsurance	2,970.8	2,613.2
Life and health reinsurance	1,988.1	785.5
Investments	1,507.3	1,202.5
Diversification effect	(2,167.4)	(1,389.7)
Required risk capital of the Hannover Re Group	4,298.8	3,211.5
Available economic capital	7,323.6	5,451.3
Capitalisation ratio	170.4%	169.7%

1 Adjustment of 2008 figures to disclosure of risk position according to economic measurement principles

Reconciliation (economic capital/IFRS capital) in EUR million	2009	2008
IFRS shareholders' equity	4,254.0	3,331.5
Value adjustments for non-life reinsurance	1,600.4	772.7
Value adjustments for life and health reinsurance	843.9	490.8
Value adjustments for assets under own management	186.4	113.6
Tax effects and other	(926.2)	(634.2)
Economic equity	5,958.5	4,074.4
Hybrid capital	1,365.1	1,376.9
Available economic capital	7,323.6	5,451.3

potential of the liabilities. In life and health reinsurance we show the difference between IFRS measurement and market-consistent measurement according to the Market Consistent Embedded Value principles. The measurement adjustments for investments derive from the difference between fair value and book value.

Of special significance to our company is the overarching diversification between our business segments and lines. As a result, we are able to enhance the efficiency of the allocated capital while at the same time reducing the required capital adequacy. We define the cost of capital to be generated per business unit according to the capital required by our business segments and lines as well as their contribution to diversification.

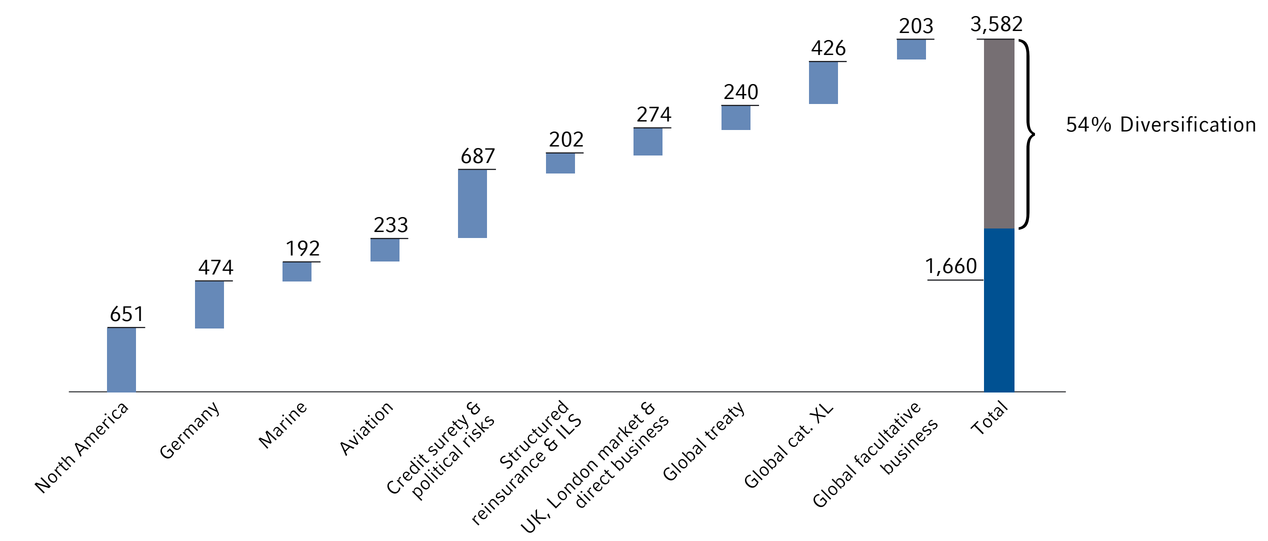
Qualitative risk management methods

Our qualitative methods and practices support our internal risk management and control system. The system is subject to a constant cycle of planning, action, control and improvement. The basic elements of the system, such as risk identification and risk reporting, are efficiently interlinked.

Our mandatory practices, such as the Risk Management Framework Guideline, govern inter alia the handling of new products, monitoring of the risk-bearing capacity, risk reporting and responsibilities within the system as a whole. Our risk reporting is geared to providing systematic and timely information about risks and their potential implications as well as ensuring adequate communication within the company about all material risks as a basis for decision-making. Regular quarterly reporting to the Risk Committee and Executive Board is supplemented as necessary by immediate internal reporting on material risks that materialise at short notice.

Within our central system of limits and thresholds key ratios have been specified for steering and monitoring the material risks of the Hannover Re Group – within the meaning of the materiality concept defined in the risk

Diversification effect within the non-life reinsurance business group Risk capital per line of business for the 99.5% VaR in EUR million



1 In contrast to 2008 calculation of required capital according to economic valuation principles

Internal risk management and control system

strategy. Risk steering and monitoring is operationalised through the specification of suitable limits and thresholds for quantitatively measurable material risks. Material risks that cannot be quantified or are difficult to quantify (such as operational risks or reputational risks) are primarily steered and monitored using appropriate processes and practices (e.g. contingency and crisis communication plans).

Our internal control system

Another key element of the overall system is the Framework Guideline on the Internal Control System (ICS). The purpose of this set of rules is to ensure systematic execution of our company strategy with a special eye to capital protection. In addition, we thereby support our strategic action fields of "Corporate Governance" and "Compliance". In accordance with these principles, the Framework Guideline puts in place a consistent appreciation of controls as well as a uniform procedure and standards for implementation of the ICS across all organisational units of Hannover Re.

The Framework Guideline defines concepts, stipulates responsibilities and provides a guide for the description of controls. In addition, it contributes to the accomplishment of internal objectives and the fulfilment of external requirements imposed on Hannover Re. The ICS consists of systematically structured organisational and technical measures/controls within the enterprise. It serves, inter alia, to safeguard compliance with guidelines and to reduce risks in the interests of secure execution of company strategy. This includes, among other things:

- Documentation of the controls within processes, especially in accounting
- Principle of dual control
- Separation of functions
- Technical plausibility checks and access privileges within the systems

In the area of Group accounting, processes with integrated controls ensure the completeness and accuracy of the consolidated financial statement. These processes for the organisation and implementation of consolidation tasks and for the preparation of the consolidated financial statement as well as the accompanying controls are documented and are subject to regular review. All internal Group accounting principles are collated in an Accounting Manual that is available in IT-supported form to all relevant organisational units and all staff of the Hannover Re Group.

Tested by independent auditors, the IFRS reporting of the entities included in the consolidated financial statement is carried out using an intranet-based IT application. The individual items of the balance sheet, statement of income, statement of comprehensive income, consolidated statement of changes in shareholders' equity, consolidated cash flow statement and the relevant data for the segmental reporting, notes and consolidation are stored in a database; this data can be uploaded via automatic interfaces to a consolidation system, where it can be edited. Depending upon the results of preceding reconciliation procedures for internal transactions within the Group, these values are reviewed and – as necessary – corrected. Provision is made for manual bookings in the case of extraordinary or unusual transactions. The control measures described above – among other checks – are performed in order to avoid false statements.

Material risks

Technical risks in non-life reinsurance

Risks emanating from non-life reinsurance are of crucial significance to our business operations. We make a fundamental distinction here between risks that result from business operations of past years (reserving risk) and those stemming from activities in the current or future years (price/premium risk). The catastrophe risk is especially important in the latter case.

A significant technical risk is the reserving risk, i.e. the risk of under-reserving losses and the associated strain on the underwriting result. In order to counter this risk we calculate our loss reserves on an actuarial basis, where necessary supplemented by additional reserves based on our own actuarial loss estimations and the IBNR (incurred but not reported) reserve for losses that have already occurred but have not yet been reported to us.

Liability claims are a key influencing factor for the IBNR reserve. The IBNR reserve is calculated on a differentiated basis according to risk categories and regions. The IBNR reserve established by the Hannover Re Group amounted to EUR 3,537.8 million in the year under review. Especially with respect to asbestos- and pollution-related claims, the calculation methods are complex. The adequacy of these reserves can be estimated using the so-called "survival ratio". This ratio expresses how many years the reserves would cover if the average level of paid claims over the past three years were to continue. At the end of the year under review our survival ratio stood at 24.3 years.

The statistical run-off triangles used by our company are another monitoring tool. They show how the reserve has changed over time as a consequence of paid claims and the recalculation of the reserves that are to be established as at each balance sheet date. Their adequacy is

Catastrophe losses and major claims — in EUR million

	2009 gross	2009 net
Bushfire in Victoria/Australia, 5-17 February	38.2	34.7
Winter storm "Klaus" in France and Spain, 23-25 January	34.9	33.8
Airbus crash, Atlantic Ocean, 1 June	56.8	33.8
Damage to an oil drilling platform in Australia, 20 August	19.4	16.9
Flooding in Manila/Philippines, 21-28 September	16.9	16.9
Flooding in Central and Eastern Europe, 22-25 June	15.3	14.8
Explosion at a hydroelectric plant in Russia, 17 August	11.9	11.9
Earthquake in L'Aquila/Italy, 6 April	11.3	11.2
Collapse of City Archive, Cologne, 3 March	23.7	10.8
Hailstorm in Central and Eastern Europe, 23/24 July	10.2	9.1
Satellite failure, 11 April	8.9	8.6
Aviation claim in Clarence/US, 12 February	12.4	8.4
Satellite failure, 22 January	7.6	7.5
Aviation claim in Yemen, 30 June	7.0	6.4
Flooding in UK and Ireland, 18-20 November	5.9	5.4
Marine claim in Viareggio/Italy, 29 June	5.0	5.0
Hailstorm in Alberta/Canada, 1-3 August	5.1	4.5
Total	290.5	239.8

Limits for the 100- and 250-year aggregate annual loss as well as utilisation thereof:		
Natural catastrophes and aggregate annual loss in EUR million	Limit 2009	Actual utilisation (July 2009)
All natural catastrophe risks, net exposure		
100-year aggregate annual loss	958.0	91%
250-year aggregate annual loss	1,245.4	88%

monitored using actuarial methods (cf. here Section 6.7 "Technical provisions"). Our own actuarial calculations regarding the adequacy of the reserves are subject to annual quality assurance reviews conducted redundantly by external actuaries and auditors.

Licensed scientific simulation models, supplemented by the expertise of our own specialist departments, are used to assess our material catastrophe risks from natural hazards (earthquake, windstorm). Furthermore, we establish the risk to our portfolio from various scenarios (e.g. hurricanes in the US, windstorms in Europe, earthquakes in the US) in the form of probability distributions. The monitoring of the natural hazards exposure of the Hannover Re portfolio (accumulation control) is rounded out by the progressive inclusion of realistic extreme loss scenarios. Within the scope of accumulation controlling of these risks the Executive Board defines the appetite for assuming natural hazards risks once a year on the basis of the risk strategy. The risk appetite is a key basis for our underwriting approach in this segment. For the purposes of risk limitation, maximum underwriting limits (capacities) are stipulated for various extreme loss scenarios and return periods in light of profitability criteria. Adherence to these limits is continuously verified by the central risk monitoring function. The Risk Committee, the Executive Board and the body responsible for steering non-life reinsurance are kept regularly updated on the degree of capacity utilisation.

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

The price/premium risk lies in the risk of 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 practices, e.g. our compulsory central and local underwriting guidelines, are vital management components. In addition, Hannover Re's treaty departments prepare regular reports on the progress of the various treaty renewals. The reporting in this regard makes reference inter alia to significant changes in conditions, risks (such as inadequate premiums) as well as to emerging market opportunities and the strategy pursued in order to accomplish targets.

Reserves for asbestos-related claims and pollution damage						
Reserves in EUR million	2009			2008		
	Individual loss reserves	IBNR reserves	Survival ratio in years	Individual loss reserves	IBNR reserves	Survival ratio in years
Asbestos-related claims/ pollution damage	26.2	171.4	24.3	23.0	127.2	25.0

Combined and catastrophe loss ratio over the past ten years										
in %	2009	2008	2007	2006	2005[1]	2004[1]	2003[1,2]	2002[1,2]	2001[1,2]	2000[1,2]
Combined ratio (non-life reinsurance)	96.6	95.4	99.7	100.8	112.8	97.2	96.0	96.3	116.5	107.8
Thereof catastrophe losses[3]	4.6	10.7	6.3	2.3	26.3	8.3	1.5	5.2	23.0	3.7

1 Including financial reinsurance and specialty insurance
2 Based on figures reported in accordance with US GAAP
3 Natural catastrophes and other man-made major losses > EUR 5 million gross for the share of the Hannover Re Group as a percentage of net premium earned

Stress tests for natural catastrophes after retrocessions in EUR million	2009	2008
	Effect on forecast net income	
100-year loss European windstorm	(114.7)	(203.3)
100-year loss US windstorm	(281.8)	(279.4)
100-year loss Japanese windstorm	(204.3)	(97.7)
100-year loss Tokyo earthquake	(201.4)	(217.6)
100-year loss California earthquake	(244.9)	(260.2)
100-year loss Sydney earthquake	(150.6)	(107.3)

Technical risks in life and health reinsurance

All risks directly connected with the life of an insured person are referred to as biometric risks (especially the miscalculation of mortality, life expectancy, morbidity and occupational disability); they constitute material risks for our company in the area of life and health reinsurance. Counterparty, lapse and catastrophe risks – e.g. with an eye to pandemics – are also material since we also prefinance our cedants' new business acquisition costs. As in non-life reinsurance, the reserves are essentially calculated according to information provided by our clients and are also determined on the basis of secure biometric actuarial bases.

Through our own quality assurance measures we ensure that the reserves established by ceding companies in accordance with local accounting principles satisfy all requirements with respect to the calculation methods used and assumptions made (e.g. use of mortality and disability tables, assumptions regarding the lapse rate etc.). New business is written in all regions in compliance with underwriting guidelines applicable worldwide, which set out detailed rules governing the type, quality, level and origin of risks. These global guidelines are revised annually and approved by the Executive Board. Special underwriting guidelines give due consideration to the particular features of individual markets.

By monitoring compliance with the relevant underwriting guidelines, we minimise the potential counterparty risk stemming from an inability to pay or deterioration in the credit status of cedants. Regular reviews and holistic analyses (e.g. with an eye to lapse risks) are carried out with respect to new business activities and the assumption of international portfolios. The interest guarantee risk, which is important in life business in the primary insurance sector, is of only minimal risk relevance to our company owing to the structure of our contracts. The actuarial reports and documentation required by local regulators ensure regular scrutiny on the level of the subsidiaries.

The Market Consistent Embedded Value (MCEV) is a measure used to evaluate life insurance and reinsurance business; it is calculated as the present value of the future shareholders' earnings from the worldwide life and health reinsurance portfolio plus the allocated capital. The calculation makes appropriate allowance for all risks underlying the covered business. The resulting Market Consistent Embedded Value is established on the basis of the principles of the CFO Forum published in June 2008. For the 2006 and 2007 financial years the European Embedded Value (EEV) was calculated on a market-consistent basis. Based on the latest available data published on 5 May 2009 (valid as of 31 December 2008), the table shows the MCEV 2008 and its sensitivity to selected scenarios in comparison with the corresponding sensitivities of the EEV 2007.

The moderate change in the MCEV under the scenarios shown is in line with our risk-bearing capacity in this area and reflects our portfolio's high degree of diversification. The consolidated MCEV before minority interests amounted to EUR 1,652.0 million (EEV 2007: EUR 1,715.1 million) as at 31 December 2008. Making allowance for the different calculation methods, this represents an increase of 4.3% (12.3%) since the embedded value for 2007 comparable with the MCEV 2008 stood at EUR 1,583.7 million. The operating MCEV earnings totalled EUR 172.4 million (EUR 280.0 million), while the value of new business stood at EUR 150.5 million (EUR 106.4 million). The development relative to the values for the previous year was in line with our expectations. Regarding the change in the previous year's figure, please see the "European Embedded Value Report 2007". We shall publish the MCEV for the 2009 financial year on our Internet website at the same time as the quarterly report for the first quarter of 2010.

Sensitivity analysis of the Market Consistent Embedded Value (MCEV) and European Embedded Value (EEV)[1]		
Base values in EUR million	MCEV 2008[2]	EEV 2007[2]
Base value	2,421.6	2,483.9
Interest rate curve +100 basis points	0.5%	0.1%
Interest rate curve –100 basis points	(0.3%)	(0.8%)
Fair value of equities and real estate –10%	0.0%	0.0%
Costs –10%	1.1%	0.8%
Lapse –10%	(1.4%)	0.4%
Mortality –5%	13.2%	7.8%

1 More extensive information is provided in the EEV/MCEV reports published on our website. The presentation is based on the EEV/MCEV principles for publication, which are defined by the CFO Forum.
The CFO Forum is an international organisation of Chief Financial Officers from major insurance and reinsurance enterprises.

2 Before consolidation, excluding minority interests.

Market risks

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

Share price risks derive from unfavourable changes in the value of equities and equity or index derivatives. We spread these risks through systematic diversification across various sectors and regions. Having reduced our exposure to listed equities to a marginal holding during the previous year and refrained from any investments in this asset class in the year under review, scenarios for changes in equity prices naturally have only minimal implications for our portfolio.

The portfolio of fixed-income securities is generally exposed to the interest rate risk. Declining market yields lead to increases and rising market yields to decreases in the fair value of the fixed-income securities portfolio. The credit spread risk should also be mentioned. The credit spread 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. Changes in these risk premiums, which are traded on the market, similarly result – analogously to changes in pure market yields – in changes in the fair values of the securities concerned.

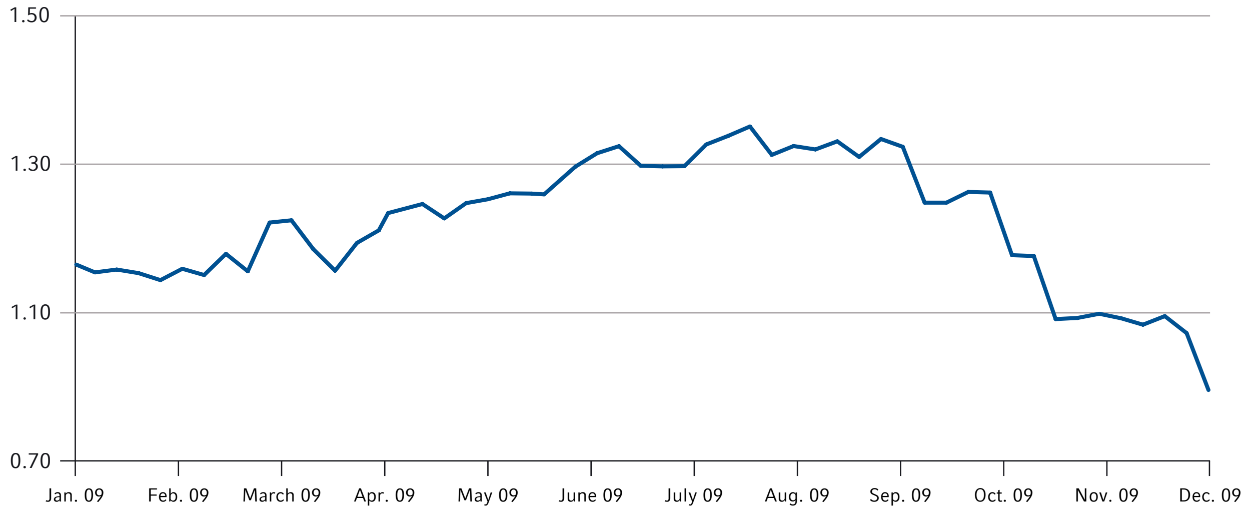
Currency risks result from fluctuations in exchange rates – especially if there is a currency imbalance between the technical liabilities and the investments. By systematically adhering to matching currency coverage, i.e. extensive matching of currency distributions on the assets and liabilities side, we are able to reduce this risk.

Real estate risks may result from unfavourable changes in value either directly or through units held in real estate funds. This may be caused by a deterioration in the particular qualities of the property or a general downslide in market values (as seen with the US real estate crash). Real estate risks are of subordinate importance for our company owing to our relatively modest real estate portfolio.

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

A multi-factor model is used to calculate the VaR indicators for the Hannover Re Group. The multi-factor model is based on time series of selected representative market parameters (equity prices, yield curves, spread curves, exchange rates, commodity prices and macro-economic variables). All correlations between these time series are reduced by analysis to a reasonable number of main components. All asset positions are mapped on the level of individual positions by the APT model, i.e. the market price risks of all individual positions are reduced through mathematical operations to the market price risk factors

Value at Risk[1] for the investment portfolio of the Hannover Re Group in %



1 VaR upper limit according to Hannover Re's investment guidelines: 1.5%

of the model. Residual risks (e.g. market price risks that are not directly explained by the multi-factor model) can be determined through back-calculation and are accommodated in the overall calculation on the supposition of non-correlation.

The model takes into account the following market risk factors:

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

Halfway through the reporting period we recalibrated our VaR calculation, thereby making greater allowance for special scenarios that we observed in the context of the recent upheavals on capital markets. The values for the period prior to recalibration were adjusted accordingly in the graph. Despite the resulting slight increase, our VaR is still on a very comfortable level of around 1.0%.

Stress tests are conducted in order to be able to map extreme scenarios as well as normal market scenarios for the purpose of calculating the VaR. In this context, the loss potentials for fair values and shareholders' equity (before tax) are simulated on the basis of already occurred or notional extreme events. Further significant risk management tools include the performance of various stress tests to estimate the loss potential under extreme market conditions as well as sensitivity and duration analyses and asset/liability management (ALM). The internal capital model provides us with quantitative support for the investment strategy as well as a broad diversity of VaR calculations. In addition, tightly defined tactical duration ranges are in place, within which the portfolio can be positioned opportunistically according to market expectations. The parameters for these ranges are directly linked to our calculated risk-bearing capacity.

Further information on the risk concentrations of our investments can be obtained from the tables on the rating structure of fixed-income securities as well as on the currencies in which investments are held. Please see our comments in Section 6.1 “Investments under own management”.

We use derivative financial instruments to optimise our portfolio in light of risk/return considerations. The primary purpose of these derivative financial instruments is to hedge against potentially adverse situations on capital markets. In the year under review we made very limited use of forward exchange transactions to hedge cash flows from the insurance business.

The contracts are concluded solely with first-class counterparties and exposures are strictly controlled in accordance with the restrictive parameters set out in the investment guidelines so as to avoid risks – especially credit risks – associated with the use of such transactions.

Scenarios for changes in the fair value of our securities			
in EUR million	Scenario	Portfolio change based on fair value	Change in shareholder equity before tax
Equity securities	Share prices +10%	+1.9	+1.9
	Share prices +20%	+3.8	+3.8
	Share prices –10%	(1.9)	(1.9)
	Share prices –20%	(3.8)	(3.8)
Fixed-income securities	Yield increase +50 basis points	(379.6)	(266.8)
	Yield increase +100 basis points	(747.3)	(525.1)
	Yield decrease –50 basis points	+385.3	+273.7
	Yield decrease –100 basis points	+782.4	+556.0

Credit risks

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

Since the business that we accept is not always fully retained, but instead portions are retroceded as necessary, the credit risk is material for our company – especially in non-life reinsurance. Our retrocession partners are carefully selected in light of credit considerations in order to keep this risk as small as possible. This is also true of our broker relationships, under which risks may occur inter alia through the loss of the premium paid by the cedant to the broker or through double payments of claims. We reduce these risks, inter alia, by reviewing all broker relationships once a year with an eye to criteria such as the existence of professional indemnity insurance, payment performance and proper contract implementation. The Security Committee continuously monitors the credit status of retrocessionaires and approves measures where necessary to secure receivables that appear to be at risk of default.

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, which specifies cession limits for the individual retrocessionaires participating in protection cover programmes and determines the capacities still available for short-, medium- and long-term business (cession management). Depending on the type and ex-

Gross written premium retained					
in %	2009	2008	2007	2006	2005[1]
Hannover Re Group	92.6	89.1	87.4	76.3	79.2
Non-life reinsurance	94.1	88.9	85.3	72.4	85.9
Life and health reinsurance	90.7	89.3	90.8	85.4	92.8

1 Including financial reinsurance and specialty insurance

Tools used to monitor and manage our credit risks					
Management ratios	2009	2008	2007	2006	2005
Solvency margin[1]	60.4%	66.7%	72.6%	68.8%	61.1%
Debt leverage[2]	32.1%	41.3%	35.0%	39.1%	45.8%
Interest coverage[3]	14.9x	1,9x	12.0x	10.5x	1.2x
Reserves/premium[4]	270.1%	312.4%	291.3%	305.2%	304.8%
Combined ratio (non-life reinsurance)	96.6%	95.4%	99.7%	100.8%	112.8%

1 (Shareholders' equity + minority interests + hybrid capital)/net written premium
2 Hybrid capital/shareholders' equity + minority interests (Debt)
3 EBIT/interest on hybrid capital
4 Net reserves/net premium earned

Rating structure of our fixed-income securities[1]								
Rating classes	Government bonds		Securities issued by semi-governmental entities		Corporate bonds		Covered bonds/ asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	84.5	4,756.4	56.7	3,267.1	4.4	216.0	75.4	2,534.7
AA	5.7	321.6	38.9	2,239.8	18.4	912.0	15.5	520.6
A	5.4	303.2	3.8	218.8	55.0	2,719.4	1.4	48.2
BBB	4.1	231.2	0.3	17.0	14.8	730.2	2.7	90.1
< BBB	0.3	15.8	0.3	19.1	7.4	364.8	5.0	169.5
Total	**100.0**	**5,628.2**	**100.0**	**5,761.8**	**100.0**	**4,942.4**	**100.0**	**3,363.1**

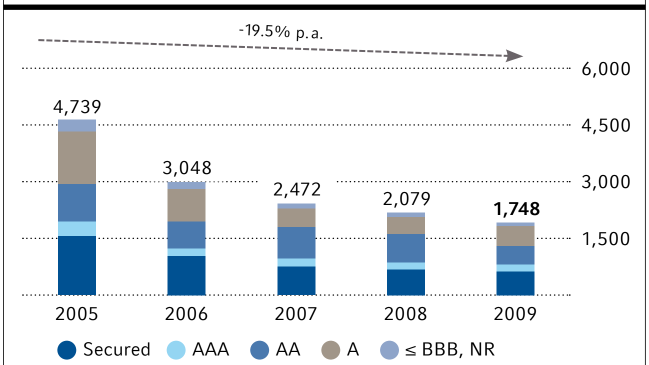
1 Securities held through investment funds are recognised pro rata with their corresponding individual ratings

pected run-off duration of the reinsured business, the selection of reinsurers takes into account not only the minimum ratings of the rating agencies Standard & Poor's and A. M. Best but also internal and external (e.g. market information from brokers) expert assessments. Overall, 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 retrocessions in non-life reinsurance we also transfer risks to the capital market. Yet credit risks are relevant to our investments and in life and health reinsurance, too, because we prefinance acquisition costs for our ceding companies. Our clients, retrocessionaires and broker relationships as well as our investments are therefore carefully evaluated and limited in light of credit considerations and are constantly monitored and controlled within the scope of our system of limits and thresholds.

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

- 96.0% of our retrocessionaires have an investment grade rating ("AAA" to "BBB").

Reinsurance recoverables as at the balance sheet date in EUR million



- 93.9% thereof are rated "A" or better.
- Since 2005 we have reduced the level of recoverables by altogether 63%.
- 30.5% of our recoverables from reinsurance business are secured by deposits or letters of credit. What is more, for the majority of our retrocessionaires we also function as reinsurer, meaning that in principle recoverables can potentially be set off against our own liabilities.
- In terms of the Hannover Re Group's major companies, EUR 279.8 million (9.75%) of our accounts receivable from reinsurance business totalling EUR 2,869.9 million were older than 90 days as at the balance sheet date.
- The average default rate over the past three years was 0.2%.

Retrocession gives rise to claims that we hold against our retrocessionaires. These reinsurance recoverables – i.e. the reinsurance recoverables on unpaid claims – amounted to EUR 1,748.0 million (EUR 2,079.2 million) as at the balance sheet date.

The chart shows the development of our reinsurance recoverables – split by rating quality – due from our retrocessionaires.

For further remarks on technical and other assets which are unadjusted but considered overdue as at the balance sheet date as well as on significant impairments in the year under review please see Section 6.4 "Technical assets" and Section 6.6 "Other assets" as well as section 7.2 "Investment result".

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

On a fair value basis EUR 2,569.9 million of the corporate bonds held by our company were issued by entities in the financial sector. Of this amount, 1,846.2 EUR million was attributable to banks. The vast majority of these bank bonds (almost 90%) were rated "A" or better. Our investment portfolio under own management does not contain any directly written credit derivatives.

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. The operational risk also extends to legal risks. Operational risks exist, inter alia, in relation to the risk of business interruptions or system failures or may derive from unlawful or unauthorised acts. Given the broad spectrum of operational risks, there is a wide range of different management and monitoring measures tailored to individual types of risk.

Core elements of risk management – for example with an eye to business interruptions and the failure of technical systems – are our contingency plans designed to ensure the continuity of mission-critical enterprise processes and systems (recovery plans, back-up computer centre). The flexible working model of alternating telecommuting adopted by Hannover Re is, among other things, also a risk-reducing measure inasmuch as alternative workplaces and the requisite infrastructure are kept available locally. At the same time, we are thus able to offer the possibility of a healthy work/family balance. An important element of our human resources management policy, teleworking also reduces the risk of potentially losing key personnel by facilitating an attractive working environment.

As far as possibly unlawful or unauthorised acts are concerned, we enable our staff and partners to report certain serious breaches of the law pertaining to Hannover Re anonymously through our electronic whistleblower system. The information provided is brought to the attention of Hannover Re's Compliance Office so that it can investigate potentially suspicious circumstances. All tips are handled in the strictest confidence.

Against the backdrop of the wave of illness caused by the A/H1N1 virus Hannover Re took a number of preventive steps to protect its staff. Among other things, they were kept constantly updated on the latest news. In addition, the crisis management team held regular meetings to consider at length the issue of an influenza pandemic.

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.

Other risks

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

The hallmark of emerging risks (such as nanotechnology, climate change) is that the content of such risks cannot as yet be reliably assessed – especially with respect to our treaty portfolio. Such risks evolve gradually from barely perceptible signals to unmistakable tendencies. It is therefore vital to detect such risks at an early stage and then determine their relevance. For the purpose of early detection we have developed an efficient process that spans divisions and lines of business and ensures its linkage to risk management, thereby making it possible to pinpoint any necessary measures (e.g. ongoing observation, the implementation of contractual exclusions or the development of new reinsurance products).

Strategic risks derive from the risk of an imbalance between the corporate strategy and changing general conditions in the business environment. Such an imbalance might be caused, for example, by incorrect strategic policy decisions or a failure to consistently implement the defined strategies. We therefore review our company strategy and risk strategy annually and adjust our processes as and when required.

A good corporate reputation is an indispensable prerequisite for our core business as a reinsurer. It often takes decades to build up a positive reputation, yet this reputation can be damaged or even destroyed within a very brief space of time. Management of this risk is made possible by our fixed communication channels, a professional approach to corporate communications, tried and tested processes for defined crisis scenarios as well as our established Code of Conduct.

The liquidity risk refers to the risk of being unable to convert investments and other 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. Our regular liquidity planning and liquid asset structure are core elements of our ability to manage this risk. These measures ensure that Hannover Re is able to meet its payment obligations at all times without reservation. We manage the liquidity risk inter alia by allocating a liquidity code to every security. Adherence to the limits defined in our investment guidelines for each liquidity class is subject to daily control. The spread of investments across the various liquidity classes is recorded in the monthly investment reports and managed/monitored by way of appropriate limits.

The proportion of investment holdings that can be liquidated on any trading day without a mark-down was around 50% as at the balance sheet date, a reflection of the high liquidity of our portfolio.

Assessment of the risk situation

The above remarks describe the diverse spectrum of risks to which we, as an internationally operating reinsurance company, are exposed as well as the steps taken to manage and monitor them. The specified risks can potentially have a significant impact on our assets, financial position and net income. Yet consideration solely of the risk aspect does not fit our holistic conception of risk, since risks always go hand-in-hand with opportunities. Our effective management and monitoring tools as well as our organisational and operational structures ensure that we are able to identify our risks in a timely manner and maximise our opportunities.

Contrary to a very clear opinion expressed by tax attorneys, the revenue authority is of the view that not inconsiderable investment income generated by the Group's reinsurance subsidiaries domiciled in Ireland is subject to additional taxation at the parent companies in Germany on the basis of the provisions of the Foreign Transactions Tax Act. Insofar as tax assessments to this effect have already been received, appeals have been filed – also with respect to the amounts already recognised as a tax expense. Now that our opinion has been confirmed in full by the court of the first instance, we continue to regard as slight the risk that tax assessments containing additional taxation of investment income generated by Irish companies will be upheld.

Based on our currently available insights arrived at from a holistic analysis of the risk situation, the Executive Board of Hannover Re cannot at present discern any risks that could jeopardise the continued existence of our company in the short or medium term or have a material and lasting effect on our assets, financial position or net income.

Value-based management

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

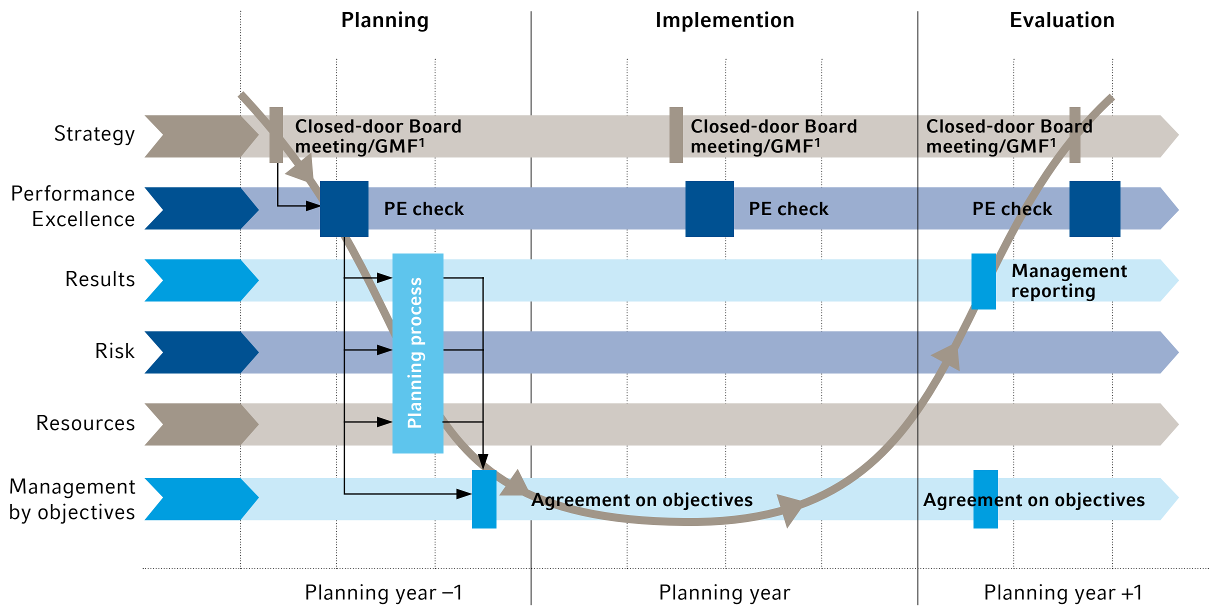
In order to achieve this objective we have developed tools that enable us, on the one hand, to measure in light of value-based considerations how close we are to accomplishing our goal and, on the other, to break the goal down to the level of individual profit centres.

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

In life and health reinsurance we use the Market Consistent Embedded Value (MCEV). The MCEV is defined as the intrinsic value of an enterprise, measured as the discounted profit flow until final run-off of the in-force portfolio – from the standpoint of the shareholder and after taxes.

Both concepts reflect the specific characteristics of the individual segments. Together, they constitute the basis for our central management tool: Intrinsic Value Creation (IVC).

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



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

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

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

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

Performance Excellence check

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

Planning process

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

Targets until 2009								
Business group	**Key data**	Strategic targets	2009	2008	2007	2006	2005[1]
Non-life reinsurance	Combined ratio	≤ 100%	96.6%	95.4%	99.7%	100.8%	112.8%
	Net cat. loss ratio	up to 10%	4.6%	10.7%	6.3%	2.3%	26.3%
	EBIT margin[2]	≥ 12.5%	14.0%	0.1%	14.6%	14.2%	(0.7%)
Life and health reinsurance	Gross premium growth	12–15%	44.5%	1.7%	10.4%	15.2%	11.4%
	EBIT margin[2]	6.5–7.5%	9.1%	4.3%	8.2%	5.9%	4.1%
	EBIT growth	12–15%	208.4%	(47.5%)	64.7%	49.8%	21.4%
	MCEV increase[4]	≥ 10%	n.a.[5]	6.0%	20.1%	16.8%	6.7%
	Increase in the value of new business	≥ 10%	n.a.[5]	41.4%	65.7%	(24.2%)[6]	54.8%
Group	Investment return	≥ 4.2[7]	4.0%	0.4%	4.6%	5.0%	4.4%
	Minimum return on equity	≥ 11.1%[3]	22.4%	(4.1%)	23.1%	18.7%	1.9%
Triple-10 target	EBIT growth	≥ 10%	669.9%	(84.0%)	13.2%	795.0%	(82.9%)
Triple-10 target	Growth in earnings per share	≥ 10%		(117.6%)	8.3%[8]	942.7%	(82.4%)
Triple-10 target	Growth in book value per share	≥ 10%	31.2%	(15.5%)	15.6%	11.4%	3.0%

1 Including financial reinsurance and specialty insurance
2 Operating profit (EBIT)/net premium earned
3 750 basis points above the risk-free return
4 MCEV increase on the basis of the adjusted MCEV of the previous year after elimination of capital changes and changes from currency effects.
5 The MCEV as at 31 December 2009 will be published on our website at the same time as the financial report for the first quarter of 2010.
6 The decrease in the value of new business was due to three special effects: details are provided in the EEV report published on our website.
7 Risk-free interest rate + cost of capital
8 Excluding tax effect

Management by objectives

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

Management reporting

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

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

IVC – our key ratio

We use the following formula to calculate the IVC (Intrinsic Value Creation):
Adjusted operating result (EBIT) – (capital allocated x weighted cost of capital) = IVC

The adjusted operating profit (EBIT) consists principally of the reported Group net income after tax and the change in the balancing items for differences between present values and amounts stated in the balance sheet (one adjustment for non-life and one for life/health reinsurance). In addition, the interest on hybrid capital, minority interest in profit and loss and extraordinary profits and losses are eliminated. We consider the allocated capital to be the shareholders' equity plus minority interests, the balancing items for differences between present values and carrying amounts as well as the hybrid capital. Capital is allocated to the profit centres according to the risk content of the business in question. In this context, the risks associated with the assets under own management have to date been allocated to the non-life reinsurance business group, hence explaining the sharply negative value for 2008. Going forward, in order to be able to distinguish between the value contribution from investments and the

Intrinsic Value Creation and excess return on capital allocated								
	2008		2007		2006		2005	
	IVC in EUR million	xRoCA in %	IVC in EUR million	xRoCA in %	IVC in EUR million	xRoCA in %	IVC in EUR million	xRoCA in %
Non-life reinsurance	(458.7)	(8.0)	185.6	+3.2	242.4	+4.4	(101.1)	(1.9)
Life and health reinsurance[1]	105.9	+11.2	193.0	+28.8	174.9	+40.1	149.1	+35.7
Consolidation	14.4		34.9		(11.1)		(13.4)	
Group	(338.3)	(5.0)	413.5	+6.4	406.2	+6.8	34.7	+0.6

1 In 2005 to 2007 the present value components are based on the European Embedded Value (EEV), from 2008 onwards they are based on the Market Consistent Embedded Value (MCEV).

underwriting account on the Group level too, a separate IVC will be shown for the functional area of investments from 2010 onwards.

In calculating the cost of capital, our assumption for the cost of shareholders' equity – based on a Capital Asset Pricing Model (CAPM) – is that the investor's opportunity costs are 450 basis points above the risk-free interest rate. Value is created in excess of this return. The definition of our targeted minimum return on equity as 750 basis points above "risk-free" thus already contains a not insignificant target value creation. Interest is calculated on the balancing items for present value at the underlying interest rates, and on debt capital at the actually paid interest for our hybrid capital. Weighted according to the composition of the allocated capital defined above, the weighted cost of capital applicable to all profit centres is calculated from these interest rates. We allocate equity sparingly and make efficient use of hybrid capital as well as other equity substitutes; our weighted cost of capital is consequently low, not only in absolute terms but also relative to our competitors (6.8% in 2008).

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

Value drivers

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

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

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

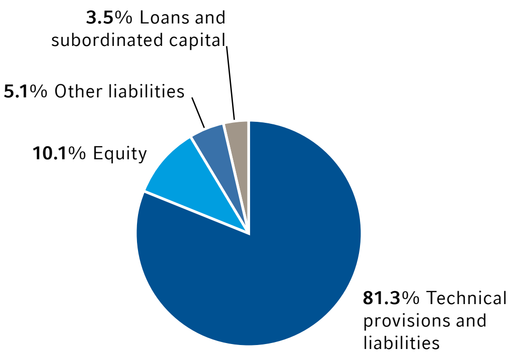
The IVC for the Group should be defined as close as possible to the annual financial statements so that the IVC can also be used for external reporting. On the other hand, the IVC calculation for the operational units is geared to the explicit identification of value drivers that require a more detailed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

Financial position

Analysis of our capital structure

The overall capital structure and composition of Hannover Re's liabilities and equity is essentially shaped by our activity as a reinsurer. By far the largest share is attributable to technical provisions and liabilities. Further elements are equity and equity substitutes, which help to substantially strengthen our financial base. We also use the latter with the goal of optimising our cost of capital. The following chart shows our capital structure as at 31 December 2009, split into equity, loans and subordinated capital, technical provisions and other liabilities, in each case as a percentage of the balance sheet total.

Capital structure



The technical provisions and liabilities shown, which include funds withheld/contract deposits and reinsurance payable, make up 81.3% (82.1%) of the balance sheet total and are more than covered by our investments, funds withheld/contract deposits, accounts receivable and reinsurance recoverables.

The equity including minorities at 10.1% (8.9%) of the balance sheet total as well as the loans and – especially – subordinated capital at 3.5% (3.8%) of the balance sheet total represent our most important sources of funds.

We ensure that our business is sufficiently capitalised at all times through continuous monitoring and by taking appropriate steering actions as necessary. For further information please see the section “Management of policyholders' surplus”.

Asset/liability management

Within the scope of our asset/liability management the allocation of investments by currencies and maturities is determined by the technical liabilities. The modified duration of our bond portfolio – at 3.7 – is geared largely to the average maturity of the technical liabilities. We thereby adjust the maturity pattern of the fixed-income securities to the expected payment patterns of our liabilities and reduce the economic exposure to the interest rate risk. In addition, through active and regular management of the currency spread in our fixed-income portfolio we bring about extensive matching of currencies on the assets and liabilities sides of the balance sheet, as a consequence of which fluctuations in exchange rates have no significant influence on our result. At year-end 2009 we held 44.6% of our investments in euro, 37.9% in US dollars and 6.5% in pound sterling.

Management of policyholders' surplus

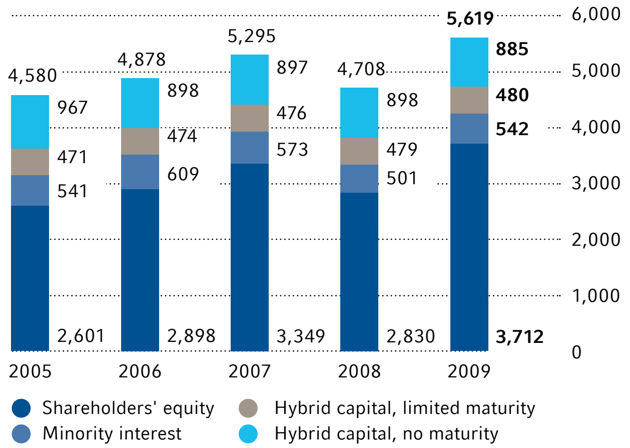
The preservation and consistent enhancement of its capital is a key strategic objective for Hannover Re. In recent years hybrid capital has been issued as an equity substitute in order to keep the cost of capital as low as possible. With the aim of achieving this goal, Hannover Re's capital management extends to the policyholders' surplus. The policyholders' surplus is defined as the sum total of

- shareholders' equity excluding minority interests, composed of the common shares, additional paid-in capital, other comprehensive income and retained earnings,
- minority interests and
- hybrid capital used as an equity substitute, which encompasses our subordinated debt.

The policyholders' surplus totalled EUR 5,619.1 million (EUR 4,708.4 million) as at the balance sheet date.

Hannover Re uses “Intrinsic Value Creation” (IVC) as its central value-based management tool. For more information on this concept as well as the objectives and principles in accordance with which we conduct our enterprise management and capital management the reader is referred to our remarks on value-based management on page 67 et seq. of this report.

Development of policyholders' surplus in EUR million



Hannover Re satisfies the capital expectations of the rating agencies that assess the Group's financial strength with an eye to our targeted rating. Some Group companies are subject to additional national capital and solvency requirements. All Group companies met the applicable local minimum capital requirements in the year under review. The parent company ensures that the local minimum capital requirements applicable to subsidiaries are always satisfied in accordance with the official requirements defined by insurance regulators.

In view of the thoroughly favourable result, the development of the shareholders' equity of the Hannover Re Group was highly gratifying. Compared to the position as at 31 December 2008, it increased by EUR 922.5 million in the year under review to EUR 4.3 billion. After adjustment for minorities, it increased by EUR 881.9 million to EUR 3.7 billion. The book value per share increased accordingly by 31.2% to EUR 30.78. The changes in shareholders' equity were shaped chiefly by the following movements.

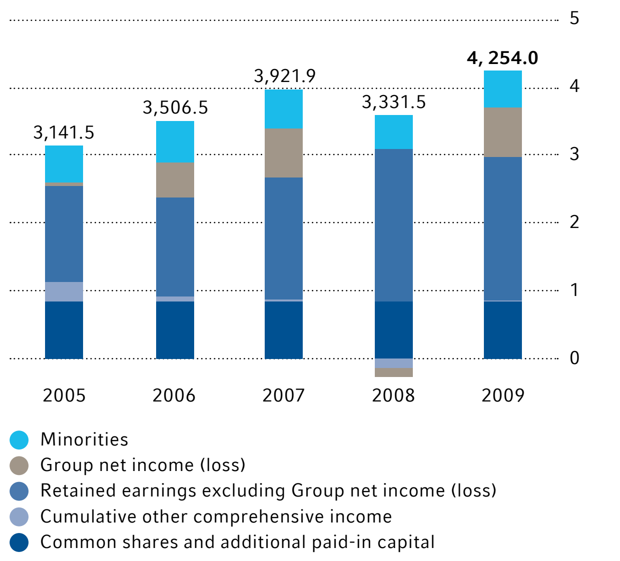
The Group net income for 2009 attributable to the shareholders of the Hannover Re Group climbed to EUR 731.2 million (–EUR 127.0 million).

Net unrealised gains on investments reached EUR 241.6 million, a figure EUR 127.7 million higher than at the beginning of the year under review. This rise derived in particular from the fall in the risk-free interest rate and the credit risk charges for corporate risks, as a consequence of which the net unrealised gains on our fixed-income securities classified as available for sale were further boosted.

The reserve for currency translation adjustment improved slightly by EUR 23.5 million to –EUR 224.1 million as a consequence of exchange rate fluctuations of foreign currencies against the euro in the year under review. The rise in the reserve for currency translation adjustment resulted above all from the appreciation of the Australian dollar (AUD) and the South African rand (ZAR).

Minority interests in Group shareholders' equity grew by EUR 40.7 million to EUR 542.1 million as at 31 December 2009. This increase derived primarily from the minority interest in profit of EUR 40.3 million generated in the year under review.

Development of Group shareholders' equity in EUR million



Liquidity and financing

We generate liquidity primarily from our operational reinsurance business, investments and financing measures. Regular liquidity planning and a liquid investment structure ensure that Hannover Re is able to make the necessary payments at all times. Hannover Re's cash flow is shown in the consolidated cash flow statement on page 99 et seq.

Consolidated cash flow statement in EUR million

	2009	2008
Cash flow from operating activities	1,751.9	1,458.9
Cash flow from investing activities	(1,786.3)	(1,034.1)
Cash flow from financing activities	57.7	(318.7)
Exchange rate differences on cash	3.9	(11.3)
Change in cash and cash equivalent	27.2	94.8
Cash and cash equivalents at the beginning of the period	430.2	335.4
Change in cash and cash flow equivalents according to cash flow statement	27.2	94.8
Cash and cash equivalents at the end of the period	457.4	430.2

Subordinated bonds in EUR million	Coupon in %	2009	2008
Hannover Finance (Luxembourg) S.A.	5.00	481.1	478.8
Hannover Finance (Luxembourg) S.A.	5.75	746.1	746.0
Hannover Finance (Luxembourg) S.A.	6.25	137.9	137.8
Hannover Finance Inc., Wilmington, USA	var.	–	14.3
Total		1,365.1	1,376.9

Cash flow from operating activities

The cash flow from operating activities, which also includes inflows from interest received and dividend receipts, amounted to EUR 1.8 billion in the year under review as opposed to EUR 1.5 billion in the previous year. The net inflow results not only from investment income but also from the positive experience of our reinsurance business and is notable, in particular, for appreciably lower claim payments than in the previous year.

Cash flow from investing activities

The net cash outflows from investing activities amounted to altogether EUR 1.8 billion in 2009, as against EUR 1.0 billion in the previous year. Along with the acquisition of real estate, predominantly in the United States and Germany, the funds were used primarily to enlarge the portfolio of high-quality fixed-income securities. Investments were made principally in government bonds. This contrasted with cash inflows from the acquisition of the US ING life reinsurance portfolio totalling EUR 104.3 million. Regarding the development of the investment portfolio please see also our remarks in the "Investments" section of the management report.

Cash flow from financing activities

Compared to cash outflows from financing activities of EUR 318.7 million in the previous year, net inflows of EUR 57.7 million were recorded in the year under review. This change was due first and foremost to the decrease of EUR 305.2 million in dividends paid relative to the previous year, resulting principally from the omission of a distribution by the parent company Hannover Re in the year under review. In addition, receipts from the taking up of long-term financial liabilities amounting to EUR 77.0 million outweighed repayments totalling EUR 15.1 million.

Overall, the cash and cash equivalents thus increased by EUR 27.2 million year-on-year to EUR 457.4 million.

For further information on our liquidity management please see page 67 et seq. of the risk report.

Financing

Hannover Re's debt financing on the capital market was essentially composed of subordinated bonds issued in past years to ensure lasting protection of our capital base. The total volume of debt and subordinated capital stood at EUR 1,481.3 million (EUR 1,420.0 million) as at the balance sheet date.

In addition, unsecured syndicated guarantee facilities exist with a number of financial institutions. For detailed information on existing contingent liabilities please see the notes, Section 6.12 "Debt and subordinated capital" and 8.6 "Contingent liabilities and commitments".

Analysis of our debt

Our subordinated loans and bonds supplement our equity with the aim of reducing the cost of capital and also help to ensure liquidity at all times. The table summarises the carrying amounts of our subordinated bonds.

In addition, several Group companies have taken up long-term debt – principally in the form of mortgage loans – amounting to EUR 116.2 million (EUR 43.1 million).

Effective 31 March 2009 Hannover Re exercised the call option allowed under the bond conditions – permitting scheduled redemption of the debt at nominal value for the first time – for the subordinated debt issued by Hannover Finance, Inc., Wilmington/USA, in the amount of USD 20.0 million that was still outstanding at that date. The debt was thus repurchased in full and cancelled in the year under review.

For further explanatory notes please see our remarks in the notes to this report, Section 6.12 "Debt and subordinated capital" and 6.13 "Shareholders' equity, minority interests and treasury shares".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"Something like that – a long-standing client of ours."

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

The common shares (share capital) of the company amount to EUR 120,597,134.00. They are divided into 120,597,134 registered no-par-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 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 5 May 2009 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, inter alia following a takeover bid, and describe the resulting effects. The letter of credit lines extended to Hannover Re contain standard market change-of-control clauses that entitle the 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. For details of the letter of credit lines please see our explanatory remarks on other financial facilities in the notes, Section 6.12 "Debt and subordinated capital", page 160.

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.

Financial strength ratings

Standard & Poor's (S&P) and A.M. Best, the rating agencies of greatest relevance to the insurance industry, assess the financial strength of Hannover Re on the basis of an interactive rating process and have awarded it very good ratings. The rating agencies highlight in particular the strength of the Hannover Re Group's competitive position, its capitalisation and risk management.

Financial strength ratings of the Hannover Re Group

	Standard & Poor's	A.M. Best
Rating	AA– (very strong)	A (excellent)
Outlook	negative	stable

Financial strength ratings of subsidiaries

	Standard & Poor's	A.M. Best
Clarendon America Insurance Co.	–	A –
Clarendon National Insurance Co.	–	A –
Clarendon Select Insurance Co.	–	A –
E+S Rückversicherung AG	AA –	A
Hannover Life Reassurance Africa Ltd.	A	–
Hannover Life Reassurance Bermuda Ltd.	AA –	A
Hannover Life Reassurance Company of America	AA –	A
Hannover Life Reassurance (Ireland) Ltd.	AA –	A
Hannover Life Reassurance (UK) Ltd.	AA –	A
Hannover Life Re of Australasia Ltd	AA –	–
Hannover Reinsurance Africa Ltd.	A	–
Hannover Re (Bermuda) Ltd.	AA –	A
Hannover Reinsurance (Ireland) Ltd.	AA –	A
Hannover ReTakaful B.S.C. (c)	A	–
Harbor Specialty Insurance Co.	–	A –
International Insurance Company of Hannover Ltd.	AA –	A

Enterprise management

Declaration of the Executive Board regarding the Corporate Governance of the Company as defined by § 289 a Para. 1 Commercial Code (HGB):

In the previous year Hannover Re was not in compliance with one recommendation of the German Corporate Governance Code (DCGK); this year, the company's implementation of the recommendations of the Code as amended 6 June 2008 and 18 June 2009 again diverges in one respect. In each case the recommendation in question refers to the inclusion of a cap on severance payments when concluding or renewing an Executive Board contract. The reason for this divergence is set out in the following Declaration of Conformity pursuant to § 161 Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code. The present and all previous Declarations of Conformity of the company are published on its website (http://www.hannover-re.com/about/corporate/declaration/index.html).

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 corporate governance. 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 diverged in one respect from the version of the Code dated 6 June 2008 (Code Item 4.2.3 Para. 4; Caps on severance payments in Management Board contracts). In its implementation of the version of the Code dated 18 June 2009 Hannover Rückversicherung AG again diverges from the recommendations in one respect:

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 3.8; D&O insurance, appropriate deductible for members of the Management Board and Supervisory Board:

Hannover Rückversicherung AG will comply with the recommendation to agree a deductible of at least 10% of the loss up to at least the amount of one and a half times the fixed annual compensation of the Management Board member under the directors' & officers' (D&O) insurance taken out by the company within the deadline set out in § 23 Para. 1 Introductory Act to the Stock Corporation Act (EGAktG) (1 July 2010). This shall also apply accordingly to members of the Supervisory Board.

We are in compliance with all other recommendations of the Code.

Hannover, 4 November 2009

Executive Board   Supervisory Board

Statement of Corporate Governance practices

Hannover Re's objective is to further expand its position as a major, optimally diversified reinsurance group of above-average profitability with a fast, flexible and undogmatic business approach. With motivation, power of innovation and the quality of our services we strive to be one of the three most profitable reinsurers in the world by boosting our profit and the value of the company by a double-digit percentage every year. All other goals, such as profitable growth, the protection of capital, motivated staff and a lean organisation, are derived from this overriding objective (http://www.hannover-re.com/about/strategy/index.html).

Corporate Governance

The principles of responsible and good enterprise management and supervision constitute the core of our Corporate Governance principles (http://www.hannover-re.com/resources/cc/generic/CGprinciples-e.pdf). Our efforts in the field of Corporate Governance are driven by the goal of achieving sustainable growth in the value of the company and consolidating the trust placed in the enterprise by our business partners, staff, shareholders and the general public through integrity at all times. On this basis Hannover Re supports the principles of value-based and transparent enterprise management and supervision as defined in the German Corporate Governance Code (DCGK) and recognises their importance in guiding its activities.

In the year just-ended, as in previous years, the company again had to adapt to numerous new statutory regulations in the area of Corporate Governance. German legislators alone adopted the Act on the Modernisation of Accounting Law (BilMoG), the Act on the Adequacy of Management Board Remuneration (VorstAG) and the Act on Implementation of the Shareholder Rights Directive – to name but a few. What is more, the German Corporate Governance Code was amended and its recommendations and suggestions were revised. These codifications were essentially a response to shortcomings in corporate governance that had come to light during the financial market crash and economic crisis. The new regulations affect virtually all areas of corporate governance and implement additional duties that are also reflected in new organisational requirements and give rise to further reporting duties.

The Code report for 2009 published by the independent Berlin Center of Corporate Governance on acceptance of the Code's recommendations and suggestions found that Hannover Re once again – as in previous years – ranked as one of the leaders among DAX- and MDAX-listed companies when it came to compliance with the provisions of the Code. Based on the version of the German Corporate Governance Code as amended 6 June 2008 which was used in the survey, Hannover Re fulfilled the recommendations to a level of 98.8% with one divergence and thereby comfortably surpassed the degree of fulfilment of both DAX- and MDAX-listed enterprises. On average, companies listed on the DAX and MDAX satisfied 80 and 76 respectively of the 84 recommendations, hence achieving acceptance levels of 94.9% and 90.7%.

The above-average level of compliance alone testifies to the considerable importance that Hannover Re attaches to good enterprise management and supervision in the spirit of state-of-the-art Corporate Governance. It continues to be enshrined in the company's business practices as a matter of course and it not limited to rigid adherence to formal rules. The Executive Board and Supervisory Board consistently address changes in the relevant legal framework conditions in a timely manner and the latest legal developments are promptly codified in internal corporate standards. With this in mind, the Rules of Procedure of the Executive Board and Supervisory Board and its committees underwent a thorough revision with an eye to the amendments of the German Corporate Governance Code in 2009. The full Supervisory Board reviewed and approved the system of remuneration for the Executive Board, including the major contractual components, and defined the total remuneration of the individual members of the Executive Board.

The Supervisory Board again conducted a review of the efficiency of its work using a self-assessment questionnaire. The aim here is to further optimise the cooperation between the Executive Board and Supervisory Board. The findings of the survey were collated by the Corporate Governance Officer in strict confidentiality and made available to the Supervisory Board in anonymised and aggregated form at its meeting held on 10 March 2010.

Compliance

A further essential consideration in the structuring of our corporate guidelines, other rules, business processes and our daily actions is the goal of avoiding liability and reputational risks that could adversely impact our business activities. With this in mind, the Executive Board revised the Code of Conduct most recently in mid-2008 (http://www.hannover-re.com/resources/cc/generic/codeofconduct-e.pdf). The rules elaborated therein are intended to help our staff cope with all relevant legal and ethical challenges in their day-to-day work, prevent conflicts of interest and generate trust through correct, value-based conduct. Compliance with our Code of Conduct will further strengthen the company's standing in the eyes of the public at large.

An interim compliance report for 2009 was submitted to the Supervisory Board setting out the structure and diverse range of activities of Hannover Re in this regard. After in-depth examination of topics such as directors' dealings, ad hoc reporting requirements, the insider register, adherence to internal guidelines and the Group-wide whistleblower system, the report concludes that no grounds can be identified for suspecting significant breaches of relevant standards. By strengthening our personnel resources in this area we intend to continue preventing breaches of the law and to safeguard integrity in the behaviour of staff and officers of Hannover Re, irrespective of whether the issues involved relate to anti-trust law, compliance with national or international embargo restrictions or equal treatment / non-discrimination. Compliance with statutory provisions – not only in terms of their letter but also their spirit – is our overriding priority.

Risk monitoring and steering

The risk management system applicable throughout the entire Hannover Re Group is based on the risk strategy, which in turn is derived from the company strategy. A core component is the systematic and comprehensive recording of all risks that from the current standpoint could conceivably jeopardise the company's profitability and continued existence. Further details in this regard may be obtained from the risk report contained in the Annual Report on page 53 et seq.

Working practice of the Executive Board and Supervisory Board

The Executive Board and Supervisory Board of Hannover Re work together on a trusting basis to manage and monitor the company. In accordance with the Rules of Procedure of the Executive Board, matters of fundamental importance such as the approval of strategic principles and objectives, the planning of the annual results or the adoption/modification of investment guidelines require the consent of the Supervisory Board. In addition, the Supervisory Board is kept informed on a regular and timely basis of the business development, the execution of strategic decisions, material risks and planning as well as relevant compliance issues. The Chairman of the Supervisory Board stays in regular contact with the Chairman of the Executive Board in order to discuss with him the company's strategy, business development and risk management. The composition of the Executive Board (including areas of responsibility) is set out on page 6, the composition of the Supervisory Board and its committees is set out on page 192 of this Annual Report.

The Rules of Procedure of the Executive Board are intended to ensure that a consistent business policy is elaborated and implemented for the company in accordance with its strategic objectives. Within the framework of a consistent business policy, special importance attaches to the principle of "delegation of responsibility". In the interests of shareholders, importance is expressly attached to an organisation that facilitates cost-effective, quick and unbureaucratic decision processes. Open and trusting co-operation geared to the interest of the whole is the foundation of success. In this context, the members of the Executive Board bear joint responsibility for the overall management of business. Irrespective of their overall responsibility, each member of the Executive Board leads their own area of competence at their individual responsibility within the bounds of the resolutions adopted by the Executive Board. Only persons under the age of 65 may be appointed to the Executive Board. The term of appointment shall be determined such that it expires no later than the end of the month in which the member of the Executive Board turns 65.

The Rules of Procedure of the Supervisory Board provide inter alia that each member of the Supervisory Board must have the knowledge, skills and professional experience required for orderly performance of their tasks and that the Supervisory Board must have a sufficient number of independent members. At least one independent member shall have technical expertise in the fields of accounting and the auditing of financial statements. Persons suggested to the Annual General Meeting as candidates for election to the Supervisory Board may not be older than 72 at the time of their election. Nominations shall take account of the company's international activities as well as diversity. For their part, each member of the Supervisory Board shall ensure that they have sufficient time to discharge their mandate. The Supervisory Board meets at least twice each calendar half-year. If a member of the Supervisory Board participates in less than half of the meetings of the Supervisory Board in a financial year, this shall be noted in the Supervisory Board's report. No more than two former members of the company's Executive Board may belong to the Supervisory Board.

The committees of the Supervisory Board prepare the decisions of the Supervisory Board within their area of competence and take decisions in lieu of the Supervisory Board within the scope of competence defined by the Rules of Procedure applicable to the committee in question.

The Finance and Audit Committee monitors the accounting process and the effectiveness of the internal control system, the risk management system and the internal auditing system. It also handles issues relating to compliance and the information system for the Supervisory Board and discusses the interim reports as well as the semi-annual report prior to their publication. It prepares the Supervisory Board's examination of the annual financial statement, management report and proposal for the appropriation of profit as well as of the consolidated financial statement and Group management report. In this context, the Finance and Audit Committee receives detailed information on the auditor's view of the net assets, financial position and results of operations as well as explanations of the effects of any modified recognition and measurement principles on the net assets, financial position and results of operations together with available alternatives. In addition, the committee prepares the Supervisory Board's decision on the commissioning of the independent auditor for the financial statements. It considers matters associated with the necessary independence of the auditor, the awarding of the audit mandate to the independent auditor, the determination of the audit concentrations and the fee agreement.

The Standing Committee prepares personnel decisions for the Supervisory Board and decides in lieu of the Supervisory Board on the content, formation, amendment and termination of contracts of employment with the members of the Executive Board with the exception of remuneration-related content as well as resolutions regarding their implementation. It bears responsibility for the granting of loans to the group of persons specified in §§ 89 Para. 1, 115 Stock Corporation Act and those considered equivalent pursuant to § 89 Para. 3 Stock Corporation Act as well as for the approval of contracts with Supervisory Board members in accordance with § 114 Stock Corporation Act. It exercises the powers arising out of § 112 Stock Corporation Act in lieu of the Supervisory Board and – in cooperation with the Executive Board – ensures that long-term succession planning is in place.

The Nomination Committee is tasked with proposing to the Supervisory Board appropriate candidates for the nominations that it puts forward to the Annual General Meeting for election to the Supervisory Board.

For further details of the activities of the Supervisory Board committees please see the explanations provided in the Supervisory Board Report on pages 192 to 195.

Information regarding the following items is provided in the remuneration report:

- Remuneration report for the Executive Board and individualised disclosure of the remuneration received by Supervisory Board members pursuant to Items 4.2.5 and 5.4.6 of the German Corporate Governance Code

- Securities transactions pursuant to Item 6.6 of the German Corporate Governance Code

- Shareholdings pursuant to Item 6.6 of the German Corporate Governance Code

- Information on share-based payment pursuant to Item 7.1.3 of the German Corporate Governance Code is provided in section 8.2 of the notes and in the remuneration report with respect to the members of the Executive Board.

Remuneration report

The remuneration report summarises the principles used to determine the remuneration of the Executive Board of Hannover Re and explains the amount of the income received by the Executive Board in the 2009 financial year on the basis of the Board members' work for Hannover Re and its affiliated companies. Furthermore, we set out the changes agreed upon as a consequence of the Act on the Adequacy of Management Board Remuneration (VorstAG), which entered into force on 5 August 2009. The Act on the Adequacy of Management Board Remuneration envisages inter alia that the remuneration structure at listed enterprises shall be oriented towards sustainable development of the company. In future, therefore, variable remuneration components shall have a multi-year measurement basis. The total remuneration of the individual Board members shall also be commensurate with their tasks and performances as well as with the position of the company.

In addition, the amount of remuneration paid to the Supervisory Board on the basis of its work for Hannover Re and its affiliated companies and the principles according to which this remuneration is determined are described.

The remuneration report is based on the recommendations of the German Corporate Governance Code and contains information which forms part of the notes to the 2009 consolidated financial statement as required by IAS 24 "Related Party Disclosures". In addition, we took into account the more specific provisions of DRS 17 "Reporting on the Remuneration of Members of Governing Bodies". Under German commercial law, too, this information includes data specified as mandatory for the notes (§ 314 HGB) and the management report (§ 315 HGB). These details are discussed as a whole in this remuneration report. Consequently, we have not provided any further explanation in the notes of the information discussed in the remuneration report.

Remuneration of the Executive Board

Responsibility

The Supervisory Board has hitherto delegated responsibility for determination of the amount of the remuneration paid to Hannover Re's Executive Board to the Standing Committee. The Act on the Adequacy of Management Board Remuneration stipulates that the full Supervisory Board shall decide on the determination of the total remuneration of the individual members of the Executive Board. At its meeting on 4 November 2009 the Supervisory Board amended the Rules of Procedure of the committee with immediate effect. Pursuant to Item 3.2 of the Rules of Procedure, the committee shall decide in lieu of the Supervisory Board on the content, formation, modification and termination of employment contracts with the members of the Executive Board with the exception of remuneration-related content. The latter shall be decided upon at a full meeting of the Supervisory Board.

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, an appropiate 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 longer-term incentive effect and risk element.

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 (performance bonus) and half on the net income generated by the Group as a whole (profit bonus).

The members of the Executive Board are also 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 earnings per share (EPS) calculated in accordance with IAS 33 "Earnings per Share". The external performance criterion is the increase in the value of the Hannover Re share. The benchmark used to measure this increase in value is the weighted ABN Amro Global Reinsurance Index. The benchmarks cannot be retrospectively altered.

Exercise of the stock appreciation rights does not give rise to any entitlement to the delivery of Hannover Re stock, but merely to payment of a cash amount linked to the performance of the Hannover Re share. The amount paid out is limited to a maximum calculated as a quotient of the total volume of compensation to be granted in the allocation year and the total number of stock appreciation rights awarded in the year in question. The waiting period before these virtual stock options may be exercised was two years until 31 December 2009. With the aim of making greater allowance for the long-term effect in the remuneration structure, the waiting period was extended to four years with effect from the 2010 allocation year. At the end of this remuneration report we explain in greater detail the changes decided upon by the Supervisory Board with effect from 1 January 2010 as a consequence of the Act on the Adequacy of Management Board Remuneration.

For further details of the virtual stock option plan please see the explanations provided in the notes to this Group Annual Report, Section 8.2 "Share-Based Payment".

Amount of remuneration received by the Executive Board

The total remuneration received by the Executive Board of Hannover Re on the basis of its work for Hannover Re and its affiliated companies is calculated from the sum of all components that resulted in a charge in the financial year concerned, irrespective of whether they accrued to the relevant Board member. Pecuniary advantages from non-cash compensation are also included. The stock appreciation rights granted have also been included in the total remuneration at their fair value on the date when they were granted. The figures for the previous year have been adjusted for comparative purposes since the presentation last year was based on the cash receipts and disbursements method.

In the 2009 financial year no stock appreciation rights were granted for the 2008 allocation year because the internal performance criterion was not satisfied; in the previous year 215,280 stock appreciation rights totalling EUR 0.5 million were granted for the 2007 allocation year. Stock appreciation rights granted in previous years were exercised in an amount of EUR 0.1 million (EUR 0.4 million).

As at 31 December 2009 the members of the Executive Board had at their disposal a total of 318,170 (484,232) granted, but not yet exercised stock appreciation rights with a fair value of EUR 2.1 million (EUR 1.4 million). The remuneration paid to former members of the Executive Board totalled EUR 0.7 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.

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. Commitments also exist on the basis of a defined contribution scheme. There were five (seven) individual commitments to the active Board members in the year under review. An amount of EUR 1.5 million (EUR 1.5 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 provi-

Total remuneration received by the Executive Board — in TEUR

	2009	2008	2007
Fixed emoluments	1,674.2	1,909.2	1,782.1
Variable bonuses[1]	2,383.3	1,804.1	2,689.2
Remuneration from Group companies netted with the bonus	116.7	113.5	145.3
Stock appreciation rights granted[2]	–	527.3	1,197.9
Taxable amount from non-cash compensation	144.7	91.1	84.9
	4,318.9	4,445.2	5,899.4
Change in the value of stock appreciation rights already awarded	704.2	(1,375.7)	(490.0)
Exercised stock appreciation rights	146.8	449.7	433.8
Total	**5,169.9**	**3,519.2**	**5,843.2**

1 At the balance sheet date, no Board resolution had yet been passed on the amounts to be paid for 2009. The amount shown for the variable bonuses is based on estimates and the corresponding provisions constituted.

2 Since the Supervisory Board decides upon the final allocation of the number of stock appreciation rights at the March meeting after the balance sheet date and given that the period of the stock appreciation rights commences on 1 January of the subsequent year, the stock appreciation rights to be awarded for the financial year are expensed in subsequent years.

sion stood at EUR 8.4 million (EUR 9.9 million) as at 31 December 2009. In addition, contributions to a pension fund in an amount of EUR 0.05 million were paid.

The remuneration paid to former members of the Executive Board and their surviving dependants, for whom thirteen (eleven) pension commitments existed, totalled EUR 1.3 million (EUR 1.3 million) in the year under review. Altogether, an amount of EUR 13.8 million (EUR 10.7 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 such 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.

In addition, the members of the Finance and Audit Committee (previously: "Balance Sheet Committee") formed by the Supervisory Board receive an emolument of 30% of the previously described fixed and variable remuneration for their committee work. The members of the Standing Committee formed by the Supervisory Board receive an additional emolument of 15% of the previously described fixed and variable remuneration for their committee work.

The Chairman of the Supervisory Board or of a Committee receives three times the aforementioned amounts, while a Deputy Chairman receives one-and-a-half times the said amounts.

No remuneration was approved for the members of the Nomination Committee.

While the remuneration in the following individualised presentation was geared to the date of cash receipt in the previous year, the presentation in the 2009 financial year was modified such that the expense charged to the financial year in question is shown. Since the remunerations for a financial year become due at the end of the Annual General Meeting that ratifies the acts of the Supervisory Board for the financial year in question, allowance is made for the relevant reserve allocations in light of any fractional amounts. Value-added tax payable upon the remuneration is reimbursed by the company.

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 Supervisory Board or their dependants with the approval of the Supervisory Board.

In 2009 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.

Individual remuneration received by the members of the Supervisory Board in EUR thousand

Name	Function	Remuneration	2009	2008
Herbert K. Haas	Chairman (from 5 May 2009) of the – Supervisory Board – Standing Committee – Finance and Audit Committee – Nomination Committee Member (until 4 May 2009) of the – Supervisory Board – Standing Committee – Finance and Audit Committee – Nomination Committee	Fixed remuneration	33.2	20.0
		Variable remuneration	198.8	29.1
		Remuneration for committee work	53.9	7.4
		Attendance allowances	7.5	6.0
			293.4	62.5
Dr. Klaus Sturany	– Deputy Chairman of the Supervisory Board – Member of the Standing Committee	Fixed remuneration	15.0	15.0
		Variable remuneration	57.2	–
		Remuneration for committee work	6.3	–
		Attendance allowances	3.0	3.5
			81.5	18.5
Wolf-Dieter Baumgartl	Chairman (until 5 May 2009) of the – Supervisory Board – Standing Committee – Finance and Audit Committee – Nomination Committee Member (from 6 May 2009) of the – Supervisory Board – Standing Committee – Finance and Audit Committee – Nomination Committee	Fixed remuneration	21.8	30.0
		Variable remuneration	106.0	–
		Remuneration for committee work	32.0	19.6
		Attendance allowances	7.0	6.0
			166.8	55.6
Uwe Kramp[1]	Member of the Supervisory Board	Fixed remuneration	10.0	10.0
		Variable remuneration	36.7	–
		Remuneration for committee work	–	–
		Attendance allowances	2.5	1.5
			49.2	11.5
Karl Heinz Midunsky	Member of the – Supervisory Board – Nomination Committee	Fixed remuneration	10.0	10.0
		Variable remuneration	36.7	–
		Remuneration for committee work	–	–
		Attendance allowances	2.5	2.0
			49.2	12.0
Otto Müller[1]	Member of the Supervisory Board	Fixed remuneration	10.0	10.0
		Variable remuneration	36.7	–
		Remuneration for committee work	–	–
		Attendance allowances	2.5	2.0
			49.2	12.0
Dr. Immo Querner	Member of the Supervisory Board	Fixed remuneration	15.0	15.0
		Variable remuneration	55.5	14.6
		Remuneration for committee work	–	–
		Attendance allowances	4.5	3.5
			75.0	33.1

1 Employee representatives

Individual remuneration received by the members of the Supervisory Board			in EUR thousand	
			2009	2008
Name	Function	Remuneration		
Dr. Erhard Schipporeit	Member of the – Supervisory Board – Finance and Audit Committee	Fixed remuneration	10.0	10.0
		Variable remuneration	37.2	–
		Remuneration for committee work	12.7	–
		Attendance allowances	3.5	3.0
			63.4	13.0
Gert Waechtler[1]	Member of the Supervisory Board	Fixed remuneration	10.0	10.0
		Variable remuneration	36.7	–
		Remuneration for committee work	–	–
		Attendance allowances	2.5	1.5
			49.2	11.5
Total			876.9	229.7

1 Employee representatives

Securities transactions and shareholdings (directors' dealings)

Dealings in shares, options and derivatives of Hannover Rückversicherung AG effected by members of the Executive Board or Supervisory Board of Hannover Re or by other persons with managerial functions who regularly have access to insider information concerning the company and who are authorised to take major business decisions – as well as such dealings conducted by certain persons closely related to the aforementioned individuals – in excess of EUR 5,000 are to be reported pursuant to § 15a Securities Trading Act (WpHG). The following reportable transactions took place in the 2009 financial year.

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 2009 the total holding amounted to 0.055% (0.058%) of the issued shares, i.e. 66,086 (69,991) shares.

Changes approved for the 2010 financial year as a consequence of the Act on the Adequacy of Management Board Remuneration

With an eye to § 87 Para. 1 Stock Corporation Act as amended by the Act on the Adequacy of Management Board Remuneration, the full Supervisory Board undertook for the first time a review of the fixed emoluments of individual members of the Executive Board. In view of the changes in the legal situation, the profit bonuses for the members of the Executive Board were also restructured and the conditions of the stock option plan applicable to the Executive Board were adjusted to reflect the new legal framework.

Securities transactions

Name	Type of transaction	Type of security	ISIN	Transaction date	Number of securities	Price in EUR	Total volume in EUR
Ulrich Wallin	Purchase	Bond	XS0187043079	10.12.2009	115[1]	96.50	110,975.00
Ulrich Wallin	Purchase	Share	DE0008402215	11.08.2009	3,000	29.90	89,700.00
Wilhelm Zeller	Purchase	Bond	XS0187043079	26.03.2009	41[1]	64.59[3]	26,479.85
Wilhelm Zeller	Purchase	Bond	XS0187043079	24.03.2009	36[1]	63.56[2]	22,880.16

1 The bonds have a nominal value of EUR 1,000.00 each
2 Rounded, the average price was EUR 63.556
3 Rounded, the average price was EUR 64.585

At its meeting on 4 November 2009 the Supervisory Board considered the restructuring of the profit bonus. Among other things, the calculation of the "Earnings per Share (EPS)" on a rolling three-year average, the capping of the profit bonus to a maximum 1.5 times the average target EPS of the last three financial years and the elimination of the guaranteed portion of the profit bonus were decided upon for the 2010 financial year.

In addition, at the same meeting the Supervisory Board decided to extend the waiting period from two to four years for the Executive Board with respect to stock appreciation rights granted from the 2010 allocation year onwards. Upon expiry of this waiting period a maximum 60 percent of the stock appreciation rights granted for an allocation year may be exercised. The waiting period for a further 20 percent of the stock appreciation rights awarded for this allocation year is another year. Stock appreciation rights that have not been exercised lapse once ten years have passed since the date of allocation.

The following table summarises the future structure of the Executive Board's remuneration.

Employee remuneration

Performance management is embedded into the Performance Excellence process at Hannover Re. Departmental and individual goals are derived from the strategic corporate objectives. By linking agreements on objectives and

Structure and system of Executive Board remuneration with effect from 1 January 2010

Component	Assessment basis / parameter	Condition of payment	Paid out
Basic remuneration, non-cash remuneration, fringe benefits			
Basic remuneration Non-cash remuneration / fringe benefits (company car, insurance)	Function Responsibility Length of service on the Executive Board	Contractual stipulations	Monthly
Short-term remuneration components			
Performance bonus	Individual contribution to the overall performance Leadership skills Innovative skills Entrepreneurial skills Accomplishment of personal objectives	Accomplishment of objectives	Annually in following year
Medium-term remuneration components			
Profit bonus	Earnings per share (EPS), calculated on a rolling three-year average, x individual EPS basic amount (graduated according to area of responsibility and professional experience), limited to at most 1.5 times the average target EPS of the last three financial year	Contractual stipulations	Annually in following year
Stock option plan			
Long-term incentive plan (stock appreciation rights)	Internal performance criterion (target performance defined by the Supervisory Board, expressed in "diluted earnings per share" according to IAS 33) External performance criterion (movement in the share price in the allocation year relative to the ABN Amro Global Reinsurance Index)	Exercise of ABR	In the fifth year after the end of the allocation year ("maximal"60%), "maximal" 20% each in the sixth and seventh years
Retirement provision			
Pension entitlement	Basic remuneration Years of service on the Executive Board	Retirement, insured event, premature termination or non-extension of employment contract under certain circumstances	–

Number of participants in variable remuneration systems	
Group of participants 2009	Number[1]
Senior executives	73
GBP participants: Managerial levels up to the rank of Chief	459
Total participants	**532**
Proportion of the total workforce	51.6%

1 Hannover Home Office

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 components foster individual initiative. The variable portion for the managerial group is dependent upon hierarchical level. On the first management level (Managing Director) the remuneration breaks down into 60% fixed annual salary and 40% variable component. The remuneration of Associate Directors (second management level) is based on a split into 70% fixed and 30% variable components. The variable remuneration components are linked to agreements on targets, which for Managing Directors in the treaty departments are split equally into economic targets (Group result, operating profit (EBIT), earnings per share, xRoCA target, combined ratio and contribution margin (DB) level 5 as well as individual targets. In the service departments the agreements on targets are linked to internal customer surveys (25%), appraisal of managers by staff (10% to 30%) and individual targets (35% to 65%). The individual targets are in turn derived from the Performance Excellence process (leadership, business policy, advancement and skills enhancement, resources management, processes, employee motivation, customer satisfaction, business results). The target agreement process is directed by Human Resources Management and Group Controlling Services. Goal accomplishment is subject to the approval of the full Executive Board, which means that a correction is possible. While the MbO (Management-by-Objectives) process accommodates short-term goals, the long-term success of the company is reflected in our virtual stock option plan (cf. Section 8.2 of the Notes). For staff on the level of Manager or higher we introduced a remuneration model linked to the company's success in 2004, namely the Group Performance Bonus (GPB). This tool is geared to the minimum return on equity of 750 basis points above the risk-free interest rate and the return on equity actually generated. In the year under review the targets were surpassed, and the maximum amount of the GPB can therefore be paid out for the third time since its implementation.

Forecast

Economic development

The global economic recovery is set to continue in 2010. The pace will, however, likely be moderate since business activity remains under considerable strain despite the improved environment in the major economic regions. This is because, among other factors, the proper functioning of the world's financial markets is still impaired. The already difficult state of the labour markets is expected to worsen. Last but not least, the impetus from the political sphere will weaken as the year progresses: economic stimulus programmes, which played a significant role in stabilising and reviving business activity, are for the most part coming to an end. Most notably, tax incentives from the political side will be scaled back, since the budgets of many countries are under heavy pressure. All in all, it is likely that the economic trend will gradually run out of steam.

Following a relatively vigorous surge in gross domestic product (GDP) in the United States, this is likely to flatten off over the course of the year. The strains caused by the crisis in the financial system are heavy. 2010 is expected to bring a decline in consumer spending and a rise in the savings rate. Incomes have also been hit hard by the sharp climb in unemployment. Overall output in the US is actually expected to contract in 2010. Despite this trend, however, the United States will not slip back into recession, although its weakness will be a drag on the global economy. The ifo Institute for Economic Research estimates real growth in GDP for 2010 at 1.8%.

The upswing in Germany is likely to be only modest in 2010. Endogenous stimulating factors will gradually gain in strength again, although flanking economic stimulus programmes are slowly being wound up. New capital investment and job creation are being hampered by restrictive lending practices. The upsurge in exports should remain moderate, since the economy is scarcely improving in key buyer countries. The import trend presents a similar picture. The average figure for real growth in GDP calculated by the ifo Institute is 1.7% for the year.

Economic activity in the Eurozone should pick up somewhat. It is, however, unclear how vigorous the revival will be. The pace of growth will probably flatten off as economic stimulus programmes come to an end.

China's economic outlook for 2010 is again positive. Although the government's extensive stimulus package will end towards the middle of the year, the German ifo Institute still expects GDP to grow by 7.8% in 2010.

The economic upswing in Japan will be lacklustre initially, before slowing gathering momentum. Domestic demand will scarcely pick up, while foreign trade should benefit from the resurgence of economic activity in the emerging markets of Asia.

Capital markets

Movements on international bond markets will be shaped in 2010 by prudent steering against the current of the prevailing expansionary monetary policy on the part of central banks. Furthermore, market players will have to focus on increased sovereign default risks and it remains to be seen whether the early phase of economic easing in developed countries will be sustained for the long term. In the first half of the year the economic ratios for the major currency zones will likely lead to a slight increase in long-term yields. As the year progresses the anticipated slowdown in growth as well as inflationary expectations – which are growing in prominence given the substantial money supplies – should be reflected in greater volatility in mid- and long-term yields. Since central banks will probably have little room for manoeuvre, yield curves are expected to remain very steep.

Insurance industry

The international insurance industry will again play an important part in stabilising the economy in 2010. The effects of the economic crisis on the German insurance industry should be moderate. Looking at the available projections, a premium contraction of around 0.5% is anticipated for the coming year and hence a very robust and satisfactory performance by industry standards.

Non-life reinsurance

The renewals as at 1 January 2010 – the date on which a good two-thirds of our treaties were renegotiated – passed off largely in line with expectations. We are satisfied with the achieved results. Insurers and reinsurers alike have overcome the repercussions of the financial market crisis rather quickly and for the most part rebuilt the lost capital. Sufficient capacity was therefore available, and prices broadly held stable. They even softened slightly in loss-free segments; rate increases were observed in lines that had seen heavy losses, such as aviation reinsurance.

That prices largely remained stable is a reflection of the underwriting discipline practised among reinsurers. Given that the returns obtainable on investments are lower on account of the reduced interest rate level, greater attention is now directed towards the underwriting result. We anticipate that a combined ratio of less than 97% is attainable in non-life reinsurance for 2010, provided catastrophe losses remain within the bounds of our assumptions.

In our acceptances we concentrate particularly on segments in which risk-adequate premiums can still be obtained or where prices are rising. The latter is especially true of aviation as well as credit and surety reinsurance. In light of the equity requirements arising out of "Solvency II", reinsurance is taking on even greater significance as a tool for insurers – and we therefore anticipate modest growth in premium income.

In the course of the renewals it was again evident that our clients attach considerable importance to the ratings of their reinsurers; this applies above all to the underwriting of long-tail casualty business. In this area a very good rating is a necessary prerequisite in order simply to be asked to submit a quotation. Thanks to its very good ratings ("AA–" from Standard & Poor's and "A" from A.M. Best) Hannover Re is one of the reinsurers to meet this condition without reservation.

Target markets

We are optimistic about the business development in our target market of Germany: the treaty renewals passed off more favourably than expected. Thanks to improved conditions – sometimes markedly so – our subsidiary E+S Rück generated a highly satisfactory result in its domestic market. We expanded our customer base by establishing new business relationships, thereby extending our leading position in the lucrative German market.

In motor business we obtained rate increases following a higher claims frequency in this line in the third quarter of the year under review. It is gratifying to note that we were able to slightly reduce commissions under quota share cessions in proportional business. The increase in motor liability tariffs announced by insurers also offers potential leverage for boosting profitability in 2010. Remuneration for motor excess of loss programmes was further improved, hence building on the trend seen in the previous year.

The treaty renewals in North America were satisfactory overall and unspectacular; there was relatively little movement in the market. We expect that our portfolio will at least stay on a stable level. An increase in premium income in the original currency is certainly still attainable; the outcome of further renewal phases remains to be seen, since these dates are of greater significance in US business than in other markets.

Price movements in original business in the property lines were less attractive, prompting us to limit our proportional acceptances. Rates in non-proportional business, on the other hand, were stable. During the renewals we were able to gain market shares in the segment comprised of mid-sized enterprises.

The casualty lines did not see any further increases in retentions on the primary insurance side. Capacities are limited – especially for directors' and officers' (D&O) covers – and, what is more, expensive. Hannover Re maintained its portfolio on a constant level here, as was also true of errors and omissions (E&O) insurance. Our casualty portfolio should hold stable in the current year. We expect to see modest premium growth in total business.

Specialty lines

As far as our specialty lines are concerned, the round of treaty renewals as at 1 January 2010 offered a mixed picture: as expected, slight rate reductions were observed in marine business after very good results in 2009. In the face of falling prices in the energy sector we scaled back our exposures. Our goal is to further improve the regional diversification of the portfolio and to act on business opportunities in countries outside Western Europe and the United States. Overall, we expect the premium volume in marine business to contract slightly in 2010.

The rate trend in aviation reinsurance was favourable, with increases in the lower double digits virtually across the board. These were, however, expected in view of the significant major claims experience in the year under review. We stepped up our acceptances with major airlines and thereby improved our position overall. In general aviation business rates were stable, albeit on a low level. In the space segment they have now come under pressure following the profitable performance in 2009. We expect to generate rising premium income for our total aviation portfolio in the current financial year.

Rate movements in credit and surety reinsurance remain positive, and our premium volume will thus increase again in 2010. This is true of credit and surety business as well as political risks. In view of the challenging economic climate we are nevertheless standing by our cautious underwriting strategy: our acceptances are concentrated on existing clients, and we only write larger shares in areas where conditions are highly attractive or promise considerable improvement.

Following on from the reductions already achieved in proportional credit business in the year under review, further cuts in reinsurance commissions were possible in the treaty renewals for 2010. All in all, it may be stated that cedants rewarded our client-oriented approach while credit business was experiencing a difficult phase. Conditions in surety business held stable during the 2010 renewals, and commissions improved again on 2009. Since US (non-proportional) business showed signs of rate softening after seven years without significant losses, we slightly reduced our participation. Rate increases as well as lower commissions were obtained for 2010 in the area of political risks.

The premium increases generated by the renewals at the beginning of the year left the split of our three lines virtually unchanged: the proportion of credit business stands at roughly 55%, surety accounts for around 35% and political risks have a share of about 10%. Although the general environment in credit business will not be easy for 2010, we see very good scope overall to further strengthen our market position. Significantly better conditions, falling loss ratios and reduced liabilities should appreciably boost our result for the current financial year.

We are thoroughly satisfied with the development of our structured reinsurance products. Given the likelihood of more exacting capital adequacy requirements under Solvency II, further growth will be possible in Europe. Potential for surplus relief contracts is opening up in emerging markets, since here too risk-based capital models are increasingly being adopted. While rates in the US and UK fell slightly, we achieved stable conditions for other markets. We are pressing ahead in 2010 with our strategy of enhancing our portfolio's regional diversification. All in all, we are looking forward to a pleasing financial year.

Demand for insurance-linked securities had already rallied in 2009, and we expect to see increased levels of market activity in 2010. This can be attributed to the improved liquidity position of investors. We shall profit from this in multiple respects: on the one hand, in our function as a service provider for clients and investors that transfers (re)insurance risks predominantly from insurance companies to the capital market, and on the other hand as an investor through our own actively managed ILS funds with a total volume currently in the order of USD 150 million. What is more, in 2010 we shall build on our previous successful risk transfers to the capital market ("Globe Re", "Fac Pool Re").

The treaty renewals in the United Kingdom were broadly satisfactory. In motor insurance rates moved slightly higher and are still adequate. Rates in liability business and workers' compensation insurance held stable or declined slightly, but they improved in the financial institutions sector.

In direct business we anticipate good business conditions and rising premium volume for 2010. Our new branch of Inter Hannover in Australia will extend its operations. In South Africa, too, we expect to see growth in premium income. In this market the upcoming Soccer World Cup should also have a positive effect on the business climate with an eye to increasing liabilities.

Global reinsurance

Overall, we see very good opportunities in the global reinsurance segment, both in retakaful business – i.e. reinsurance transacted in accordance with Islamic law – and in facultative reinsurance. The markets of Central and Eastern Europe also promise to develop very favourably.

In Western and Southern Europe rates held stable for long-tail business, while softening slightly for short-tail business. We expect builders' risk covers in France – an area where we are the market leader – to offer further good business opportunities. Rates here were largely unchanged.

The development of markets in Central and Eastern Europe, which are a strategic focus for our company, is similarly positive. Demand here for reinsurance products is rising, and we therefore expect our premium income to continue growing on the back of unchanged healthy profitability.

Increased competition is making itself felt in Latin American markets, as it is in Brazil too. We are nevertheless looking to boost our premium volume here slightly.

Contrary to expectations, prices in original business did not increase in China. Despite this, we were able to push through reduced commissions in some instances. We expect our premium volume to grow slightly in the current financial year. In this respect, our new branch in Shanghai offers the optimal platform for further expanding our position in China. In other Southeast Asian markets such as Malaysia we are looking to generate moderate premium growth. In the Japanese market – where treaties are for the most part renewed on 1 April – the premium volume should remain stable.

In 2010 we can look back on our Australian branch's 25 years of successful development. Rising prices in non-proportional business combined with opportunities arising out of the reinsurance of new agency business will likely generate further premium growth.

As expected, rates in worldwide catastrophe business came under pressure in the treaty renewals as at 1 January 2010. This can be attributed to the fact that primary insurers were able to rebuild the capital lost as a consequence of the financial market crisis more quickly than had been anticipated. Another factor here was the untroubled catastrophe loss experience in the year just-ended. Should 2010 similarly be spared sizeable (natural) catastrophe events, the pressure on premiums will be sustained. What is more, sufficient reinsurance capacity is available in the market.

Rate reductions were especially marked in the United States; this was true of property catastrophe covers as well as workers' compensation and personal accident insurance. Price increases were, however, possible in areas where programmes had suffered losses, such as property business in the Mid-West.

We obtained stable rates in our domestic German market. The events of 2009 – the earthquake in Abruzzo as well as hailstorms – prompted price increases in Italy, the extent of which nevertheless fell short of our expectations. A price decline in France was prevented by winter storm "Klaus", and rates were either unchanged or even rose in some areas. The increased claims frequency caused prices in Central and Eastern Europe to move higher – while exposures were at the same time reduced.

In view of the conditions on the markets, we are satisfied with the outcome of the renewals in worldwide catastrophe business. In Japan, another major market for natural catastrophe covers, treaties are renewed on 1 April rather than 1 January. In contrast to 2009, we anticipate rate reductions in the current financial year.

We are seeing consistent demand for agricultural covers, which protect inter alia against risks to crops and livestock. This market will continue to expand on account of the growing importance attached to food security. We support our clients with product development activities and cooperate with international organisations with an eye to leveraging potential openings.

The retakaful segment continues to show considerable promise. We anticipate further premium increases in the coming years. In 2010 growth is to be expected above all in engineering business in Saudi Arabia and Abu Dhabi. Given that the insurance density in Arab markets is still relatively modest overall, retakaful business still offers substantial potential.

In the area of facultative reinsurance, i.e. the underwriting of individual risks, only around 40% of our portfolio is renewed as at 1 January. We achieved largely stable rates here. In Europe we enlarged our market shares in certain segments, such as French casualty business. While prices similarly remained unchanged in US casualty business, marked premium erosion was witnessed in property business. Premiums in Asia grew, and we are looking to further extend our participation here. Expectations of improved rates in the energy sector have so far failed to materialise. On the whole, it is our assumption that the premium volume in facultative reinsurance will grow.

All in all, terms and conditions in worldwide non-life reinsurance continue to be favourable for Hannover Re. Our financial strength puts us in a better position to profit from the available market opportunities. Our excellent rating smoothes our path towards generating attractive business. In non-life reinsurance our focus remains firmly directed towards profitable niche markets, and we expect business to develop very favourably in the current year and beyond.

Life and health reinsurance

Even under the shadow of the international financial market crisis, we anticipate a favourable constellation in life and health insurance from the medium-term perspective; in most markets this will lead to further dynamic growth on account of long-range demographic changes.

Hannover Life Re's "Five Pillar" model demonstrated its resilience even during the volatile years of 2008/2009, and we shall therefore persevere systematically with this strategic approach. Areas of concentration for the year ahead will be the US mortality market (part of the "conventional reinsurance" pillar) as well as UK annuity and pension business (part of the "new markets and products" pillar). We shall also put a clear emphasis on the expansion of our portfolios in Greater China and Japan, a priority that will be reflected in the allocation of the necessary resources.

On the demand side we expect the strong international interest in financially oriented reinsurance solutions to be sustained because other models for strengthening the solvency base of primary insurers – such as direct capital increases or securitisations – have not yet attracted sufficient attention from shareholders or the financial markets.

The main drivers of our business development in the current year will continue to be the mature insurance markets of the United States, United Kingdom, Germany, Australia, South Africa and France. In all these markets we are recognised as a leading reinsurer – a role that we intend to build on systematically.

We consider the expansion of our infrastructure, which in recent years led to the establishment of new locations in Bermuda, Shanghai, Seoul, Mumbai and Rio de Janeiro, to be largely completed.

Following the acquisition of the ING life reinsurance portfolio and our entry into the traditional mortality market, the United States will be Hannover Life Re's most significant market for some years to come.

In the United Kingdom it is our assumption that business involving the biometric risk of longevity – both in the form of enhanced annuities with a reduced payment period and through the assumption of risks associated with existing pension funds – will prove to be a significant growth sector. From the standpoint of the pandemic catastrophe risk, this business takes on a risk-minimising role through biometric diversification effects.

For the German and Australian markets we anticipate moderate growth rates, while we are looking to comfortable double-digit percentage increases annually for major emerging markets such as Greater China – not only in the short but also the medium term.

Our business opportunities and risks

Non-life reinsurance

Irrespective of the expectations for individual segments and markets, it should be noted that the probabilities of occurrence for (natural) catastrophes in terms of their number and scale as well as their magnitude for the insurance industry are subject to considerable fluctuations. Hence, the total burden of losses in the current financial year may be significantly higher or lower than catastrophe loss assumptions based on multi-year trends and averages.

In numerous lines there is a correlation between the state of the overall economy and the claims frequency. If the economy picks up during the current year, this will generally lead to higher claims frequencies – for example in the motor and engineering lines. In credit and surety reinsurance the correlation is inverted: as insolvency numbers rise, so do loss ratios – but also prices for reinsurance covers.

General growth stimuli for non-life reinsurance are expected to come from the more exacting requirements placed on companies' risk-based capital resources; for them, the transfer of risk to reinsurers with good ratings offers an economically attractive alternative.

Life and health reinsurance

The general framework conditions in international life and health reinsurance can in principle be described as favourable for the coming two to three years. In developed insurance markets such as the United States, Japan, United Kingdom and Germany this assessment is coloured by the demographic trend, i.e. the ageing of the population, as reflected in heightened risk awareness. This is of particular benefit to annuity and health insurance products. Increasing urbanisation in leading emerging markets such as China, India and Brazil is fostering a rapidly growing middle class, which to a greater extent than before is clamouring for insurance solutions designed to protect surviving dependants and afford individual retirement provision for policyholders.

With this in mind, primary insurers are looking for tailored reinsurance solutions that support their own capital, liquidity and risk management. This longer-term trend has been particularly evident during the international financial market crisis, which also left a clear mark on the insurance sector. In the coming years we expect the reinsurance market to develop a more vigorous growth momentum than the primary market. Despite fierce yet professionally conducted competition among life/health reinsurers, earnings prospects will remain on a satisfactory level.

Investments

In view of the low yield level on government bonds and the reduced risk premiums on corporate bonds, we do not anticipate any significant improvements in investment income. What is more, we believe that there is an increased probability of a rise in yield curves, as a consequence of which equity impairments from medium- to long-dated bonds are possible.

We are keeping a very close eye on stock markets in view of the continued anticipated volatility. When contemplating our potential re-entry into equity investments, we shall also take into consideration the changes in IFRS accounting for financial instruments that are currently under discussion.

Our strategy of stepping up investments in real estate will continue in 2010. We anticipate further attractive opportunities here in our focus markets of Germany and the United States.

When it comes to alternative investments, we shall invest within the limits of our investment strategy since we see here a means of risk diversification and a chance to boost our return.

Overall business outlook for 2010

For non-life reinsurance we anticipate net premium growth of around 4% in the original currencies as well as a healthy profit contribution. In life and health reinsurance we are planning to grow net premium by roughly 10% in the current year. In terms of the operating profit (EBIT), we envisage a gratifying EBIT margin. Given the expected absence of special effects such as those recorded in 2009, the figure will be on a normalised level – i.e. below that of the previous year.

The expected positive cash flow that we generate from the technical account and our investments should – subject to stable exchange rates – lead to further growth in our asset portfolio. In the area of fixed-income securities we continue to stress the high quality and diversification of our portfolio. We are targeting a return on investment of 3.5% for 2010.

Bearing in mind the favourable market conditions described above in non-life and life/health reinsurance as well as our strategic orientation, we are looking forward to another good financial year in 2010. We expect our gross and net premium volume in total business to grow by about 5%.

For the 2010 financial year one positioning is such that we have a thoroughly realistic chance of building on the good performance of 2009 – adjusted for non-recurring effects. As things currently stand, we anticipate a return on equity of at least 15%. This is subject to the premise that the burden of catastrophe losses does not significantly exceed the expected level of around EUR 500 million and that there are no drastically adverse movements on capital markets. As in past years, we are aiming for a dividend in the range of 35% to 40% of Group net income.

Outlook for 2011/2012

Looking beyond the current financial year, we expect continuing favourable conditions in our two business groups of non-life reinsurance and life/health reinsurance.

In non-life reinsurance we are guided exclusively by profit rather than growth targets. Our goal here is to achieve an EBIT margin of at least 10% each year.

In life and health reinsurance we have set ourselves an annual growth target of 10% to 12% for gross premium income. Along with our organic growth we anticipate – as in the case of the ING transaction – portfolio acquisitions from the developed insurance markets. We are targeting an EBIT margin in the range of 6% to 7%.

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.

Strategic targets

Business group	Key data	Strategic targets
Non-life reinsurance	Combined ratio	≤ 100%
	Net catastrophe loss expectancy in EUR million	≤ 500
	EBIT margin	≥ 10%
	IVC margin[1]	≥ 2%
Life and health reinsurance	Gross premium growth	10 – 12%
	EBIT margin	6 – 7%
	MCEV increase[2]	≥ 10%
	Increase in the value of new business	≥ 10%
Group	Investment return	≥ 3.5%[3]
	Minimum return on equity	≥ 11.1%[4]
Triple-10 target	EBIT growth	≥ 10%
	Growth in earnings per share	≥ 10%
	Growth in book value per share	≥ 10%

1 IVC/net premium earned
2 MCEV increase on the basis of the adjusted MCEV of the previous year after elimination of capital changes and changes from currency effects
3 Risk-free interest rate + cost of capital
4 750 basis points above the risk-free return

"Tomorrow we'll be getting a presentation from Hannover Re."

"You can look forward to some surprising moves, incisive passing and good finishing."

Consolidated balance sheet

Assets in EUR thousand	Notes	31.12.2009	31.12.2008[1]
Fixed-income securities – held to maturity	6.1	2,953,489	1,475,202
Fixed-income securities – loans and receivables	6.1	2,701,831	1,680,857
Fixed-income securities – available for sale	6.1	13,805,048	14,482,832
Fixed-income securities – at fair value through profit or loss	6.1	235,149	254,528
Equity securities – available for sale	6.1	19,357	22,589
Other financial assets – at fair value through profit or loss	6.1	58,273	44,654
Real estate and real estate funds	6.1	216,801	25,514
Investments in associated companies	6.1	128,316	128,680
Other invested assets	6.1	578,861	784,421
Short-term investments	6.1	1,352,475	807,719
Cash		457,412	430,225
Total investments and cash under own management		**22,507,012**	**20,137,221**
Funds withheld	6.2	11,589,558	9,264,618
Contract deposits	6.3	625,481	288,782
Total investments		**34,722,051**	**29,690,621**
Reinsurance recoverables on unpaid claims	6.7	1,747,991	2,079,168
Reinsurance recoverables on benefit reserve	6.7	104,868	159,151
Prepaid reinsurance premium	6.7	47,651	29,733
Reinsurance recoverables on other technical reserves	6.7	400	9,928
Deferred acquisition costs	6.4	1,838,450	1,860,783
Accounts receivable	6.4	2,869,874	2,801,762
Goodwill	6.5	44,393	42,833
Deferred tax assets	7.5	515,867	549,146
Other assets	6.6	369,485	260,265
Accrued interest and rent		3,189	6,824
Total assets		**42,264,219**	**37,490,214**

1 Adjusted on the basis of IAS 8. For details please see Section 3.1 “Changes in accounting policies”.

Liabilities in EUR thousand	Notes	31.12.2009	31.12.2008[1]
Loss and loss adjustment expense reserve	6.7	17,425,293	16,932,069
Benefit reserves	6.7	7,952,640	5,913,075
Unearned premium reserve	6.7	1,512,840	1,333,856
Other technical provisions	6.7	148,827	156,996
Funds withheld	6.8	857,440	565,952
Contract deposits	6.9	5,467,598	4,634,895
Reinsurance payable		1,021,364	1,236,912
Provisions for pensions	6.10	77,497	72,207
Taxes	7.5	266,747	201,960
Provision for deferred taxes	7.5	1,485,157	1,371,589
Other liabilities	6.11	313,450	319,183
Long-term debt and subordinated capital	6.12	1,481,336	1,420,027
Total liabilities		**38,010,189**	**34,158,721**
Shareholders' equity			
Common shares	6.13	120,597	120,597
Nominal value: 120,597 Conditional capital: 60,299	6.13		
Additional paid-in capital		724,562	724,562
Common shares and additional paid-in capital		845,159	845,159
Cumulative other comprehensive income			
Unrealised gains and losses on investments		241,569	113,864
Cumulative foreign currency translation adjustment		(224,084)	(247,565)
Other changes in cumulative other comprehensive income		(4,728)	(4,577)
Total other comprehensive income		12,757	(138,278)
Retained earnings		2,854,002	2,123,178
Shareholders' equity before minorities		3,711,918	2,830,059
Minority interests		542,112	501,434
Total shareholders' equity		**4,254,030**	**3,331,493**
Total liabilities		**42,264,219**	**37,490,214**

1 Adjusted on the basis of IAS 8.

Consolidated statement of income 2009

Figures in EUR thousand	Notes	1.1.-31.12.2009	1.1.-31.12.2008
Gross written premium	7.1	10,274,755	8,120,919
Ceded written premium		759,076	886,621
Change in gross unearned premium		(227,161)	(113,480)
Change in ceded unearned premium		18,658	(59,193)
Net premium earned		**9,307,176**	**7,061,625**
Ordinary investment income	7.2	810,547	829,786
Profit/loss from investments in associated companies	7.2	(4,970)	4,199
Realised gains and losses on investments	7.2	113,012	(113,554)
Unrealised gains and losses on investments	7.2	100,571	(119,718)
Total depreciation, impairments and appreciation of investments	7.2	122,430	480,420
Other investment expenses	7.2	53,121	41,421
Net income from investments under own management		**843,609**	**78,872**
Income/expense on funds withheld and contract deposits	7.2	276,774	199,587
Net investment income		**1,120,383**	**278,459**
Other technical income	7.3	14,362	7,294
Total revenues		**10,441,921**	**7,347,378**
Claims and claims expenses	6.7	6,548,093	4,702,127
Change in benefit reserves	6.7	562,668	421,342
Commission and brokerage, change in deferred acquisition costs	7.3	2,011,344	1,635,941
Other acquisition costs		14,137	11,676
Other technical expenses	7.3	38,788	12,166
Administrative expenses	7.3	246,940	216,047
Total technical expenses		9,421,970	6,999,299
Other income and expenses	7.4	120,001	(200,011)
Operating profit/loss (EBIT)		1,139,952	148,068
Interest on hybrid capital	6.12	76,650	77,442
Net income before taxes		1,063,302	70,626
Taxes	7.5	291,770	205,610
Net income		771,532	(134,984)
thereof			
Minority interest in profit and loss		40,347	(7,997)
Group net income		**731,185**	**(126,987)**
Earnings per share			
Earnings per share in EUR	8.4	6.06	(1.05)

Consolidated statement of comprehensive income 2009

Figures in EUR thousand	**1.1.-31.12.2009**	1.1.-31.12.2008
Net income	771,532	(134,984)
Unrealised gains and losses on investments		
Gains (losses) recognised directly in equity	121,189	(677,682)
Transferred to the consolidated statement of income	29,070	640,313
Tax income (expense)	(19,975)	(57,559)
	130,284	(94,928)
Currency translation		
Gains (losses) recognised directly in equity	24,704	(15,719)
Transferred to the consolidated statement of income	(2,438)	(4,439)
Tax income (expense)	81	(13,029)
	22,347	(33,187)
Changes from the measurement of associated companies		
Gains (losses) recognised directly in equity	648	(1,962)
	648	(1,962)
Other changes		
Gains (losses) recognised directly in equity	2,490	(17,183)
Tax income (expense)	(2,651)	6,123
	(161)	(11,060)
Total income and expense recognised directly in equity		
Gains (losses) recognised directly in equity	149,031	(712,546)
Transferred to the consolidated statement of income	26,632	635,874
Tax income (expense)	(22,545)	(64,465)
	153,118	(141,137)
Changes in the consolidated group	47	13,566
Total recognised income and expense	**924,697**	**(262,555)**
thereof:		
Attributable to minority interests	42,477	(34,317)
Attributable to the Group	882,220	(228,238)

Consolidated statement of changes in shareholders' equity 2009

Figures in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)			Retained earnings	Minority interests	Share-holders' equity
			Currency translation	Unrealised gains/ losses	Other			
Balance as at 1.1.2008	120,597	724,562	(213,117)	181,395	6,482	2,529,170	572,744	3,921,833
Changes in ownership interest with no change of control status			180	140		(13,739)	4,499	(8,920)
Total income and expense recognised after tax			(34,628)	(67,671)	(11,059)	(114,880)	(34,317)	(262,555)
Dividends paid						(277,373)	(41,492)	(318,865)
Balance as at 31.12.2008	120,597	724,562	(247,565)	113,864	(4,577)	2,123,178	501,434	3,331,493
Balance as at 1.1.2009	120,597	724,562	(247,565)	113,864	(4,577)	2,123,178	501,434	3,331,493
Capital increases/ additions							11,872	11,872
Capital repayments							(9)	(9)
Acquisition/disposal of treasury shares						(361)		(361)
Total income and expense recognised after tax			23,481	127,705	(151)	731,185	42,477	924,697
Dividends paid							(13,662)	(13,662)
Balance as at 31.12.2009	120,597	724,562	(224,084)	241,569	(4,728)	2,854,002	542,112	4,254,030

Consolidated cash flow statement 2009

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

Figures in EUR thousand	**1.1.-31.12.2009**	1.1.-31.12.2008[1]
I. Cash flow from operating activities		
Net income	771,532	(134,984)
Appreciation/depreciation	71,195	537,578
Net realised gains and losses on investments	(113,012)	113,554
Income from the recognition of negative goodwill	(92,652)	–
Amortisation of investments	18,984	(8,737)
Changes in funds withheld	(1,340,596)	(1,250,708)
Net changes in contract deposits	516,086	1,160,178
Changes in prepaid reinsurance premium (net)	173,654	204,187
Changes in tax assets/provisions for taxes	157,678	(12,341)
Changes in benefit reserve (net)	1,055,229	399,654
Changes in claims reserves (net)	845,329	733,112
Changes in deferred acquisition costs	52,987	(136,715)
Changes in other technical provisions	(3,749)	(35,452)
Changes in clearing balances	(219,372)	(189,891)
Changes in other assets and liabilities (net)	(141,398)	79,418
Cash flow from operating activities	**1,751,895**	**1,458,853**

1 Adjusted on the basis of IAS 8.

Figures in EUR thousand	1.1.-31.12.2009	1.1.-31.12.2008[1]
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	40,243	39,245
Purchases	(43,860)	–
Fixed-income securities – loans and receivables		
Maturities, sales	333,032	86,975
Purchases	(1,231,446)	(219,451)
Fixed-income securities – available for sale		
Maturities, sales	10,353,694	10,421,889
Purchases	(10,804,242)	(12,558,404)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	76,824	34,663
Purchases	(19,948)	(111,206)
Equity securities – available for sale		
Sales	21,900	2,159,265
Purchases	(22,626)	(1,010,888)
Other financial assets – at fair value through profit or loss		
Sales	–	156,010
Purchases	(123)	(69,012)
Other invested assets		
Sales	17,717	19,962
Purchases	(55,865)	(163,638)
Affiliated companies and participating interests		
Sales	4,769	41,405
Purchases	(5,830)	(5,543)
Acquisition of ING life reinsurance portfolio		
Acquisition of cash in hand	117,170	–
Purchase price paid for other assets acquired	(12,878)	–
Real estate and real estate funds		
Sales	234	–
Purchases	(158,336)	(10,076)
Short-term investments		
Changes	(375,526)	183,949
Other changes (net)	(21,232)	(29,247)
Cash flow from investing activities	**(1,786,329)**	**(1,034,102)**

1 Adjusted on the basis of IAS 8.

Figures in EUR thousand	**1.1.-31.12.2009**	1.1.-31.12.2008[1]
III. Cash flow from financing activities		
Contribution from capital measures	9,940	5,908
Acquisition/disposal of treasury shares	(361)	–
Structural change without loss of control	–	(5,126)
Dividends paid	(13,662)	(318,865)
Proceeds from long-term debts	76,975	39
Repayment of long-term debts	(15,137)	(630)
Cash flow from financing activities	**57,755**	**(318,674)**
IV. Exchange rate differences on cash	3,866	(11,274)
Cash and cash equivalents at the beginning of the period	**430,225**	**335,422**
Change in cash and cash equivalents (I.+II.+III.+IV.)	**27,187**	**94,803**
Cash and cash equivalents at the end of the period	**457,412**	**430,225**
Income taxes	(131,134)	(134,451)
Interest paid	(100,874)	(99,203)

1 Adjusted on the basis of IAS 8.

Segmental report

Segmentation of assets in EUR thousand	Non-life reinsurance	
	31.12.2009	31.12.2008
Assets		
Held to maturity	2,651,188	1,262,866
Loans and receivables	2,624,702	1,418,271
Available for sale	9,820,513	11,244,214
At fair value through profit or loss	154,707	145,226
Other invested assets	894,289	871,345
Short-term investments	1,031,880	654,969
Cash	253,797	324,659
Total investments and cash under own management	**17,431,076**	**15,921,550**
Funds withheld by ceding companies	625,753	789,996
Contract deposits	–	–
Total investments	**18,056,829**	**16,711,546**
Reinsurance recoverables on unpaid claims	1,589,438	1,975,496
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	44,607	23,582
Reinsurance recoverables on other reserves	305	9,813
Deferred acquisition costs	331,091	302,229
Accounts receivable	1,896,362	1,976,575
Other assets in the segment	1,429,320	1,187,502
Total assets	**23,347,952**	**22,186,743**
Segmentation of technical and other liabilities in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	15,393,548	15,376,337
Benefit reserve	–	–
Unearned premium reserve	1,437,490	1,250,648
Provisions for contingent commissions	106,313	122,923
Funds withheld	209,925	170,294
Contract deposits	123,927	91,329
Reinsurance payable	701,103	953,518
Long-term liabilities	116,286	43,144
Other liabilities in the segment	1,461,588	1,222,087
Total	**19,550,180**	**19,230,280**

1 Adjusted on the basis of IAS 8.

Life/health reinsurance		Consolidation		Total	
31.12.2009	31.12.2008[1]	31.12.2009	31.12.2008	31.12.2009	31.12.2008[1]
4,039	43,058	298,262	169,278	2,953,489	1,475,202
45,064	105,019	32,065	157,567	2,701,831	1,680,857
3,653,073	2,646,643	350,819	614,564	13,824,405	14,505,421
94,244	55,409	44,471	98,547	293,422	299,182
29,689	67,270	–	–	923,978	938,615
266,657	148,189	53,938	4,561	1,352,475	807,719
201,211	97,315	2,404	8,251	457,412	430,225
4,293,977	**3,162,903**	**781,959**	**1,052,768**	**22,507,012**	**20,137,221**
10,966,112	8,476,994	(2,307)	(2,372)	11,589,558	9,264,618
625,481	288,782	–	–	625,481	288,782
15,885,570	**11,928,679**	**779,652**	**1,050,396**	**34,722,051**	**29,690,621**
158,576	103,672	(23)	–	1,747,991	2,079,168
104,868	159,151	–	–	104,868	159,151
4,089	6,151	(1,045)	–	47,651	29,733
95	115	–	–	400	9,928
1,507,359	1,558,554	–	–	1,838,450	1,860,783
974,751	825,477	(1,239)	(290)	2,869,874	2,801,762
375,532	336,508	(871,918)	(664,942)	932,934	859,068
19,010,840	**14,918,307**	**(94,573)**	**385,164**	**42,264,219**	**37,490,214**
2,031,768	1,555,732	(23)	–	17,425,293	16,932,069
7,953,685	5,913,075	(1,045)	–	7,952,640	5,913,075
75,350	83,208	–	–	1,512,840	1,333,856
42,514	34,073	–	–	148,827	156,996
649,841	398,039	(2,326)	(2,381)	857,440	565,952
5,343,671	4,543,566	–	–	5,467,598	4,634,895
321,869	284,223	(1,608)	(829)	1,021,364	1,236,912
–	–	1,365,050	1,376,883	1,481,336	1,420,027
1,507,029	1,378,233	(825,766)	(635,381)	2,142,851	1,964,939
17,925,727	**14,190,149**	**534,282**	**738,292**	**38,010,189**	**34,158,721**

Segmental report

Segmental statement of income in EUR thousand	Non-life reinsurance	
	1.1.-31.12.2009	1.1.-31.12.2008
Gross written premium	5,746,613	4,987,823
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	5,746,613	4,987,823
Net premium earned	5,229,510	4,276,748
Net investment income	563,208	11,114
thereof		
Deposit interest and expenses	36,838	13,208
Claims and claims expenses	3,805,679	3,028,007
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	1,129,567	915,339
Administrative expenses	150,736	148,751
Other income and expenses	24 628	(193,493)
Operating profit/loss (EBIT)	**731,364**	**2,272**
Interest on hybrid capital	–	–
Net income before taxes	731,364	2,272
Taxes	221,955	178,022
Net income	509,409	**(175,750)**
thereof		
Minority interest in profit or loss	36,847	(14,838)
Group net income	**472,562**	**(160,912)**

Life/health reinsurance		Consolidation		Total	
1.1.-31.12.2009	1.1.-31.12.2008	**1.1.-31.12.2009**	1.1.-31.12.2008	**1.1.-31.12.2009**	1.1.-31.12.2008
4,529,288	3,134,416	(1,146)	(1,320)	10,274,755	8,120,919
–	1,320	–	(1,320)	–	–
4,529,288	3,133,096	(1,146)	–	10,274,755	8,120,919
4,078,670	2,784,877	(1,004)	–	9,307,176	7,061,625
520,105	245,518	37,070	21,827	1,120,383	278,459
239,931	186,373	5	6	276,774	199,587
2,743,003	1,674,732	(589)	(612)	6,548,093	4,702,127
563,675	421,342	(1,007)	–	562,668	421,342
926,181	743,394	(5,841)	(6,244)	2,049,907	1,652,489
98,316	70,062	(2,112)	(2,766)	246,940	216,047
104,614	(187)	(9,241)	(6,331)	120,001	(200,011)
372,214	**120,678**	**36,374**	**25,118**	**1,139,952**	**148,068**
–	–	76,650	77,442	76,650	77,442
372,214	120,678	(40,276)	(52,324)	1,063,302	70,626
73,168	35,494	(3,353)	(7,906)	291,770	205,610
299,046	**85,184**	(36,923)	**(44,418)**	771,532	**(134,984)**
3,500	6,841	–	–	40,347	(7,997)
295,546	**78,343**	**(36,923)**	**(44,418)**	**731,185**	**(126,987)**

Notes

1. Company information

The parent company Hannover Rückversicherung AG ("Hannover Re") and its subsidiaries (collectively referred to as the "Hannover Re Group") transact all lines of non-life and life/health reinsurance. The Group maintains business relations with more than 5,000 insurance companies in about 150 countries. With gross premium of approximately EUR 10.3 billion, Hannover Re is one of the largest reinsurance groups in the world. The company's global network consists of more than 100 subsidiaries, affiliates, branches and representative offices in around 20 countries. The Group's German business is conducted exclusively by the subsidiary E+S Rückversicherung AG. We employ over 1,000 staff in Hannover and roughly 2,000 worldwide. The parent company is a joint-stock corporation, the registered office of which is located at Karl-Wiechert-Allee 50, 30625 Hannover, Germany.

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

2. Accounting principles

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

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

The consolidated financial statement reflects all IFRS in force as at 31 December 2009 as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), application of which was mandatory for the 2009 financial year. The disclosures regarding the management of technical and financial risks arising out of IFRS 7 "Financial Instruments: Disclosures" and IFRS 4 "Insurance Contracts" are contained in the risk report. We have dispensed with an additional presentation of the same content in the notes.

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

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

The declaration of conformity required pursuant to § 161 German Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code has been submitted and, as described in the Declaration of the Executive Board regarding the Corporate Governance of the Company, made permanently available to the shareholders.

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

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

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

The present consolidated financial statement was prepared by the Executive Board on 15 February 2010 and hence released for publication.

New accounting principles

The revised IAS 1 (rev. 2007) "Presentation of Financial Statements" is aimed at improving users' ability to analyse and compare the information given in financial statements. Hannover Re applied the standard for the first time in the first quarter of 2009. A central element of IAS 1 (rev. 2007) is the modified presentation of the total comprehensive income of the reporting period, which is composed of the profit or loss for the said reporting period as well as other comprehensive income and expenses recognised directly in equity. The significant change in IAS 1 (rev. 2007) lies in the clear separation between changes in other comprehensive income resulting from transactions with owners in their capacity as such and non-owner changes in equity. Non-owner changes in equity must be disclosed in a separate new component of the financial statement, the consolidated statement of comprehensive income, with only the total shown in the consolidated statement of changes in shareholders' equity. The tax effects must be disclosed separately in relation to each component of the other comprehensive income. The option – which has not been exercised by Hannover Re – continues to be available to rename individual components of the financial statements and to publish a single statement of comprehensive income combining the existing consolidated statement of income and the consolidated statement of comprehensive income.

IFRS 8 "Operating Segments" replaces the previous IAS 14 "Segment Reporting". IFRS 8 requires adoption of the management approach to reporting on the economic position of segments. Under this approach, the segmentation and the disclosures for the segments are based on the information used internally by management for evaluating segment performance and deciding on the allocation of resources. IFRS 8 was applied for the first time in the first quarter of 2009. Hannover Re concluded that it should retain the previously used system of segmentation, since it is regularly used by management to assess the various areas of business and facilitates a transparent presentation of Group net income.

In March 2009 the IASB published "Improving Disclosures about Financial Instruments – Amendments to IFRS 7". By way of the Regulation (EC) No. 1165/2009 the European Commission adopted the amendments in European law on 27 November 2009. The amendments principally involve new disclosures concerning fair value measurements. These new disclosures are clarified through the adoption of a breakdown for each class of financial instruments – based on a three-level fair value hierarchy – and an extended scope of disclosure requirements. These amendments to IFRS 7 shall be applied to financial years beginning on or after 1 January 2009. Hannover Re is availing itself of the option to dispense with the provision of comparative disclosures for the previous reporting period in the first year of application.

In February 2008 the amendments to IAS 32 and IAS 1 "Puttable Financial Instruments and Obligations arising on Liquidation" were published. Application of the amendments is mandatory from 1 January 2009 onwards. The amendment of IAS 1 refers to revised disclosure requirements applicable to puttable financial instruments and obligations arising on liquidation. The revised version of IAS 32 permits the balance sheet classification of puttable financial instruments as equity in the future under certain conditions. Particularly given the fact that minority interests in partnerships will continue to be recognised as a financial liability in the consolidated financial statement, the amendment is of no practical significance to the consolidated financial statement.

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

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

In November 2009 the IASB published the revised IAS 24 "Related Party Disclosures". A major new feature of IAS 24 (rev.) is the requirement for disclosures of "commitments", for example guarantees, undertakings and other commitments, which are dependent upon whether (or not) a particular event occurs in the future. The definition of a related entity or a related person is also clarified. The standard, the implications of which for Hannover Re are currently under review, has not yet been ratified by the European Union.

In November 2009 the IASB also issued IFRS 9 "Financial Instruments" on the classification and measurement of financial instruments. IFRS 9 is the first step in a three-phase project intended to replace IAS 39 "Financial Instruments: Recognition and Measurement" with a new standard. IFRS 9 introduces new requirements for classifying and measuring financial assets. The standard, the implications of which for Hannover Re are currently under review, has not yet been ratified by the European Union.

In June 2009 the IASB published amendments to IFRS 2 "Group Cash-settled Share-based Payment Transactions", which have not yet been ratified by the European Union. The amendments relate to the scope of application of IFRS 2, and also clarify that the term "group" in IFRS 2 has the same meaning as in IAS 27; they will probably not have any implications for Hannover Re.

As at the balance sheet date Hannover Re did not avail itself of the facilities offered by the amendments to "IAS 39 & IFRS 7 – Reclassification of Financial Assets", which entered into force in October 2008, regarding the reclassification and measurement of selected financial instruments.

In January 2008 the IASB published the revised versions of IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements". The new provisions primarily cover the balance sheet recognition of minority interests, measurement issues in connection with successive acquisition, changes in a participating interest with or without a loss of control as well as adjustments to acquisition costs depending upon future events and their effects on goodwill. Since the amendments are to be applied prospectively to financial years beginning on or after 1 July 2009, implications for Hannover Re can only arise in connection with future acquisitions.

3. Accounting policies

3.1 Changes in accounting policies

In the 2009 financial year Hannover Re corrected the balance sheet recognition of a life reinsurance contract with a US cedant. In accordance with applicable US GAAP (FASB ASC 340-30), certain technical assets and liabilities relating to this contract are to be offset in the balance sheet. This offsetting was omitted in the consolidated financial statement for the 2008 financial year.

In accordance with IAS 8 we have therefore adjusted the comparative figures in the present consolidated financial statement. The adjustments have no implications for the Group net income reported in the 2008 financial year. Contrary to the figures originally shown, the balance sheet items "funds withheld" (assets side) and "contract deposits" (liabilities side) are each reduced by EUR 511.0 million.

The contractual relationship referred to above commenced on 1 October 2008. The correction therefore has no implications for the opening balance sheet of the 2008 financial year or the balance sheets of reporting periods prior to 2008.

3.2 Summary of major accounting policies

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

Financial assets: as a basic principle we recognise the purchase and sale of directly held financial assets including derivative financial instruments as at the settlement date. The recognition of fixed-income securities includes apportionable accrued interest.

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

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

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

Establishment of the fair value of financial instruments carried as assets or liabilities: the fair value of a financial instrument corresponds to the amount that Hannover Re would receive or pay if it were to sell or settle the said financial instrument on the balance sheet date. Insofar as market prices are listed on markets for financial instruments, their bid price is used. In other cases the fair values are established on the basis of the market conditions prevailing on the balance sheet date for financial assets with similar credit rating, duration and return characteristics or using recognised models of mathematical finance. Hannover Re uses a number of different valuation models for this purpose, the details of which are set out in the following table. For further information please see our explanatory remarks on the fair value hierarchy in Section 6.1 "Investments under own management".

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

Impairments: As at each balance sheet date we review our financial assets with an eye to objective, substantial indications of impairment. Permanent impairments on all invested assets are recognised directly in the statement of income. In this context we take as a basis the same indicators as those discussed below for fixed-income securities and securities with the character of equity. Qualitative case-by-case analysis is also carried out. IAS 39.59 contains a list of objective, substantial indications for impairments of financial assets. In the case of fixed-income securities and loans reference is made, in particular, to the rating of the instrument, the rating of the issuer/borrower as well as the individual market assessment in order to establish whether they are impaired. When held-to-maturity instruments measured at amortised cost as well as loans and receivables

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

are tested for impairment, we examine whether material items – looked at on their own – are impaired. The amount of the probable loss is arrived at from the difference between the book value of the asset and the present value of the expected future earnings flows. The book value is reduced directly by this amount which is then recognised as an expense. With the exception of value adjustments taken on accounts receivable, we recognise impairments directly on the assets side – without using an adjustment account – separately from the relevant items. If the reasons for the write-down cease to apply, a write-up is made in income up to at most the original amortised cost for fixed-income securities.

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

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

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

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

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

Cash is carried at face value.

Funds withheld are receivables due to reinsurers from their clients in the amount of the cash deposits contractually withheld by such clients; they are recognised at acquisition cost (nominal amount). Appropriate allowance is made for credit risks. IFRS 4 in conjunction with FASB ASC 944–20–15 (the relevant provisions were previously contained in SFAS 113 "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts") requires insurance contracts that transfer a significant technical risk from the ceding company to the reinsurer to be differentiated from those under which the risk transfer is of merely subordinate importance.

Contract deposits: under this item we report contract deposits under insurance contracts that satisfy the test of a significant risk transfer to the reinsurer as required by IFRS 4 but fail to meet the risk transfer required by US GAAP. Since the risk transfer under these transactions is of subordinate importance, these contracts are recognised using the "deposit accounting" method and hence eliminated from the technical account. The compensation for risk assumption booked to income under these contracts is netted under other income/expenses. The payment flows resulting from these contracts are reported in the cash flow statement under operating activities.

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

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

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

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

Deferred tax assets: IAS 12 "Income Taxes" requires that assets-side deferred taxes be established if assets have to be recognised in a lower amount or liabilities in a higher amount in the consolidated balance sheet than in the tax balance sheet and if these temporary differences will lead to reduced tax burdens in the future. In principle, temporary differences result from the valuation differences between the tax balance sheets drawn up in accordance with national standards and the IFRS balance sheets of the companies included in the consolidated financial statement drawn up in accordance with uniform group standards as well as from consolidation processes. Deferred tax assets are also recognised on tax loss carry-forwards and for tax credits. Insofar as the deferred taxes refer to items carried directly in equity, the resulting deferred taxes are also recognised directly in equity. Value adjustments are taken on deferred tax assets as soon as realisation of the receivable no longer appears likely. Deferred taxes are measured according to the tax regulations specific to the country concerned that are applicable or have been adopted as at the closing date.

Deferred tax assets may only be netted with deferred tax liabilities if the tax creditor is identical. The recognition of deferred tax assets and liabilities in the consolidated balance sheet makes no distinction between short-term and long-term items.

Other assets are accounted for at amortised cost.

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

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

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

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

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

Deferred tax liabilities: in accordance with IAS 12 "Income Taxes" deferred tax liabilities must be recognised if assets are to be recognised in a higher amount or liabilities in a lower amount in the consolidated balance sheet than in the tax balance sheet and if these temporary differences will lead to additional tax loads in the future; please see our explanatory remarks on deferred tax assets.

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

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

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

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

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

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

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

3.3 Segmentation

Hannover Re's segmental report is based on IFRS 8 "Operating Segments" and on the principles set out in German Accounting Standard No. 3 "Segment Reporting" (GAS 3) of the German Accounting Standards Board as well as the requirements of GAS 3–20 "Segment Reporting of Insurance Enterprises".

The segmentation in non-life reinsurance and life/health reinsurance and the segment information presented follow the system used for internal reporting purposes, on the basis of which the full Executive Board regularly evaluates the performance of the segments and decides on the allocation of resources to the segments.

During the financial year no material changes occurred in the organisational structure that could have influenced the composition of the segments. Since the performance indicators used to steer the segments correspond to the system according to which the consolidated financial statement is prepared, a separate reconciliation of the segment results with the Group result is not provided.

3.4 Major discretionary decisions and estimates

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

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

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

For further details, for example concerning the modelling of natural catastrophe scenarios and the assumptions relating to asbestos and pollution risks, the reader is referred to our comments in the risk report on page 53 et seq. We would further refer to our explanatory remarks on the technical reserves in Section 3.2 "Summary of major accounting policies" and Section 6.7 "Technical provisions".

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

The projections, which cover various model scenarios ("conservative assumptions" versus "best estimate"), constitute the starting point for numerous areas of application encompassing quotation, the determination of carrying values and embedded values as well as contract-specific analyses, e.g. regarding the appropriateness of the recognised reinsurance liabilities ("liability adequacy test"). In this context we would refer the reader to our comments on technical assets and provisions in Section 3.2 "Summary of major accounting policies" and on the liability adequacy tests in Section 6.7 "Technical provisions".

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

Hannover Re has refined the calculation logic used to determine the fair value of derivatives in connection with modified coinsurance and coinsurance funds withheld reinsurance treaties. This represents a change in an accounting estimate, which pursuant to IAS 8.36 was performed in the year under review without adjustment of the comparative figures for previous years. For further details please see the remarks on derivative financial instruments in Section 8.1 "Derivative financial instruments".

4. Consolidated companies and consolidation principles

Hannover Rückversicherung AG is the parent company of the Group. The consolidated financial statement includes 15 (14) German and 19 (19) foreign companies, as well as three (three) foreign subgroups. Three (three) German and two (two) foreign associated companies were consolidated using the equity method.

In conformity with Item 7.1.4 of the recommendations of the German Corporate Governance Code as amended on 18 June 2009, the following table also lists major participations in unconsolidated third companies.

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

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

Companies included in the consolidated financial statement

Name and registered office of the company Figures in currency units of 1,000	Participation in %		Capital and reserves		Result for the last financial year
Affiliated companies resident in Germany					
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany[1,2]	100.00	EUR	2,627,155	EUR	–
Hannover Life Re AG, Hannover/Germany[1,2,3]	100.00	EUR	1,032,470	EUR	–
HILSP Komplementär GmbH, Hannover/Germany[4]	100.00	EUR	23	EUR	1
Hannover Insurance-Linked Securities GmbH & Co, KG, Hannover/Germany[4]	100.00	EUR	65,975	EUR	(51)
Funis GmbH & Co, KG Hannover/Germany[5]	100.00	EUR	100	EUR	–
Hannover America Private Equity Partners II GmbH & Co, KG, Cologne/Germany[4]	95.34	EUR	149,444	EUR	(13,969)
HAPEP II Holding GmbH, Cologne/Germany[4]	95.34	EUR	45,066	EUR	(2,771)
Hannover Re Euro PE Holdings GmbH & Co KG, Cologne/Germany[4]	91.05	EUR	16,648	EUR	(1,333)
Hannover Re Euro RE Holdings GmbH, Cologne/Germany[4]	82.10	EUR	28,462	EUR	(449)
Hannover Euro Private Equity Partners III GmbH & Co, KG, Cologne/Germany[4]	67.29	EUR	53,143	EUR	(2,265)
HEPEP III Holding GmbH, Cologne/Germany[4]	67.29	EUR	10,170	EUR	(690)
E+S Rückversicherung AG, Hannover/Germany	64.19	EUR	587,281	EUR	80,000
Hannover Euro Private Equity Partners IV GmbH & Co, KG, Cologne/Germany[4]	60.36	EUR	56,499	EUR	(14,532)
Hannover Euro Private Equity Partners II GmbH & Co, KG, Cologne/Germany[4]	57.81	EUR	14,521	EUR	4,210
HEPEP II Holding GmbH, Cologne/Germany[4]	57.81	EUR	8,461	EUR	(470)

Name and registered office of the company Figures in currency units of 1,000	Participation in %	Capital and reserves		Result for the last financial year	
Affiliated companies resident abroad					
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland[6]	100.00	EUR	–	EUR	–
Hannover Finance (Luxembourg) S.A., Luxembourg/Luxembourg[1]	100.00	EUR	33,575	EUR	(2,911)
Hannover Finance (UK) Limited, Virginia Water/United Kingdom[1]	100.00	GBP	131,107	GBP	(12)
Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda[1]	100.00	EUR	149,821	EUR	15,899
Hannover Life Reassurance Company of America, Orlando/USA[7]	100.00	USD	139,932	USD	(6,586)
Hannover Life Reassurance (Ireland) Ltd., Dublin/Ireland[1]	100.00	EUR	863,222	EUR	176,556
Hannover Life Reassurance (UK) Ltd., Virginia Water/United Kingdom[1]	100.00	GBP	40,970	GBP	(2,988)
Hannover Life Re of Australasia Ltd., Sydney/Australia[1]	100.00	AUD	225,297	AUD	34,386
Hannover Re Advanced Solutions Ltd., Dublin/Ireland[6]	100.00	EUR	31	EUR	–
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda[7]	100.00	EUR	1,089,623	EUR	199,630
Hannover Reinsurance (Dublin) Ltd., Dublin/Ireland[6]	100.00	EUR	–	EUR	–
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland[1]	100.00	EUR	468,038	EUR	30,777
Hannover ReTakaful B.S.C. (c), Manama/Bahrain[1]	100.00	BHD	21,853	BHD	1,189
Hannover Services (UK) Ltd., Virginia Water/United Kingdom[1]	100.00	GBP	779	GBP	129
International Insurance Company of Hannover Ltd., Bracknell/United Kingdom[1]	100.00	GBP	108,148	GBP	3,937
Secquaero ILS Fund Ltd., George Town, Grand Cayman/Cayman Islands[1,7]	100.00	USD	51,445	USD	1,205
Hannover Finance, Inc., Wilmington/USA[1]	100.00	USD	346,426	USD	(30,077)
Hannover Finance, Inc. compiles its own subgroup financial statement in which the following major company is included:					
Clarendon Insurance Group, Inc., Wilmington/USA[1,8]	100.00	USD	(6.655)	USD	(77,737)
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa[1]	100.00	ZAR	156,852	ZAR	50,719
Hannover Reinsurance Group Africa (Pty) Ltd. compiles its own subgroup financial statement in which the following major companies are included:					
Hannover Life Reassurance Africa Ltd., Johannesburg/South Africa[1]	100.00	ZAR	235,134	ZAR	82,877
Hannover Reinsurance Africa Ltd., Johannesburg/South Africa[1]	100.00	ZAR	713,748	ZAR	70,141
Hannover Re Real Estate Holdings, Inc., Orlando/USA[7]	95.17	USD	196,317	USD	(24,899)
Hannover Re Real Estate Holdings, Inc. holds a subgroup in which the following major companies are included:					
5115 Sedge Corporation, Chicago/USA[7]	95.17	USD	2,035	USD	227
GLL HRE CORE Properties, L.P., Wilmington/USA[7]	95.07	USD	79,061	USD	982
Penates A, Ltd., Tortola/British Virgin Islands[1,7]	90.40	USD	145,660	USD	39,676
Kaith Re Ltd., Hamilton/Bermuda[1,7]	88.00	USD	1,077	USD	(1,020)

Name and registered office of the company Figures in currency units of 1,000	Participation in %	Capital and reserves		Result for the last financial year	
Associated companies resident in Germany					
Oval Office Grundstücks GmbH, Hannover/Germany[1]	50.00	EUR	58,911	EUR	1,061
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover/Germany[9]	32.84	EUR	63,759	EUR	2,215
HANNOVER Finanz GmbH, Hannover/Germany[9]	25.00	EUR	63,476	EUR	241
Associated companies resident abroad					
ITAS Vita S.p.A., Trient/Italy[9]	34.88	EUR	69,783	EUR	248
WPG CDA IV Liquidation Trust, Grand Cayman/Cayman Islands[10,11]	27.28	USD	444	USD	(461)
Participations abroad					
PlaNet Guarantee (SAS), Saint-Ouen/France[1]	23.58	EUR	2,650	EUR	(345)

1 Provisional (unaudited) figures
2 Year-end result after profit transfer
3 Formerly Zweite Hannover Rück Beteiligung Verwaltungs-GmbH
4 Financial year as at 30 September 2009
5 The company was newly established. An annual financial statement is not yet available. The capital contribution of EUR 100,000 had not been paid in as at 31 December 2009.
6 Company is inactive and does not compile an annual report
7 IFRS figures
8 Certain equity items are not counted under IFRS, as a consequence of which the amount of capital and reserves can be negative here. According to the local accounting practice relevant for supervisory purposes, the company is adequately capitalised.
9 Financial year as at 31 December 2008
10 Company is in liquidation
11 Last annual financial statement compiled as at 31 August 2006.

Capital consolidation

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

Only subsidiaries of minor importance for the net assets, financial position and result of operations of the Hannover Re Group are exempted from consolidation. For this reason 16 companies at home and abroad, the business object of which is primarily the rendering of services for reinsurance companies within the Group, were not consolidated in the year under review.

The capital consolidation is based on the revaluation method. In the context of the "purchase accounting" method the acquisition costs of the parent company are netted with the proportionate shareholders' equity of the subsidiary at the time when it is first included in the consolidated financial statement after the revaluation of all assets and liabilities. After recognition of all acquired intangible assets that in accordance with IFRS 3 "Business Combinations" are to be accounted for separately from goodwill, the difference between the revalued shareholders' equity of the subsidiary and the purchase price is recognised as goodwill. Under IFRS 3 scheduled amortisation is not taken on goodwill. Instead, unscheduled amortisation is taken where necessary on the basis of annual impairment tests. Immaterial and negative goodwill are recognised in the statement of income in the year of their occurrence.

Minority interests in shareholders' equity are reported separately within Group shareholders' equity in accordance with IAS 1 "Presentation of Financial Statements". The minority interest in profit or loss, which forms part of net income and is shown separately after net income as a "thereof" note, amounted to EUR 40.3 million (–EUR 8.0 million) as at 31 December 2009.

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

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

Debt consolidation

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

Consolidation of expenses and profit

The effects of business transactions within the Group were eliminated.

Consolidation of special purpose entities

Securitisation of reinsurance risks

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

With the aim of transferring to the capital market peak natural catastrophe exposures deriving from European windstorm events, Hannover Re issued a catastrophe ("CAT") bond that can be traded on a secondary market for the second time in July 2009. The CAT bond, which has a volume of EUR 150 million, was placed with institutional investors from Europe and North America by Eurus II Ltd., a special purpose entity domiciled in the Cayman Islands. "Eurus II" is a successor transaction to the "Eurus" structure that was terminated on 8 April 2009 as per the contractual agreement. Hannover Re does not exercise a controlling influence over the special purpose entity. Under IFRS this transaction is to be recognised as a financial instrument.

In September 2009, in a transaction referred to as "Fac Pool Re", Hannover Re for the first time transferred a portfolio of facultative reinsurance risks to the capital market as part of its extended Insurance-Linked Securities (ILS) activities. The contracts, which cover worldwide individual risks, are mediated by an external reinsurance intermediary, written by Hannover Re and placed on the capital market in conjunction with a service provider. The "Fac Pool Re" transaction consists of a quota share reinsurance arrangement and two non-proportional cessions. The total amount of capital provided stands at USD 60 million, with Hannover Re keeping a share of approximately USD 5 million and additionally assuming losses that exceed the capacity of "Fac Pool Re". A number of special purpose entities participate in the reinsurance cessions within "Fac Pool Re"; Hannover Re does not hold any shares in these special purpose entities and does not bear the majority of the economic benefits or risks arising out of their activities through any of its business relations.

With effect from 1 January 2009 Hannover Re again used the capital market to obtain underwriting capacity for catastrophe risks. The "K5" transaction, which ended as per the contractual agreement on 31 December 2008, was replaced by the successor transaction "K6". The volume of "K6" was equivalent to EUR 120.3 million as at the balance sheet date. This securitisation, which was again placed with institutional investors in North America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. As with the "K3" and "K5" transactions, Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is being used for the securitisation. The planned term of the transaction runs until 31 December 2011. In addition, Hannover Re uses the special purpose entity Kaith Re Ltd. for various retrocessions of its traditional covers to institutional investors. In accordance with SIC–12 Kaith Re Ltd. is included in the consolidated financial statement.

In 2007 the Hannover Re Group transferred risks from reinsurance recoverables to the capital market. By way of this securitisation, which has a term of five years, the default risk associated with reinsurance recoverables is reduced. The portfolio of recoverables underlying the transaction has a nominal value of EUR 1.0 billion and is comprised of exposures to retrocessionaires. On the basis of this reference portfolio a volume in a nominal amount of EUR 95.0 million was securitised above and beyond the first EUR 60.0 million. The securities serving as collateral are issued through the special purpose entity Merlin CDO I B.V. A payment to Hannover Re is triggered by the insolvency of one or more retrocessionaires as soon as Hannover Re's contractually defined cumulative deductible of EUR 60.0 million over the term of the contract is exceeded. As at the balance sheet date Hannover Re had purchased securitisations issued by Merlin with a nominal value of altogether EUR 33.9 million (EUR 10.5 million) on the secondary market, which it holds in its asset portfolio. Hannover Re does not derive the majority of the economic benefits or risks arising out of the special purpose entity's activities through any of its business relations.

Investments

Within the scope of its asset management activities Hannover Re has participated since 1988 in numerous special purpose entities – predominantly funds –, which for their part transact certain types of equity and debt capital investments. On the basis of our analysis of our relations with these entities we concluded that the Group does not exercise a controlling influence in any of these transactions and a consolidation requirement therefore does not exist.

Hannover Re participates – primarily through the companies Secquaero ILS Fund Ltd., Hannover Insurance-Linked Securities GmbH & Co. KG and Hannover Re (Bermuda) Ltd. – in a number of special purpose entities for the securitisation of catastrophe risks by taking up certain capital market securities known as "disaster bonds" (or "CAT bonds"). Since Hannover Re does not exercise a controlling influence in any of these transactions either there is no consolidation requirement.

5. Major acquisitions, new formations and other corporate changes

5.1 Acquisitions and new formations

FUNIS GmbH & Co. KG was established on 23 October 2009 with registered office in Hannover. Hannover Re is the company's managing limited partner and holds a capital contribution of EUR 100,000, which had not been paid in as at the balance sheet date. The capital contribution was paid on 25 January 2010. The company's business object is to hold, acquire and sell participating interests in other companies.

On 13 July 2009 GLL HRE Core Properties L. P. based in Wilmington, Delaware/United States, commenced business operations. The company is 99.9% owned by Hannover Re Real Estate Holdings, Inc., Orlando/United States and is fully consolidated in the latter's sub-group financial statement. The company's business object is to acquire, hold and manage real estate in the United States.

On 20 February 2009 Hannover Re completed the acquisition of the US ING life reinsurance portfolio under a reinsurance and asset purchase transaction with Scottish Re Group Limited, Hamilton, Bermuda, through its subsidiaries Hannover Life Reassurance Company of America, Orlando (HLRUS), and Hannover Life Reassurance (Ireland) Ltd., Dublin (HLRIr). Within the scope of the transaction the two aforementioned companies assumed the technical liabilities associated with this portfolio and, in return, received the necessary assets to fund the said liabilities. The reinsurance contracts were concluded effective 1 January 2009; no purchase price was paid.

In addition to the materialisation of the reinsurance contracts, HLRUS acquired the infrastructure and operating assets needed to administer the life reinsurance business in North America for a purchase price of EUR 12.9 million. The infrastructure mainly encompasses the IT systems for administration and quotation of the business. A portion of the workforce was consequently also taken over from Scottish Re Group. In accordance with the requirements of IFRS 3 "Business Combinations" Hannover Re recognises this acquisition as a business combination since the reinsurance contracts and the systems needed for their administration in conjunction with the assumed workforce are to be considered a separate and independent business for the purposes of IFRS 3.

The acquired business was included in the consolidated financial statement for the first time as at 1 January 2009, since the significant part of the economic risks and benefits was apportionable to Hannover Re from this date onwards when the reinsurance transactions acquired contractual force. For the purpose of first-time consolidation, assumptions and estimations based on forecasts of future cash flows were in some cases used to establish the fair values of the acquired assets and liabilities within the framework of appropriate measurements methods. The acquired business was therefore initially included in the consolidated financial statement on a provisional basis, using the best available information.

IFRS 3 requires that this provisional recognition be completed within twelve months of the date of acquisition. Resulting changes in the values of recognised assets and liabilities are to be carried as if their adjusted fair value at the time of initial consolidation had been recognised from this point in time onwards. In the course of the year under review the provisional carrying amounts of the assets and liabilities assumed in this transaction were analysed and as a result partially adjusted.

Following completion of the provisional recognition, the adjusted assets and liabilities of the acquired business as at the time of initial consolidation are as follows:

Assets and liabilities of the acquired business in EUR thousand	**1.1.2009**
Assets	
Fixed-income securities – available for sale	130,348
Cash	117,170
Funds withheld by ceding companies	753,714
PVFP	104,252
Other assets	14,309
	1,119,793
Liabilities	
Benefit reserve	981,695
Reinsurance payable	3,398
Provision for deferred taxes	13,032
Other liabilities	16,138
	1,014,263
Net assets	**105,530**

In connection with the acquisition of the life reinsurance portfolio, an intangible asset was carried in accordance with IFRS 4 in conjunction with the standards of US GAAP relevant to the recognition of items of the technical account; this amount represents the present value of future cash flows from the assumed reinsurance contracts (known as the "present value of future profits/PVFP" or "value of business acquired/VOBA"). The PVFP was initially recognised at fair value on the basis of generally accepted actuarial methods ("actuarial appraisal method"), while in the subsequent periods scheduled amortisation is taken on the PVFP over the period of the underlying reinsurance contracts in proportion to the future premium income. In addition, the intangible asset is regularly tested for impairment. As a consequence of detailed revision of the actuarial appraisal models, this asset was increased by EUR 14.2 million to EUR 104.3 million compared to the initial carrying amount.

Fresh insights from the scrutiny and individual measurement of the assumed reinsurance contracts resulted in a reduction of the benefit reserve by EUR 30.3 million to EUR 981.7 million, derecognition of the provisionally recognised reinsurance recoverables on the benefit reserve in an amount of EUR 26.9 million as well as other, altogether minimal adjustments.

After recognition of all adjusted fair values of the identifiable assets, liabilities and contingent liabilities from the initial consolidation, total net assets after tax amounted to EUR 105.5 million.

Negative goodwill in EUR thousand	**1.1.2009**
Net assets	105,530
Purchase price paid for other assets acquired	12,878
Negative goodwill	92,652
Incidental acquisition costs	6,210
Net gain	**86,442**

Negative goodwill resulted from the acquisition described above and in consideration of the purchase price of EUR 12.9 million paid for the other assets described above; this was recognised immediately in income as required by IFRS 3.56.

In accordance with the requirements of IFRS 3 as applicable to this reinsurance and asset purchase transaction, the directly allocable incidental costs of the entire transaction – i.e. including fees for consulting and audit services rendered by third parties – are counted towards the acquisition costs.

The incidental costs, the final amount of which was definitely established in the fourth quarter of 2009, amounted to EUR 6.2 million. Where there is negative goodwill, these incidental costs shall be deducted from the negative goodwill recognised in income, as a consequence of which the transaction produced a one-time net gain of altogether EUR 86.4 million. As at the balance sheet date the negative goodwill booked to income was recognised under other operating income. The incidental costs are included in the other operating expenses in the consolidated statement of income.

The gross written premium of the acquired business amounted to EUR 833.7 million from the date of initial consolidation until the balance sheet date. A net profit of EUR 44.8 million was booked for the same period from the acquired business. This figure does not include the other operating income from the reversal of the negative goodwill.

5.2 Further corporate changes

In June 2009 Hannover Re acquired a 23.6% stake in the capital of PlaNet Guarantee (SAS), Saint-Ouen, France. The company's business object is to develop and broker micro-insurance and micro-finance products. The company is recognised as a participating interest at amortised cost.

In 2008 Hannover Re established the special purpose entity Globe Re in Bermuda as part of its extended Insurance-Linked Securities (ILS) activities. Hannover Re held a stake of 15.2% in the equity tranche and did not exercise a controlling influence over the special purpose entity through any of its business relations. Since the transaction was terminated in the year under review as agreed in the contract, the company was liquidated on 27 November 2009.

6. Notes on the individual items of the balance sheet

6.1 Investments under own management

Investments are classified and measured in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

Hannover Re classifies investments according to the following categories: held-to-maturity, loans and receivables, financial assets at fair value through profit or loss and available-for-sale. The allocation and measurement of investments are determined by the investment intent.

The investments under own management also encompass investments in associated companies, real estate and real estate funds (also includes: investment property), other invested assets, short-term investments and cash.

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

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

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

Investments[1] in EUR thousand	**31.12.2009**	31.12.2008
Regional origin		
Germany	6,560,026	6,172,406
United Kingdom	1,363,938	1,134,915
France	1,865,540	1,628,884
Other	3,928,606	3,167,276
Europe	13,718,110	12,103,481
USA	6,007,409	5,812,077
Other	840,207	695,394
North America	6,847,616	6,507,471
Asia	530,497	426,485
Australia	941,664	664,541
Australasia	1,472,161	1,091,026
Africa	416,139	230,475
Other	52,986	204,768
Total	**22,507,012**	**20,137,221**

1 After elimination of internal transactions within the Group across segments

Maturities of the fixed-income and variable-yield securities				
in EUR thousand	2009		2008	
	Cost or amortised cost[1]	Fair value	Cost or amortised cost[1]	Fair value
Held to maturity				
due in one year	106,788	117,125	12,087	9,803
due after one through two years	280,725	290,471	29,736	30,260
due after two through three years	469,248	490,878	197,804	206,450
due after three through four years	521,196	542,714	255,693	267,561
due after four through five years	298,115	315,856	297,477	304,497
due after five through ten years	1,259,917	1,319,098	673,498	728,460
due after ten years	17,500	15,852	8,907	8,978
Total	**2,953,489**	**3,091,994**	**1,475,202**	**1,556,009**
Loans and receivables				
due in one year	220,814	221,111	71,859	72,140
due after one through two years	80,127	82,095	136,024	136,654
due after two through three years	41,048	41,219	82,013	83,086
due after three through four years	332,716	339,025	9,898	9,873
due after four through five years	485,554	490,978	198,037	203,531
due after five through ten years	1,294,842	1,323,459	970,241	996,374
due after ten years	246,730	244,384	212,785	209,757
Total	**2,701,831**	**2,742,271**	**1,680,857**	**1,711,415**
Available for sale				
due in one year[2]	3,890,651	3,926,328	3,496,170	3,473,225
due after one through two years	1,686,180	1,725,646	1,947,238	1,966,672
due after two through three years	1,656,235	1,698,765	1,725,197	1,751,528
due after three through four years	1,718,907	1,782,188	1,217,321	1,239,933
due after four through five years	1,875,448	1,907,847	1,867,138	1,933,328
due after five through ten years	3,151,562	3,196,970	4,021,163	4,059,484
due after ten years	1,383,350	1,377,191	1,344,802	1,296,606
Total	**15,362,333**	**15,614,935**	**15,619,029**	**15,720,776**
Financial assets at fair value through profit or loss				
due in one year	22,145	22,145	68,553	65,907
due after one through two years	70,245	70,245	4,788	4,991
due after two through three years	18,358	18,358	71,132	70,476
due after three through four years	39,155	39,155	641	626
due after four through five years	4,541	4,541	56,687	58,560
due after five through ten years	11,239	11,239	34,675	34,529
due after ten years	69,466	69,466	23,373	19,439
Total	**235,149**	**235,149**	**259,849**	**254,528**

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

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

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

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

Figures in EUR thousand	2009				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	323,510	3,065	946	6,854	332,483
US treasury notes	351,776	36,182	825	2,808	389,941
Other foreign government debt securities	13,445	664	–	25	14,134
Debt securities issued by semi-governmental entities	685,126	30,212	2,052	12,932	726,218
Corporate securities	559,900	27,107	1,121	12,334	598,220
Covered bonds/asset-backed securities	964,236	46,223	4	20,543	1,030,998
Total	**2,897,993**	**143,453**	**4,948**	**55,496**	**3,091,994**

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

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

Hannover Re reclassified fixed-income securities at fair values of altogether EUR 1.5 billion from the available-for-sale to the held-to-maturity portfolio. The securities gave rise to cumulative unrealised losses of EUR 9.7 million, which as a consequence of reclassification are to be amortised in the statement of income across the maturities of the instruments. These securities are permanently available to the relevant companies of the Hannover Re Group in light of cash flow projections. The intention and ability to hold them until maturity enables the companies to reduce balance sheet volatility.

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

Figures in EUR thousand	2009				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	79,498	1,713	415	739	81,535
Debt securities issued by semi-governmental entities	1,148,549	8,579	2,597	11,531	1,166,062
Corporate securities	543,718	16,508	1,163	9,470	568,533
Covered bonds/asset-backed securities	639,446	20,322	2,507	9,279	666,540
Other	200,036	–	–	59,565	259,601
Total	**2,611,247**	**47,122**	**6,682**	**90,584**	**2,742,271**

Figures in EUR thousand	2008				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	29,410	1,228	–	407	31,045
Debt securities issued by semi-governmental entities	300,795	7,069	1,045	4,174	310,993
Corporate securities	545,536	12,509	3,005	9,410	564,450
Covered bonds/asset-backed securities	527,288	20,094	6,292	7,916	549,006
Other	209,102	–	–	46,819	255,921
Total	**1,612,131**	**40,900**	**10,342**	**68,726**	**1,711,415**

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

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

Figures in EUR thousand	2009				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	2,179,903	39,399	4,675	28,867	2,243,494
US treasury notes	1,986,505	27,876	13,049	14,483	2,015,815
Other foreign government debt securities	568,788	5,798	3,135	3,044	574,495
Debt securities issued by semi-governmental entities	3,755,392	94,194	6,731	53,603	3,896,458
Corporate securities	3,151,323	96,853	27,921	54,645	3,274,900
Covered bonds/asset-backed securities	1,573,093	85,303	50,824	20,937	1,628,509
Investment funds	162,156	27,466	18,245	–	171,377
	13,377,160	**376,889**	**124,580**	**175,579**	**13,805,048**
Equity securities					
Shares	14,086	3,100	189	–	16,997
Investment funds	1,959	479	78	–	2,360
	16,045	3,579	267	–	19,357
Short-term investments	1,351,309	354	61	873	1,352,475
Total	**14,744,514**	**380,822**	**124,908**	**176,452**	**15,176,880**

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

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

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

Fair value of financial assets at fair value through profit or loss before and after accrued interest as well as accrued interest on such financial assets						
Figures in EUR thousand	2009	2008	2009	2008	2009	2008
		Fair value before accrued interest		Accrued interest		Fair value
Financial assets at fair value through profit or loss						
Fixed-income securities						
Other foreign government debt securities	–	2,577	–	–	–	2,577
Debt securities of semi-governmental entities	7,066	7,767	162	332	7,228	8,099
Corporate securities	121,589	176,237	5,208	3,730	126,797	179,967
Covered bonds/asset-backed securities	100,775	63,880	349	5	101,124	63,885
	229,430	**250,461**	**5,719**	**4,067**	**235,149**	**254,528**
Other financial assets						
Derivatives	58,273	44,654	–	–	58,273	44,654
	58,273	**44,654**	**–**	**–**	**58,273**	**44,654**
Total	**287,703**	**295,115**	**5,719**	**4,067**	**293,422**	**299,182**

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

Under financial assets at fair value through profit or loss Hannover Re recognised as at the balance sheet date the derivative financial instruments originally allocated to this item in an amount of EUR 58.3 million (EUR 44.7 million) as well as fixed-income securities amounting to EUR 235.1 million (EUR 254.5 million) designated in this category.

Analysis of the fair value changes in the portfolio of fixed-income securities at fair value through profit or loss indicated that an amount of –EUR 5.1 million was due to changes in the ratings of callable bonds.

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

For further information please see the explanatory remarks in Section 8.1 "Derivative financial instruments".

Carrying amounts before impairment				
in EUR thousand	2009		2008	
	Carrying amount before impairment	Impairment	Carrying amount before impairment	Impairment
Fixed-income securities – held to maturity	2,954,695	1,206	1,475,202	–
Fixed-income securities – loans and receivables	2,705,515	3,684	1,680,857	–
Fixed-income securities – available for sale	13,845,487	40,439	14,579,773	96,941
Short-term investments	1,352,525	50	807,719	–
Equity securities – available for sale	22,522	3,165	378,641	356,052
Participating interests and other invested assets, real estate funds	725,760	92,709	815,230	26,913
Total	**21,606,504**	**141,253**	**19,737,422**	**479,906**

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

Valuation of the available-for-sale portfolio affecting shareholders' equity		
in EUR thousand	2009	2008
Changes in the other comprehensive income from fair value measurement and transactions	Other comprehensive income from investments	
Allocation to gains/losses from the fair-value measurement of the available-for-sale portfolio	221,550	347,041
Transfer of gains/losses from the fair-value measurement of the available-for-sale portfolio to the result for the period	(86,910)	(360,132)
Total	**134,640**	**(13,091)**

Rating structure of fixed-income securities

Figures in EUR thousand	2009								
	AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity	1,776,146	579,187	473,858	120,373	3,925	–	–	–	2,953,489
Fixed-income securities – loans and receivables	1,047,059	972,062	499,329	109,637	161	–	–	73,583	2,701,831
Fixed-income securities – available-for-sale	7,946,449	2,432,341	2,276,065	779,432	90,317	221,813	7,594	51,037	13,805,048
Fixed-income securities – at fair value through profit or loss	4,494	10,475	40,392	80,633	46,391	33,442	8,404	10,918	235,149
Total fixed-income securities	10,774,148	3,994,065	3,289,644	1,090,075	140,794	255,255	15,998	135,538	19,695,517
Derivatives	12,757	2,903	18,829	3,347	(513)	7	8	765	38,103
Total fixed-income securities incl. derivatives	**10,786,905**	**3,996,968**	**3,308,473**	**1,093,422**	**140,281**	**255,262**	**16,006**	**136,303**	**19,733,620**

Figures in EUR thousand	2008								
	AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity	724,534	343,951	333,878	72,838	–	–	–	–	1,475,202
Fixed-income securities – loans and receivables	410,388	568,548	640,766	53,009	161	21	–	7,964	1,680,857
Fixed-income securities – available-for-sale	9,336,958	2,131,355	2,042,753	728,040	38,772	104,787	55,316	44,851	14,482,832
Fixed-income securities – at fair value through profit or loss	4,863	11,828	68,541	40,072	101,670	23,325	4,229	–	254,528
Total fixed-income securities	10,476,743	3,055,682	3,085,938	893,960	140,603	128,133	59,545	52,815	17,893,419
Derivatives	–	(5,028)	7,908	(7,899)	115	(1,803)	(18)	(25,911)	(32,636)
Total fixed-income securities incl. derivatives	**10,476,743**	**3,050,654**	**3,093,846**	**886,061**	**140,718**	**126,330**	**59,527**	**26,904**	**17,860,783**

The maximum credit risk of the items shown here corresponds to their carrying amounts.

Investments were held in the following currencies

Figures in EUR thousand	2009								
	AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
Fixed-income securities – held to maturity	12,693	31,479	1,915,290	77,534	–	908,228	8,265	–	2,953,489
Fixed-income securities – loans and receivables	–	6,094	2,172,073	17,188	–	483,745	–	22,731	2,701,831
Fixed-income securities – available-for-sale	890,838	364,124	4,709,837	1,250,538	96,553	5,836,171	202,180	454,807	13,805,048
Fixed-income securities – at fair value through profit or loss	–	–	89,587	–	–	119,977	25,585	–	235,149
Equity securities – available-for-sale	–	–	14,799	3,734	–	691	133	–	19,357
Other financial assets – at fair value through profit or loss	–	–	26,161	29,553	–	2,559	–	–	58,273
Other invested assets	–	–	435,905	445	–	486,223	1,403	2	923,978
Short-term investments, cash	120,612	33,822	675,471	88,474	5,810	694,878	88,688	102,132	1,809,887
Total investments and cash	**1,024,143**	**435,519**	**10,039,123**	**1,467,466**	**102,363**	**8,532,472**	**326,254**	**579,672**	**22,507,012**

Figures in EUR thousand	2008								
	AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
Fixed-income securities – held to maturity	10,054	27,570	819,602	29,821	–	577,247	10,908	–	1,475,202
Fixed-income securities – loans and receivables	–	139	1,530,599	16,189	–	127,702	–	6,228	1,680,857
Fixed-income securities – available-for-sale	679,117	325,065	5,746,278	1,119,426	92,903	6,009,523	163,126	347,394	14,482,832
Fixed-income securities – at fair value through profit or loss	–	–	66,518	–	–	164,860	23,150	–	254,528
Equity securities – available-for-sale	1,916	1,266	15,393	2,855	–	602	557	–	22,589
Other financial assets – at fair value through profit or loss	–	–	40,740	–	–	3,914	–	–	44,654
Other invested assets	–	–	439,864	29	–	497,870	852	–	938,615
Short-term investments, cash	63,181	20,335	159,208	56,893	23,747	730,012	52,060	132,508	1,237,944
Total investments and cash	**754,268**	**374,375**	**8,818,202**	**1,225,213**	**116,650**	**8,111,730**	**250,653**	**486,130**	**20,137,221**

The maximum credit risk of the items shown here corresponds to their carrying amounts.

Associated companies

Investments in associated companies		
Figures in EUR thousand	2009	2008
Net book value at 31 December of the previous year	128,680	170,839
Currency translation at 1 January	204	(756)
Balance at 1 January of the year under review	128,884	170,083
Additions	4,225	356
Disposals	–	28,545
Adjustment recognised in income	(5,470)	(11,412)
Adjustment recognised outside income	648	(1,962)
Currency translation at 31 December	29	160
Net book value at 31 December of the year under review	128,316	128,680

Public price listings are not available for companies valued at equity. The net book value of associated companies includes goodwill in the amount of EUR 17.9 million (EUR 17.9 million). For further details of our major participating interests please see Section 4 “Consolidated companies and consolidation principles”.

Real estate

Real estate is divided into real estate for own use and third-party use (investment property). The investment property in the portfolio which is used to generate income is shown under the investments. Real estate is valued at cost of acquisition less scheduled depreciation with useful lives of at most 50 years. Own-use real estate is recognised under other assets.

Income and expenses from rental agreements are included in the investment income.

Development of investment property in EUR thousand	2009	2008
Gross book value at 31 December of the previous year	45,258	41,370
Currency translation at 1 January	(214)	431
Gross book value after currency translation at 1 January of the year under review	45,044	41,801
Additions	148,677	7,028
Reclassification	–	(3,571)
Currency translation at 31 December	(3,509)	–
Gross book value at 31 December of the year under review	190,212	45,258
Cumulative depreciation at 31 December of the previous year	**23,640**	**24,408**
Currency translation at 1 January	(81)	148
Cumulative depreciation after currency translation at 1 January of the year under review	**23,559**	**24,556**
Depreciation	1,078	514
Impairments	175	–
Reclassification	2,813	(1,444)
Currency translation at 31 December	(25)	14
Cumulative depreciation at 31 December of the year under review	27,600	23,640
Net book value at 31 December of the previous year	21,618	16,962
Net book value at 1 January of the year under review	21,485	17,245
Net book value at 31 December of the year under review	162,612	21,618

In addition, we held indirect real estate investments in the year under review in an amount of EUR 54.2 million (EUR 3.9 million).

The fair value of investment property amounted to EUR 167.3 million (EUR 23.9 million) as at the balance sheet date. The market value of the real estate was determined using the discounted cash flow method.

The additions to this item are attributable to the sharply increased investment activities of Hannover Re Real Estate Holdings, Inc.

Other invested assets

The other invested assets consisted largely of participating interests in partnerships measured at fair value in an amount of EUR 522.6 million (EUR 622.6 million). The amortised cost of these participations amounted to EUR 424.7 million (EUR 504.6 million); in addition, unrealised gains of EUR 98.7 million (EUR 135.8 million) and unrealised losses of EUR 0.8 million (EUR 17.8 million) were recognised from these participations.

Short-term investments

This item comprises investments with a maturity of up to one year at the time of investment.

Fair value hierarchy

For the purposes of the disclosure requirements pursuant to IFRS 7.27 B, the financial instruments to be recognised at fair value in the balance sheet are to be assigned to a three-level fair value hierarchy. This hierarchy, which reflects characteristics of the price data and inputs used for measurement purposes, is structured as follows:

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

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

Figures in EUR thousand	2009			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	7,449,589	6,459,155	131,453	14,040,197
Equity securities	18,387	620	350	19,357
Other financial assets – at fair value through profit or loss	–	58,273	–	58,273
Other invested assets	–	–	576,807	576,807
Short-term investments	1,339,985	12,490	–	1,352,475
Total assets measured at fair value	8,807,961	6,530,538	708,610	16,047,109
Other liabilities	1,796	19,333	–	21,129
Total liabilities measured at fair value	1,796	19,333	–	21,129

The following table provides a reconciliation of the fair values of financial instruments included in level 3 at the beginning of the financial year with the fair values as at 31 December of the financial year.

Figures in EUR thousand	2009		
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets
Balance at 1 January of the year under review	118,328	350	621,944
Income and expenses			
recognised in the statement of income	(3,227)	–	(77,410)
recognised directly in shareholders' equity	29,976	–	(11,115)
Additions	–	–	65,524
Disposals	13,538	–	16,861
Transfers to level 3	–	–	–
Transfers from level 3	–	–	–
Currency translation at 31 December of the year under review	(86)	–	(5,275)
Net book value at 31 January of the year under review	131,453	350	576,807

The breakdown of income and expenses recognised in the statement of income in the financial year in connection with financial instruments included in level 3 is as follows:

Figures in EUR thousand	2009		
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets
Total in the financial year			
Ordinary investment income	21	–	–
Total depreciation, impairments and appreciation of investments	(3,248)	–	(77,410)
Thereof attributable to financial instruments included in the portfolio at 31 December of the year under review			
Ordinary investment income	21	–	–
Total depreciation, impairments and appreciation of investments	(1,003)	–	(77,410)

If models are used to measure financial instruments included in level 3 under which the adoption of reasonable alternative inputs leads to a material change in fair value, IFRS 7.27 B requires disclosure of the effects of these alternative assumptions. Of the financial instruments included in level 3 with fair values of altogether EUR 708.6 million as at the balance sheet date, Hannover Re measures financial instruments with a volume of EUR 701.9 million using the Net Asset Value method, in respect of which alternative inputs within the meaning of the standard cannot reasonably be established. For the remaining financial instruments included in level 3 with a volume of EUR 6.7 million, the effects of alternative inputs and assumptions are immaterial.

6.2 Funds withheld (assets)

The funds withheld by ceding companies totalling EUR 11,589.6 million (EUR 9,264.6 million) represent the cash and securities deposits furnished by our company to our cedants that do not trigger any cash flows and cannot be realised by cedants without our consent. The durations of these deposits are matched to the corresponding provisions. In the event of default on such a deposit our reinsurance commitment is reduced to the same extent. The rise in funds withheld by ceding companies was attributable principally to the acquisition of a US life reinsurance portfolio as well as increased new business in the area of life reinsurance.

For further details of the recognition of funds withheld please see our explanatory remarks in Section 3.2 “Summary of major accounting policies”.

6.3 Contract deposits (assets)

The contract deposits on the assets side grew by EUR 336.7 million in the year under review from EUR 288.8 million to EUR 625.5 million. The increase was attributable principally to specific new contracts in the area of life reinsurance.

For further details of the recognition of contract deposits please see our explanatory remarks in Section 3.2 "Summary of major accounting policies".

6.4 Technical assets

The retrocessionaires' portions of the technical provisions are based on the contractual agreements of the underlying reinsurance treaties. For further details please refer to our comments on the technical provisions in Section 6.7 "Technical provisions" as well as the remarks in the risk report on page 57 et seq.

FASB ASC 944-30-25-1 (previously included in SFAS 60 "Accounting and Reporting by Insurance Enterprises") requires that acquisition costs be capitalised as assets and amortised via the statement of income in proportion to the earned premium.

In the case of reinsurance treaties for unit-linked life insurance policies classified as "universal life-type contracts" pursuant to FASB ASC 944-20-15-26 to -30 (previously included in SFAS 97 "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments"), the capitalised acquisition costs are amortised on the basis of the estimated gross profit margins from the reinsurance treaties, making allowance for the period of the insurance contracts. A discount rate based on the interest for medium-term government bonds was applied to such contracts. In the case of annuity policies with a single premium payment, these values refer to the expected policy period or period of annuity payment.

In life and health reinsurance the deferred acquisition costs associated with life and annuity policies with regular premium payments are determined in light of the period of the contracts, the expected surrenders, the lapse expectancies and the anticipated interest income.

In non-life reinsurance acquisition costs directly connected with the acquisition or renewal of contracts are deferred for the unearned portion of the premium.

Development of deferred acquisition costs in EUR thousand	2009	2008
Net book value at 31 December of the previous year	1,860,783	1,807,143
Currency translation at 1 January	40,977	(100,923)
Balance at 1 January of the year under review	1,901,760	1,706,220
Changes in consolidated group	–	(77)
Additions	418,512	538,673
Amortisations	478,066	411,062
Portfolio entries/exits	3	12,551
Currency translation at 31 December	(3,759)	14,478
Net book value at 31 December of the year under review	1,838,450	1,860,783

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

The age structure of the accounts receivable which were unadjusted but considered overdue as at the balance sheet date is presented below:

Age structure of overdue accounts receivable in EUR thousand	2009		2008	
	Three months to one year	More than one year	Three months to one year	More than one year
Accounts receivable	52,642	98,826	55,986	79,077

Within the scope of our management of receivables we expect to receive payment of accounts receivable within three months of the date of creation of the debit entry – a period for which we also make allowance in our risk analysis. Please see our comments on the credit risk within the risk report on page 62 et seq.

The default risks associated with accounts receivable under reinsurance business are determined and recognised on the basis of case-by-case analysis.

The value adjustments on accounts receivable that we recognise in adjustment accounts changed as follows in the year under review:

Value adjustments on accounts receivable in EUR thousand	2009	2008
Changes in value adjustments		
Cumulative value adjustments at 31 December of the previous year	125,573	127,733
Currency translation at 1 January of the year under review	(2,351)	2,011
Cumulative value adjustments after currency translation	123,222	129,744
Value adjustments in the year under review	23,718	46,949
Reversal	74,682	51,120
Cumulative value adjustments at 31 December of the year under review	72,258	125,573
Gross book value of accounts receivable at 31 December of the year under review	2,942,132	2,927,335
Value adjustments	72,258	125,573
Net book value of accounts receivable at 31 December of the year under review	2,869,874	2,801,762

In addition, we took specific value adjustments on reinsurance recoverables on unpaid claims in the year under review. We would refer the reader to the corresponding remarks on the loss and loss adjustment expense reserve in Section 6.7 "Technical provisions".

With regard to the credit risks resulting from technical assets we would also refer the reader to our comments in the risk report on page 62 et seq.

6.5 Goodwill

In accordance with IFRS 3 “Business Combinations” scheduled amortisation is not taken on goodwill. Goodwill was subject to an impairment test.

Development of goodwill in EUR thousand	2009	2008
Net book value at 31 December of the previous year	42,833	45,438
Currency translation at 1 January	1,560	(2,026)
Net book value at 1 January of the year under review	44,393	43,412
Corporate changes	–	(579)
Net book value at 31 December of the year under review	44,393	42,833

This item principally included the goodwill from the acquisition of E+S Rückversicherung AG as well as from acquisition transactions within the subgroup of Hannover Reinsurance Group Africa (Pty.) Ltd. For further information on the method used to test impairment the reader is referred to our explanatory remarks in Section 3.2 “Summary of major accounting policies”.

6.6 Other assets

Other assets in EUR thousand	2009	2008
Present value of future profits on acquired life reinsurance portfolios	99,881	1,823
Other intangible assets	56,871	61,310
Insurance for pension commitments	52,007	45,459
Own-use real estate	44,547	42,019
Tax refund claims	42,791	26,823
Fixtures, fittings and equipment	38,844	26,302
Other receivables	1,556	3,547
Receivables from affiliated companies	545	153
Other	32,443	52,829
Total	**369,485**	**260,265**

Development of the present value of future profits (PVFP) on acquired life reinsurance portfolios in EUR thousand	2009	2008
Net book value at 31 December of the previous year	1,823	2,911
Currency translation at 1 January	113	(683)
Net book value at 1 January of the year under review	1,936	2,228
Additions	104,252	–
Amortisation	3,786	487
Currency translation at 31 December	(2,521)	82
Net book value at 31 December of the year under review	99,881	1,823

The addition of EUR 104.3 million results from the present value of future cash flows from the business acquired that we have recognized as part of the acquisition of the ING life reinsurance portfolio. This intangible asset is amortised over the term of the underlying reinsurance contracts in proportion to the future premium income. The period of amortisation is 30 years. The PVFP is recognised under other assets. For further information please refer to our explanatory notes on intangible assets in Section 3.2 “Summary of major accounting policies”.

Own-use real estate

The portfolio of own-use real estate was measured at cost of purchase less scheduled straight-line depreciation over useful lives of 10 to 50 years. The fair values were calculated using the discounted cash flow method.

Insurance for pension commitments

Effective 1 July 2003 Hannover Re took out insurance for pension commitments. The commitments involve deferred annuities with regular premium payment under a group insurance policy. In accordance with IAS 19 they were carried as a separate asset at fair value as at the balance sheet date in an amount of EUR 52.0 million (EUR 45.5 million).

Fixtures, fittings and equipment in EUR thousand	2009	2008
Gross book value at 31 December of the previous year	89,110	95,352
Currency translation at 1 January	1,998	(6,244)
Gross book value after currency translation	91,108	89,108
Additions	11,275	11,774
Disposals	3,353	11,981
Reclassification	–	(130)
Changes in consolidated group	12,886	233
Currency translation at 31 December	(491)	106
Gross book value at 31 December of the year under review	111,425	89,110
Cumulative depreciation at 31 December of the previous year	62,808	69,571
Currency translation at 1 January	1,486	(4,986)
Cumulative depreciation after currency translation	64,294	64,585
Disposals	2,431	11,118
Depreciation	10,852	9,497
Currency translation at 31 December	(134)	(156)
Cumulative depreciation at 31 December of the year under review	72,581	62,808
Net book value at 31 December of the previous year	26,302	25,781
Net book value at 31 December of the year under review	38,844	26,302

With regard to the measurement of fixtures, fittings and equipment, the reader is referred to our explanatory notes on the other assets in Section 3.2 "Summary of major accounting policies".

Development of other intangible assets in EUR thousand	2009	2008
Gross book value at 31 December of the previous year	165,959	155,429
Currency translation at 1 January	24	(739)
Gross book value after currency translation	165,983	154,690
Change in consolidated group	–	497
Additions	7,598	14,382
Disposals	347	1,543
Currency translation at 31 December	(1,335)	(2,067)
Gross book value at 31 December of the year under review	171,899	165,959
Cumulative depreciation at 31 December of the previous year	104,649	99,039
Currency translation at 1 January	176	(233)
Cumulative depreciation after currency translation	104,825	98,806
Disposals	194	44
Write-ups	80	–
Depreciation	10,474	5,893
Currency translation at 31 December	3	(6)
Cumulative depreciation at 31 December of the year under review	115,028	104,649
Net book value at 31 December of the previous year	61,310	56,390
Net book value at 31 December of the year under review	56,871	61,310

The item includes EUR 7.2 million (EUR 7.9 million) for self-provided software and EUR 36.6 million (EUR 39.9 million) for purchased software as at the balance sheet date. Scheduled depreciation is taken over useful lives of three to ten years. The additions can be broken down into EUR 5.9 million (EUR 4.9 million) for purchased software and EUR 0.3 million (EUR 9.1 million) for advance payments on self-provided software.

As in the previous year, the other receivables do not include any items that were overdue but unadjusted as at the balance sheet date. Value adjustments were taken on other receivables in an amount of EUR 0.7 million (EUR 3.8 million) in the year under review on the basis of specific impairment analyses.

Credit risks may result from other financial assets that were not overdue or adjusted as at the balance sheet date. In this regard, the reader is referred in general to our comments on the credit risk contained in the risk report on page 62 et seq.

6.7 Technical provisions

In order to show the net technical provisions remaining in the retention the following table compares the gross provisions with the corresponding retrocessionaires' shares, which are shown as assets in the balance sheet.

Technical provisions in EUR thousand	2009			2008		
	Gross	Retro	Net	Gross	Retro	Net
Loss and loss adjustment expense reserve	17,425,293	1,747,991	15,677,302	16,932,069	2,079,168	14,852,901
Benefit reserve	7,952,640	104,868	7,847,772	5,913,075	159,151	5,753,924
Unearned premium reserve	1,512,840	47,651	1,465,189	1,333,856	29,733	1,304,123
Other technical provisions	148,827	400	148,427	156,996	9,928	147,068
Total	**27,039,600**	**1,900,910**	**25,138,690**	**24,335,996**	**2,277,980**	**22,058,016**

The loss and loss adjustment expense reserves are in principle calculated on the basis of the information supplied by ceding companies. Additional IBNR reserves are established for losses that have been incurred but not as yet reported.

In the previous year technical provisions were discounted at interest rates of between 6.5% and 8.5% with respect to a certain group of contracts relating to the Hannover Re Advanced Solutions division. The interest rates were determined by the contractual agreements. The period from inception to expiry of these contracts was at least four years. No further discounting was taken for the year under review because the contracts will be terminated in less than four years.

The development of the loss and loss adjustment expense reserve is shown in the following table. Commencing with the gross reserve, the change in the reserve after deduction of the reinsurers' portions is shown in the year under review and the previous year.

Loss and loss adjustment expense reserve in EUR thousand	2009			2008		
	Gross	Retro	Net	Gross	Retro	Net
Net book value at 31 December of the previous year	16,932,069	2,079,168	14,852,901	16,553,888	2,471,585	14,082,303
Currency translation at 1 January	25,107	(19,838)	44,945	(84,534)	44,227	(128,761)
Reserve at 1 January of the year under review	16,957,176	2,059,330	14,897,846	16,469,354	2,515,812	13,953,542
Incurred claims and claims expenses (net)[1]						
Year under review	4,786,057	213,776	4,572,281	4,039,386	451,563	3,587,823
Previous years	1,942,699	(22,302)	1,965,001	1,202,333	65,689	1,136,644
	6,728,756	191,474	6,537,282	5,241,719	517,252	4,724,467
Less:						
Claims and claims expenses paid (net)						
Year under review	(2,314,135)	(130,610)	(2,183,525)	(1,079,533)	(386,532)	(693,001)
Previous years	(3,921,412)	(392,354)	(3,529,058)	(3,817,633)	(550,663)	(3,266,970)
	(6,235,547)	(522,964)	(5,712,583)	(4,897,166)	(937,195)	(3,959,971)
Changes in consolidated group	–	–	–	3,867	2,609	1,258
Specific value adjustment for retrocessions	–	10,423	(10,423)	–	20,212	(20,212)
Reversal of impairments	–	32,604	(32,604)	–	–	–
Portfolio entries/exits	9,801	(19)	9,820	(9,337)	–	(9,337)
Currency translation at 31 December	(34,893)	(2,011)	(32,882)	123,632	902	122,730
Net book value at 31 December of the year under review	17,425,293	1,747,991	15,677,302	16,932,069	2,079,168	14,852,901

1 Including expenses recognised directly in shareholders' equity

In the year under review specific value adjustments on retrocessions, i.e. on the reinsurance recoverables on unpaid claims, were reversed in an amount of EUR 22.2 million (previous year: established in an amount of EUR 20.2 million). Consequently, cumulative specific value adjustments of EUR 24.5 million (EUR 46.7 million) were recognised in these reinsurance recoverables as at the balance sheet date.

The total amount of the net reserve before specific value adjustments, to which the following remarks apply, was EUR 15,652.8 million (EUR 14,806.2 million) as at the balance sheet date.

The table below shows the net loss reserve (loss and loss adjustment expense reserve) for non-life reinsurance in the years 1999 to 2009 as well as the run-off of the reserve (so-called run-off triangle).

To some extent the loss and loss adjustment expense reserves are inevitably based upon estimations that entail an element of uncertainty. The difference between the previous year's and current estimates is reflected in the net run-off result. In addition, owing to the fact that the period of some reinsurance treaties is not the calendar year or because they are concluded on an underwriting-year basis, it is frequently impossible in reinsurance business to make an exact allocation of claims expenditures to the current financial year and the previous year. The run-off triangles are therefore shown after adjustment for effects associated with the additional premium.

The development of the euro relative to the most relevant foreign currencies is also a significant influencing factor in the analysis of run-off triangles. In particular, despite the opposing effects of other major foreign currencies, the appreciation of 2.6% in the US dollar against the euro compared to the previous year led to a slight increase in the loss and loss adjustment expense reserve on a euro basis.

The run-off triangles show the run-off of the reserve established as at each balance sheet date, this reserve comprising the provisions constituted in each case for the current and preceding occurrence years.

The run-off results shown reflect the changes in the ultimate loss arising in the 2009 financial year for the individual run-off years.

Net loss reserve and its run-off

Figures in EUR million	1999 31.12.	2000 31.12.	2001 31.12.	2002 31.12.	2003 31.12.	2004 31.12.	2005 31.12.	2006 31.12.	2007 31.12.	2008 31.12.	2009 31.12.
Loss and loss adjustment expense reserve (from balance sheet)											
	7,012.5	8,482.0	12,182.7	12,863.4	13,462.2	13,120.7	14,295.9	13,279.8	12,718.2	13,354.1	13,779.6
Cumulative payments for the year in question and previous years											
One year later	1,583.3	2,108.2	2,242.2	2,118.1	3,622.7	4,495.8	3,051.1	2,664.8	2,476.2	2,927.9	
Two years later	2,497.7	3,111.9	3,775.1	5,024.4	7,322.2	6,611.0	5,072.2	4,389.8	4,249.6		
Three years later	3,226.2	4,174.2	6,032.1	7,764.8	8,780.2	7,590.1	6,204.5	5,696.0			
Four years later	3,897.6	5,745.1	8,588.5	8,909.0	9,518.8	8,356.3	7,306.3				
Five years later	5,119.7	7,581.3	9,399.8	9,467.1	10,101.6	9,136.7					
Six years later	6,146.0	8,114.1	9,786.1	9,896.7	10,733.6						
Seven years later	6,509.9	8,405.2	10,122.4	10,456.6							
Eight years later	6,785.1	8,610.9	10,533.4								
Nine years later	6,915,0	8,891.4									
Ten years later	7,073.1										
Loss and loss adjustment expense reserve (net) for the year in question and previous years plus payments made to date on the original reserve											
End of year	7,012.5	8,482.0	12,182.7	12,863.4	13,462.2	13,120.7	14,295.9	13,279.8	12,718.2	13,354.1	13,779.6
One year later	7,525.6	9,421.6	11,604.4	11,742.7	13,635.5	14,433.1	13,074.2	12,365.8	12,171.4	13,264.9	
Two years later	7,750.5	8,878.0	10,477.4	11,844.8	14,236.6	13,532.6	12,366.0	11,868.5	11,925.7		
Three years later	7,311.6	8,186.1	10,743.8	12,373.3	13,596.5	13,061.2	11,977.1	11,645.0			
Four years later	6,769.4	8,354.1	11,543.6	11,730.7	13,307.4	12,770.8	11,772.7				
Five years later	6,820.9	9,102.6	11,051.2	11,666.2	13,122.5	12,618.0					
Six years later	7,368.0	8,755.6	11,164.1	11,686.0	13,053.8						
Seven years later	7,142.1	8,864.2	11,219.1	11,707.0							
Eight years later	7,212.2	8,935.7	11,261.7								
Nine years later	7,267.8	8,933.1									
Ten years later	7,258.3										
Net run-off result of the loss reserve											
	9.5	(6.9)	(45.2)	21.6	89.7	84.2	51.6	18.5	22.7	(156.5)	
Of which currency exchange rate differences	(0.6)	(4.4)	(13.4)	(2.7)	6.0	7.8	1.1	2.5	8.1	(8.7)	
Net run-off result excluding currency exchange rate differences											
	8.9	(11.3)	(58.6)	18.9	95.7	92.0	52.7	21.0	30.8	(165.2)	
As percentage of original loss reserve	0.1	(0.1)	(0.5)	0.2	0.7	0.7	0.4	0.2	0.3	(1.2)	

The result for the run-off years was EUR 84.9 million in the 2009 financial year. This is equivalent to 0.6% of the original reserve.

Maturities of the technical reserves

IFRS 4.38 in conjunction with 4.39(d) requires information which helps to clarify the amount and timing of cash flows expected from reinsurance contracts. In the following tables we have shown the future maturities of the technical reserves broken down by the expected remaining times to maturity. As part of our maturity analysis we have directly deducted the deposits put up as security for these reserves, since the cash inflows and outflows from these deposits are to be allocated directly to the ceding companies. For further explanation of the recognition and measurement of the reserves please see Section 3.2 "Summary of major accounting policies".

Maturities of the technical reserves

in EUR thousand	2009					
	Loss and loss adjustment expense reserves			Benefit reserve		
	Gross	Retro	Net	Gross	Retro	Net
Due in one year	4,580,900	434,186	4,146,714	108,337	6,822	101,515
Due after one through five years	6,717,787	743,097	5,974,690	296,293	36,811	259,482
Due after five through ten years	2,756,500	333,179	2,423,321	267,938	7,600	260,338
Due after ten through twenty years	1,952,551	140,255	1,812,296	452,295	5,541	446,754
Due after twenty years	1,035,258	49,448	985,810	329,017	4,286	324,731
	17,042,996	1,700,165	15,342,831	1,453,880	61,060	1,392,820
Deposits	382,297	72,345	309,952	6,498,760	43,808	6,454,952
Total	**17,425,293**	**1,772,510**	**15,652,783**	**7,952,640**	**104,868**	**7,847,772**

in EUR thousand	2008					
	Loss and loss adjustment expense reserves			Benefit reserve		
	Gross	Retro	Net	Gross	Retro	Net
Due in one year	4,550,519	632,338	3,918,181	140,488	2,335	138,153
Due after one through five years	6,548,143	871,076	5,677,067	211,262	35,046	176,216
Due after five through ten years	2,346,469	243,109	2,103,360	308,077	2,154	305,923
Due after ten through twenty years	1,869,407	190,691	1,678,716	481,841	4,403	477,438
Due after twenty years	985,265	54,036	931,229	423,293	3,182	420,111
	16,299,803	1,991,250	14,308,553	1,564,961	47,120	1,517,841
Deposits	632,266	134,666	497,600	4,348,114	112,031	4,236,083
Total	**16,932,069**	**2,125,916**	**14,806,153**	**5,913,075**	**159,151**	**5,753,924**

The average maturity of the loss and loss adjustment expense reserves was 5.7 years (5.5 years), or 5.8 years (5.7 years) after allowance for the corresponding retrocession shares. The benefit reserve had an average maturity of 13.0 years (14.2 years) – or 13.3 years (14.4 years) on a net basis.

The average maturity of the reserves is determined using actuarial projections of the expected future payments. A payment pattern is calculated for each homogenous category of our portfolio – making allowance for the business sector, geographical considerations, treaty type and the type of reinsurance – and applied to the outstanding liabilities for each underwriting year and run-off status.

The payment patterns are determined with the aid of actuarial estimation methods and adjusted to reflect changes in payment behaviour and outside influences. The calculations can also be distorted by major losses, and these are therefore considered separately using reference samples or similar losses. The payment patterns used can be compared year for year by contrasting the projected payments with the actual amounts realised.

Liabilities in liability and motor reinsurance traditionally have long durations, sometimes in excess of 20 years, while liabilities in property business are settled within the first ten years.

The benefit reserve is established for life, annuity, personal accident and health reinsurance contracts. Based on the duration of these contracts, long-term reserves are constituted for life and annuity policies and predominantly short-term reserves are set aside for health and personal accident business.

The benefit reserve is calculated on the basis of the following parameters:

1. interest income;
2. lapse rates;
3. mortality and morbidity rates.

The values for the first two components differ according to the country concerned, product type, investment year etc. The mortality and morbidity rates used are chosen on the basis of national tables and the insurance industry standard. Empirical values for the reinsured portfolio, where available, are also taken into consideration. In this context insights into the gender, age and smoker structure are incorporated into the calculations, and allowance is also made for factors such as product type, sales channel and the frequency of premium payment by policyholders.

At the inception of every reinsurance contract, assumptions about the three parameters are made and locked in for the purpose of calculating the benefit reserve. At the same time, safety/fluctuation loadings are built into each of these components. In order to ensure at all times that the originally chosen assumptions continue to be adequate throughout the contract, checks are made on a regular – normally annual – basis in order to determine whether these assumptions need to be adjusted ('unlocked').

The benefit reserve is established in accordance with the principles set out in FASB ASC 944–40–30 and –35 (previously contained in SFAS 60 "Accounting and Reporting by Insurance Enterprises"). The provisions are based on the Group companies' information regarding mortality, interest and lapse rates.

Development of the benefit reserve in EUR thousand	2009			2008		
	Gross	Retro	Net	Gross	Retro	Net
Net book value at 31 December of the previous year	5,913,075	159,151	5,753,924	6,143,460	255,076	5,888,384
Currency translation at 1 January	76,616	(2,225)	78,841	(483,382)	(3,106)	(480,276)
Reserve at 1 January of the year under review	5,989,691	156,926	5,832,765	5,660,078	251,970	5,408,108
Changes in the consolidated group	981,850	–	981,850	–	–	–
Changes	580,268	17,600	562,668	454,040	32,698	421,342
Portfolio entries/exits	422,752	(69,815)	492,567	(147,315)	(125,628)	(21,687)
Currency translation at 31 December	(21,921)	157	(22,078)	(53,728)	111	(53,839)
Net book value at 31 December of the year under review	7,952,640	104,868	7,847,772	5,913,075	159,151	5,753,924

The unearned premium reserve derives from the deferral of ceded reinsurance premium. The unearned premium is determined by the period during which the risk is carried and established in accordance with the information supplied by ceding companies. In cases where no information was received, the unearned premium was estimated using suitable methods. Premium paid for periods subsequent to the date of the balance sheet was deferred from recognition within the statement of income.

Development of the unearned premium reserve

in EUR thousand	2009			2008		
	Gross	Retro	Net	Gross	Retro	Net
Net book value at 31 December of the previous year	1,333,856	29,733	1,304,123	1,186,382	92,322	1,094,060
Currency translation at 1 January	11,558	1,624	9,934	(16,191)	(499)	(15,692)
Reserve at 1 January of the year under review	1,345,414	31,357	1,314,057	1,170,191	91,823	1,078,368
Changes in the consolidated group	–	–	–	1,866	1,328	538
Changes	227,161	18,658	208,503	113,480	(59,193)	172,673
Portfolio entries/exits	(35,038)	(189)	(34,849)	31,608	94	31,514
Currency translation at 31 December	(24,697)	(2,175)	(22,522)	16,711	(4,319)	21,030
Net book value at 31 December of the year under review	1,512,840	47,651	1,465,189	1,333,856	29,733	1,304,123

The adequacy of the technical liabilities arising out of our reinsurance treaties is reviewed as at each balance sheet date. As part of the adequacy test for technical liabilities the anticipated future contractual payment obligations are compared with the anticipated future income. Hannover Re adopts the "loss recognition" method set out under US GAAP. Should the result of the test indicate that the anticipated future income will not be sufficient to fund future payments, the entire shortfall is recognised in income by first writing off capitalised acquisition costs corresponding to the shortfall. Any remaining difference is constituted as an additional provision.

6.8 Funds withheld (liabilities)

The funds withheld under reinsurance treaties totalling EUR 857.4 million (EUR 566.0 million) represent the cash and securities deposits furnished to our company by our retrocessionaires that do not trigger any cash flows and cannot be realised without the consent of our retrocessionaires. The durations of these deposits are matched to the corresponding shares of the reinsurers in the technical provisions. If such a share no longer exists the corresponding funds withheld are reduced to the same extent.

For further details of the recognition of funds withheld please see our explanatory remarks in Section 3.2 "Summary of major accounting policies".

6.9 Contract deposits (liabilities)

The contract deposits on the liabilities side increased by EUR 832.7 million in the year under review from EUR 4,634.9 million to EUR 5,467.6 million. The contract deposits item on the liabilities side encompasses balances deriving from non-traditional life insurance contracts that are to be carried as liabilities. The rise was due principally to growth in new business in the area of life reinsurance.

For further details of the recognition of contract deposits please see our explanatory remarks in Section 3.2 "Summary of major accounting policies".

6.10 Provisions for pensions and other post-employment benefit obligations

Pension commitments are given in accordance with the relevant version of the pension plan as amended. The 1968 pension plan provides for retirement, disability, widows' and orphans' benefits. The pension entitlement is dependent on length of service; entitlements under the statutory pension insurance scheme are taken into account. The pension plan was closed to new participants with effect from 31 January 1981.

On 1 April 1993 (1 June 1993 in the case of managerial staff) the 1993 pension plan came into effect. This pension plan provides for retirement, disability and surviving dependants' benefits. The scheme is based upon annual determination of the pension contributions, which at 1% up to the assessment limit in the statutory pension insurance scheme and 2.5% above the assessment limit of the pensionable employment income are calculated in a range of 0.7% to 1% and 1.75% to 2.5% respectively depending upon the company's performance. The pension plan closed as at 31 March 1999.

From 1997 onwards it has been possible to obtain pension commitments through deferred compensation. Following the merger with Gerling-Konzern Lebensversicherungs-AG, Cologne, the employee-funded commitments included in the provisions for accrued pension rights are protected by an insurance contract with HDI-Gerling Lebensversicherung AG, Cologne, at unchanged conditions.

As at 1 July 2000 the 2000 pension plan came into force for the entire Group. Under this plan, new employees included in the group of beneficiaries are granted an indirect commitment from HDI Unterstützungskasse. The pension plan provides for retirement, disability and surviving dependants' benefits.

Effective 1 December 2002 Group employees have an opportunity to accumulate additional old-age provision at unchanged conditions by way of deferred compensation through membership of HDI-Gerling Pensionskasse AG. The benefits provided by HDI-Pensionskasse AG are guaranteed for its members and their surviving dependants and comprise traditional pension plans with bonus increases as well as unit-linked hybrid annuities.

In addition to these pension plans, managerial staff and members of the Executive Board, in particular, enjoy individual commitments as well as commitments given under the benefits plan of the Bochumer Verband.

Provisions for pensions are established in accordance with IAS 19 "Employee Benefits" (rev. 2004) using the projected unit credit method. The pension plans are defined benefit plans. The basis of the valuation is the estimated future increase in the rate of compensation of the pension beneficiaries. The benefit entitlements are discounted by applying the capital market rate for highest-rated securities. The commitments to employees in Germany predominantly comprise benefit obligations financed by the Group companies. The pension plans are unfunded. Amounts carried as liabilities are recognised under other liabilities. The provisions for pensions in Germany and abroad were calculated on the basis of uniform standards defined by Talanx AG and subject to local economic conditions.

Provisions for pensions are established in accordance with actuarial principles and are based upon the commitments made by the Hannover Re Group for retirement, disability and widows' benefits. The amount of the commitments is determined according to length of service and salary level.

The calculation of the provisions for pensions is based upon the following assumptions:

Measurement assumptions in %	2009			2008		
	Germany	USA	Australia	Germany	USA	Australia
Discount rate	5.63	5.22	5.15	6.00	6.25	4.17
Projected long-term yield on plan assets	–	7.50	7.00	–	7.50	7.00
Rate of compensation increase	3.00	–	5.00	3.00	–	4.50
Pension indexation	2.25	3.00	3.00	2.25	3.00	3.00

The change in the projected benefit obligation of the pension commitments as well as their breakdown into plans that are unfunded or are wholly or partially funded was as follows:

Change in the projected benefit obligation in EUR thousand	2009	2008
Projected benefit obligation at the beginning of the year under review	79,908	79,135
Current service cost for the year under review	2,506	2,789
Interest cost	4,731	4,009
Deferred compensation	232	13
Actuarial gain/loss	5,915	(2,940)
Currency translation	2,366	(1,246)
Benefits paid during the year	(2,196)	(1,852)
Projected benefit obligation at the end of the year under review	93,462	79,908

Funding of the defined benefit obligation in EUR thousand	2009	2008
Projected benefit obligation from unfunded plans	82,245	69,836
Projected benefit obligation from wholly or partially funded plans (before deduction of fair value of plan assets)	11,217	10,072
Projected benefit obligation at the end of the year under review	93,462	79,908
Fair value of plan assets	9,317	7,051
Funded status (present value of earned benefit entitlements less fund assets)	84,145	72,857

The fair value of the plan assets developed as follows:

Change in plan assets in EUR thousand	2009	2008
Fair value at the beginning of the year under review	7,051	9,372
Expected return on plan assets	532	544
Actuarial gain/loss	(43)	(1,830)
Currency translation	1,460	(1,265)
Employer contributions	398	287
Contributions paid by plan participants	–	13
Benefits paid during the year	(81)	(70)
Fair value of plan assets at the end of the year under review	9,317	7,051

The expected long-term return on plan assets was derived from the anticipated long-term yields of the individual asset classes and weighted pro rata.

The structure of the asset portfolio underlying the plan assets was as follows:

Portfolio structure of plan assets as % of plan assets	2009	2008
Equities	5	7
Other	95	93
Total	**100**	**100**

The fair value of plan assets as at the balance sheet date included amounts totalling EUR 1.3 million (EUR 1.4 million) for own financial instruments.

No actual gains or losses were generated on plan assets in the year under review, compared with actual losses on plan assets of –EUR 1.1 million in the previous year.

The following table presents a reconciliation of the funded status – calculated from the difference between the defined benefit obligations and the plan assets – with the provision for pensions recognised as at the balance sheet date:

Reconciliation of the net provision for pensions in EUR thousand	2009	2008
Defined benefit obligations at the end of the year under review	93,462	79,908
Fair value of plan assets at the end of the year under review	9,317	7,051
Funded status	84,145	72,857
Unrealised actuarial gain/loss	(6,648)	(650)
Net provisions for pensions at 31 December of the year under review	77,497	72,207

The recognised provision for pensions developed as follows in the year under review:

Change in the provisions for pensions in EUR thousand	2009	2008
Net provisions for pensions at 31 December of the previous year	72,207	67,101
Currency translation	288	(130)
Expense for the year under review	7,260	7,367
Amounts paid during the year	(143)	(348)
Benefits paid during the year	(2,115)	(1,783)
Net provisions for pensions at 31 December of the year under review	77,497	72,207

The components of the net periodic pension cost for benefit plans were as follows:

Net periodic pension cost in EUR thousand	2009	2008
Current service cost for the year under review	2,506	2,789
Interest cost	4,679	4,054
Expected return on plan assets	478	607
Recognised actuarial gain/loss	(538)	(1,116)
Effect of plan curtailments or settlements	(15)	(15)
Total	**7,260**	**7,367**

In determining the actuarial gains and losses to be recognised in the statement of income the corridor method provided for as an option in IAS 19 is applied.

The net periodic pension cost was recognised in the consolidated statement of income in amounts of EUR 5.8 million (EUR 5.8 million) under administrative expenses, EUR 0.8 million (EUR 0.6 million) under other expenses and EUR 0.7 million (EUR 1.0 million) under other investment expenses.

No actuarial gains (EUR 0.1 million) were recognised as at the balance sheet date in other comprehensive income.

The following amounts were recognised for the year under review and prior years under the accounting of defined benefit plans:

Amounts recognised in EUR thousand	2009	2008	2007	2006	2005
Present value of defined benefit obligation	93,462	79,908	79,135	77,400	85,233
Fair value of plan assets	9,317	7,051	9,372	7,302	10,500
Surplus/(deficit) in the plan	(84,145)	(72,857)	(69,763)	(70,098)	(74,733)
Experience adjustments on plan liabilities	(6,647)	(649)	(3,410)	(8,633)	458
Experience adjustments on plan assets	–	–	(374)	34	(196)

In the current financial year Hannover Re expects contribution payments of EUR 0.6 million (EUR 0.5 million) under the pension plans set out above.

Defined contribution plans

In addition to the defined benefit plans, some Group companies have defined contribution plans that are based on length of service and the employee's income or level of contributions. The expense recognised for these obligations in the year under review in accordance with IAS 19.46 was EUR 4.0 million (EUR 2.6 million), of which only a minimal amount was due to obligations to members of staff in key positions.

6.11 Other liabilities

Other liabilities in EUR thousand	2009	2008
Liabilities from derivatives	21,129	91,680
Interest	71,770	60,052
Deferred income	19,522	15,977
Costs of the annual financial statements	6,189	5,670
Liabilities due to affiliated companies	3,285	5,849
Provisions arising out of employment relationships	33,850	28,582
Direct minority interests in partnerships	31,258	33,919
Other	126,447	77,454
Total	**313,450**	**319,183**

The liabilities from derivatives of EUR 21.1 million (EUR 91.7 million) consist principally of embedded derivatives recognised separately from the underlying insurance contract at fair value pursuant to IAS 39. Please see our remarks on derivative financial instruments in Section 8.1 "Derivative financial instruments".

The other liabilities include sundry non-technical provisions of EUR 69.1 million (EUR 57.6 million), which developed as shown in the following table.

Development of sundry non-technical provisions

in EUR thousand	Balance at 31.12.2008	Currency translation at 1 January	Balance at 1 January of the year under review
Provisions for			
Audits and costs of publishing the annual financial statements	5,670	69	5,739
Consultancy fees	1,847	47	1,894
Suppliers' invoices	8,403	774	9,177
Partial retirement arrangements and early retirement obligations	5,911	(18)	5,893
Holiday entitlements and overtime	3,706	87	3,793
Anniversary bonuses	1,761	–	1,761
Management bonuses	17,204	84	17,288
Other	13,075	291	13,366
Total	**57,577**	**1,334**	**58,911**

Additions	Utilisation	Release	Currency translation at 31 December	Balance at 31.12.2009
4,939	4,354	140	5	6,189
991	641	395	(2)	1,847
8,012	8,175	880	(225)	7,909
3,423	1,047	–	(37)	8,232
3,191	3,098	7	1	3,880
370	–	–	–	2,131
13,617	10,899	545	146	19,607
15,621	8,912	825	37	19,287
50,164	**37,126**	**2,792**	**(75)**	**69,082**

6.12 Debt and subordinated capital

Effective 31 March 2009 Hannover Re exercised the call option allowed under the bond conditions – permitting scheduled redemption of the debt at nominal value for the first time – for the subordinated debt issued by Hannover Finance, Inc., Wilmington/USA, in the amount of USD 20.0 million that was still outstanding at that date. The debt was thus repurchased in full and cancelled in the year under review.

In order to safeguard the sustained financial strength of the Hannover Re Group, Hannover Re issued additional subordinated debt. On 26 February 2004 subordinated debt in the amount of EUR 750.0 million was placed through Hannover Finance (Luxembourg) S.A., a wholly owned subsidiary of Hannover Re, on the European capital markets. The bond has a final maturity of 20 years and for the first ten years carries a fixed coupon of 5.75 % (calculated as a spread of 163 basis points over the 10-year mid-swap rate at the time of issue). It may be redeemed by Hannover Re on 26 February 2014 at the earliest and at each coupon date thereafter. If the bond is not called at the end of the tenth year, the coupon will step up to a floating-rate yield of quarterly EURIBOR +263 basis points.

On 1 June 2005 Hannover Re issued further subordinated debt in the amount of EUR 500.0 million through its subsidiary Hannover Finance (Luxembourg) S.A. The bond is perpetual and carries a fixed coupon of 5.00 % in the first ten years. It may be redeemed by Hannover Re on 1 June 2015 at the earliest and at each coupon date thereafter. If the bond is not called at the end of the tenth year, the coupon will step up to a floating-rate yield of quarterly EURIBOR +268 basis points. As part of the transaction, holders of the subordinated debt of EUR 350.0 million placed by Hannover Re in 2001 – which has a term of 30 years and may be called in prior to maturity by the issuer on 14 March 2011 – were offered an opportunity to exchange their existing issue for holdings in the new bond. Participation in the exchange was nominally EUR 211.9 million, corresponding to EUR 240.5 million of the new bond issue. The cash component of the new bond in the amount of nominally EUR 259.5 million was placed predominantly with institutional investors in Europe. The remaining volume of the bond issued in 2001 after the exchange was unchanged at EUR 138.1 million and carries a fixed coupon of 6.25 % until March 2011. If Hannover Re does not exercise its right of early cancellation on this date, the coupon will step up to a floating-rate yield of quarterly EURIBOR +205 basis points.

Debt and subordinated capital						
Figures in EUR thousand			2009			
Subordinated loans	Coupon	Currency	Cost or amortised cost	Fair value measurement	Accrued interest and rent	Fair value
Hannover Finance (Luxembourg) S.A.	5.00	EUR	481,091	(71,794)	14,589	423,886
Hannover Finance (Luxembourg) S.A.	5.75	EUR	746,091	(27,599)	36,409	754,901
Hannover Finance (Luxembourg) S.A.	6.25	EUR	137,868	(7,775)	6,907	137,000
			1,365,050	**(107,168)**	**57,905**	**1,315,787**
Debt			116,200	–	59	116,259
Other long-term liabilities			86	–	–	86
Total			**1,481,336**	**(107,168)**	**57,964**	**1,432,132**

Figures in EUR thousand			2008			
Subordinated loans	Coupon	Currency	Cost or amortised cost	Fair value measurement	Accrued interest and rent	Fair value
Hannover Finance (Luxembourg) S.A.	5.00	EUR	478,768	(193,168)	14,589	300,189
Hannover Finance (Luxembourg) S.A.	5.75	EUR	746,043	(165,656)	36,409	616,796
Hannover Finance (Luxembourg) S.A.	6.25	EUR	137,763	(5,138)	6,907	139,532
Hannover Finance, Inc., USA	var.	USD	14,309	(5,616)	9	8,702
			1,376,883	**(369,578)**	**57,914**	**1,065,219**
Debt			43,087	–	43	43,130
Other long-term liabilities			57	–	–	57
Total			**1,420,027**	**(369,578)**	**57,957**	**1,108,406**

The carrying amount of this item corresponds to cost or amortised cost.

The rise of EUR 73.1 million in the debt to EUR 116.3 million results from increased borrowing requirements as a consequence of the investment activities of Hannover Re Real Estate Holdings, Inc. The largest debt with a volume of EUR 75.0 million and a term until 1 December 2012 was taken up by the company on 25 November 2009.

The aggregated fair value of the extended subordinated loans is based on quoted, active market prices. If such price information was not available, fair value was determined on the basis of the recognised effective interest rate method or estimated using other financial assets with similar rating, duration and return characteristics. Under the effective interest rate method the current market interest rate levels in the relevant fixed-interest-rate periods are always taken as a basis.

Net gains and losses from debt and subordinated capital						
	Ordinary income/expenses		Amortisation		Net result	
Figures in EUR thousand	2009	2008	2009	2008	2009	2008
Debt	(2,807)	(2,706)	–	–	(2,807)	(2,706)
Subordinated loans	(76,650)	(77,442)	(2,476)	(2,870)	(79,126)	(80,312)
Total	**(79,457)**	**(80,148)**	**(2,476)**	**(2,870)**	**(81,933)**	**(83,018)**

The ordinary expenses include interest expenses of EUR 76.7 million (EUR 77.4 million) resulting from the subordinated debt placed through Hannover Finance (Luxembourg) S.A. in the years from 2001 to 2005. In addition, interest expenditures from the portions of the floating-rate loan issued by Hannover Finance, Inc., Wilmington/USA remaining in the portfolio until 31 March 2009 are recognised here.

Other financial facilities

In order to protect against possible future major losses Hannover Re had taken out a new credit line of EUR 500.0 million in 2004 in the form of a syndicated loan. The facility, which had a term of five years and ended in August 2009, was not used.

Facilities exist with various financial institutions for letters of credit, including two syndicated guarantee facilities from 2005 and 2006 each in an amount equivalent to EUR 1,395.1 million. 50 % of the first of these lines matures in January 2010 and the other 50 % in January 2012, while the second line matures in January 2013.

Unsecured letter of credit facilities with various terms (maturing at the latest in 2017) and a total volume equivalent to EUR 802.2 million exist on a bilateral basis with financial institutions.

Furthermore, in December 2009 a long-term unsecured line of credit with a total volume equivalent to at most EUR 523.2 million was concluded in December 2009. It is intended specifically for US life business. For further information on the letters of credit provided please see our explanatory remarks in Section 8.6 "Contingent liabilities and commitments".

A number of LOC facilities include standard market clauses that allow the banks rights of cancellation in the event of material changes in our shareholding structure or trigger a requirement on the part of Hannover Re to furnish collateral upon materialisation of major events, for example if our rating is significantly downgraded. Please see our explanatory remarks in the "Financial position" section of the management report, page 74 on the information pursuant to § 315 Para. 4 German Commercial Code (HGB).

Maturities of financial liabilities

Figures in EUR thousand	2009						
	Less than three months	Three months to one year	One to five years	Five to ten years	Ten to twenty years	More than twenty years	No maturity
Other liabilities[1]	76,473	65,628	364	–	–	–	75
Debt	143	2,098	113,959	–	–	–	–
Subordinated loans	–	–	–	–	746,091	137,868	481,091
Other long-term liabilities	–	–	86	–	–	–	–
Total	**76,616**	**67,726**	**114,409**	–	**746,091**	**137,868**	**481,166**

1 Excluding derivatives

Maturities of financial liabilities							
Figures in EUR thousand	2008						
	Less than three months	Three months to one year	One to five years	Five to ten years	Ten to twenty years	More than twenty years	No maturity
Other liabilities[1]	60,094	58,166	426	–	–	–	5,061
Debt	106	15,058	19,838	8,085	–	–	–
Subordinated loans	–	–	–	–	746,043	152,072	478,768
Other long-term liabilities	2	5	50	–	–	–	–
Total	**60,202**	**73,229**	**20,314**	**8,085**	**746,043**	**152,072**	**483,829**

1 Excluding derivatives

6.13 Shareholders' equity, minority interests and treasury shares

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

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

Minority interests are established in accordance with the shares held by companies outside the Group in the shareholders' equity of the subsidiaries.

In addition, conditional capital of up to EUR 60,299 thousand is available. It can be used to grant shares to holders of convertible bonds and bonds with warrants as well as to holders of participating bonds with conversion rights and warrants and has a time limit of 11 May 2011.

For the disclosures arising out of IAS 1 with regard to the management of capital that were previously provided here, the reader is referred to the "Financial position" section on page 69 et seq. of the management report.

Treasury shares

IAS 1 requires separate disclosure in shareholders' equity of treasury shares and transactions with owners acting in their capacity as such. By a resolution of the Annual General Meeting of Hannover Rückversicherung AG adopted on 6 May 2008, the company was authorised until 31 October 2009 to acquire treasury shares of up to 10% of the share capital existing on the date of the resolution. A similarly worded resolution was adopted at the Annual General Meeting on 5 May 2009 for a period until 31 October 2010. As part of this year's employee share option plan Hannover Re acquired altogether 26,176 treasury shares in the course of the third quarter of 2009 and delivered them to eligible employees at preferential conditions. These shares are blocked until 31 July 2013. This transaction reduced the retained earnings by EUR 0.4 million. The company was no longer in possession of treasury shares as at the balance sheet date.

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

7.1 Gross written premium

The following table shows the breakdown of the gross written premium according to regional origin.

Gross written premium [1] in EUR thousand	**31.12.2009**	31.12.2008
Regional origin		
Germany	1,313,417	1,140,992
United Kingdom	1,808,204	1,453,402
France	486,018	381,205
Other	1,286,776	1,227,653
Europe	4,894,415	4,203,252
USA	2,841,476	1,732,645
Other	383,313	357,869
North America	3,224,789	2,090,514
Asia	830,995	745,202
Australia	389,476	420,381
Australasia	1,220,471	1,165,583
Africa	354,652	266,974
Other	580,428	394,596
Total	**10,274,755**	**8,120,919**

1 After elimination of internal transactions within the Group across segments

7.2 Investment income

Investment income in EUR thousand	2009	2008
Income from real estate	4,762	1,460
Dividends	2,867	43,333
Interest income	793,269	736,629
Other income	9,649	48,364
Ordinary investment income	810,547	829,786
Profit or loss on shares in associated companies	(4,970)	4,199
Appreciation	20,076	–
Realised gains on investments	182,897	379,202
Realised losses on investments	69,885	492,756
Unrealised gains and losses on investments	100,571	(119,718)
Impairments/depreciation on real estate	1,253	514
Impairments on equity securities	3,165	356,052
Impairments on fixed-income securities	45,379	96,941
Impairments on participating interests and other financial assets	92,709	26,913
Other investment expenses	53,121	41,421
Net income from assets under own management	843,609	78,872
Interest income on funds withheld and contract deposits	455,722	336,554
Interest expense on funds withheld and contract deposits	178,948	136,967
Total investment income	**1,120,383**	**278,459**

Of the unscheduled impairments totalling EUR 141.4 million (EUR 479.9 million), an amount of EUR 92.6 million was attributable to alternative investments. This includes impairments taken on private equity amounting to EUR 54.3 million. The impairments on fixed-income securities of EUR 45.4 million were taken predominantly on structured assets. An impairment loss of EUR 3.2 million (EUR 356.1 million) was recognised on equities whose fair value had fallen significantly – i.e. by at least 20% – or for a prolonged period – i.e. for at least nine months – below acquisition cost. This contrasted with write-ups of EUR 20.1 million on investments that had been written down in previous periods. Of this total volume, EUR 10.8 million was attributable to alternative assets and EUR 9.3 million to fixed-income securities. The portfolio did not contain any overdue, unadjusted assets as at the balance sheet date since overdue securities are written down immediately.

Interest income on investments in EUR thousand	2009	2008
Fixed-income securities – held to maturity	102,600	59,748
Fixed-income securities – loans and receivables	72,005	52,749
Fixed-income securities – available for sale	566,953	551,848
Financial assets – at fair value through profit or loss	17,004	8,808
Other	34,707	63,476
Total	**793,269**	**736,629**

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

Making allowance for the other investment expenses of EUR 53.1 million (EUR 41.4 million), net income from assets under own management of altogether EUR 843.6 million (EUR 78.9 million) was recognised in the year under review.

Net gains and losses on investments

Figures in EUR thousand	2009					
	Ordinary investment income[1]	Realised gains and losses	Impairments/ appreciation	Unrealised gains and losses	Net income from assets under own management[2]	Net exchange profit or loss
Held to maturity						
Fixed-income securities	108,826	(3,173)	1,206	–	104,447	(30,101)
Loans and receivables						
Fixed-income securities	72,273	6,149	3,684	–	74,738	(1,997)
Available for sale						
Fixed-income securities	564,541	111,414	31,593	–	644,362	(21,612)
Equity securities	790	(3,504)	2,722	–	(5,436)	–
Other invested assets	31,751	1,191	81,922	–	(48,980)	1,485
Short-term investments	16,223	322	50	–	16,495	33,411
At fair value through profit or loss						
Fixed-income securities	17,171	2,990	–	15,575	35,736	(325)
Other financial assets	1,581	(1,308)	–	36,566	36,839	–
Other	(7,579)	(1,069)	1,253	48,430	38,529	(2,444)
Total	**805,577**	**113,012**	**122,430**	**100,571**	**896,730**	**(21,583)**

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

1 Including income from associated companies, for reconciliation with the consolidated statement of income
2 Excluding other investment expenses

7.3 Reinsurance result

Reinsurance result in EUR thousand	2009	2008
Gross written premium	10,274,755	8,120,919
Ceded written premium	759,076	886,621
Change in unearned premium	(227,161)	(113,480)
Change in ceded unearned premium	18,658	(59,193)
Net premium earned	9,307,176	7,061,625
Other technical income	14,362	7,294
Total net technical income	9,321,538	7,068,919
Claims and claims expenses paid	5,712,583	3,959,971
Change in loss and loss adjustment expense reserve	835,510	742,156
Claims and claims expenses	6,548,093	4,702,127
Change in benefit reserve	562,256	420,918
Premium refund	(412)	(424)
Net change in benefit reserve	562,668	421,342
Commissions	1,971,883	1,788,833
Change in deferred acquisition costs	(52,990)	124,164
Change in provision for contingent commissions	(13,529)	(28,728)
Other acquisition costs	14,137	11,676
Other technical expenses	38,788	12,166
Administrative expenses	246,940	216,047
Net technical result	(100,432)	69,620

With regard to the claims and claims expenses as well as the change in the benefit reserve the reader is also referred to Section 6.7 "Technical provisions". The change in the benefit reserve relates exclusively to the life and health reinsurance segment.

The administrative expenses amounted to altogether 2.7% (3.1%) of net premium earned.

Other technical income in EUR thousand	2009	2008
Other technical income (gross)	15,301	8,168
Reinsurance recoverables	939	874
Other technical income (net)	14,362	7,294

Commissions and brokerage, change in deferred acquisition costs in EUR thousand	2009	2008
Commissions paid (gross)	2,055,809	2,048,951
Reinsurance recoverables	83,926	260,118
Change in deferred acquisition costs (gross)	(122,719)	199,213
Reinsurance recoverables	(69,729)	75,049
Change in provision for contingent commissions (gross)	(15,745)	(31,429)
Reinsurance recoverables	(2,216)	(2,701)
Commissions and brokerage, change in deferred acquisition costs (net)	2,011,344	1,635,941

Other technical expenses in EUR thousand	2009	2008
Other technical expenses (gross)	38,892	12,209
Reinsurance recoverables	104	43
Other technical expenses (net)	38,788	12,166

7.4 Other income/expenses

Other income/expenses in EUR thousand	2009	2008
Other income		
Exchange gains	112,533	52,381
Reversals of impairments on receivables	95,879	32,960
Income from the recognition of negative goodwill	92,652	–
Income from contracts recognised in accordance with the deposit accounting method	40,468	25,654
Income from services	7,893	7,128
Other interest income	1,904	3,513
Sundry income	24,823	42,955
	376,152	164,591
Other expenses		
Other interest expenses	48,757	17,346
Exchange losses	35,107	155,420
Separate value adjustments	35,022	78,589
Expenses for the company as a whole	33,690	43,362
Depreciation	11,488	9,781
Expenses for services	9,698	6,366
Sundry expenses	82,389	53,738
	256,151	364,602
Total	**120,001**	**(200,011)**

Of the separate value adjustments, an amount of EUR 23.9 million (EUR 47.8 million) was attributable to accounts receivable, EUR 10.4 million (EUR 27.0 million) to reinsurance recoverables on unpaid claims and EUR 0.7 million (EUR 3.8 million) to other receivables.

7.5 Taxes

Domestic taxes on income, comparable taxes on income at foreign subsidiaries as well as deferred taxes in accordance with IAS 12 ("Income Taxes") and deferred tax assets and liabilities are recognised under this item.

The reader is referred to Section 3.2 "Summary of major accounting policies" regarding the basic approach to the recognition and measurement of deferred taxes.

The tax rate used to calculate the deferred taxes of the domestic companies was unchanged from the previous year at 31.93% (rounded to 32%). It is arrived at from the corporate income tax rate of 15.0% applicable on 1 January 2008, the German reunification charge of 5.5% and a uniform trade earnings tax rate of 16.1%. The deferred taxes at the companies abroad were calculated using the applicable country-specific tax rates.

Tax-relevant bookings on the Group level are generally made using the Group tax rate of 32% unless they refer specifically to individual companies.

Deferred tax liabilities on profit distributions of significant affiliated companies are established in the year when they are received.

Tax risks

Contrary to a very clear opinion expressed by tax attorneys, the revenue authority is of the view that not inconsiderable investment income generated by the Group's reinsurance subsidiaries domiciled in Ireland is subject to additional taxation at the parent companies in Germany on the basis of the provisions of the Foreign Transactions Tax Act. Insofar as tax assessments to this effect have already been received, appeals have been filed – also with respect to the amounts already recognised as a tax expense. Now that our opinion has been confirmed in full by the court of the first instance, we continue to regard as slight the risk that tax assessments containing additional taxation of investment income generated by Irish companies will be upheld.

The breakdown of actual and deferred income taxes was as follows:

Income tax in EUR thousand	2009	2008
Actual tax for the year under review	146,887	181,395
Actual tax for other periods	37,804	30,298
Deferred taxes due to temporary differences	105,239	(6,936)
Deferred taxes from loss carry-forwards	1,822	1,883
Change in deferred taxes due to changes in tax rates	18	(1,030)
Total	**291,770**	**205,610**

Domestic/foreign breakdown of recognised tax expenditure/income in EUR thousand	2009	2008
Current taxes		
Germany	124,921	159,797
Outside Germany	59,770	51,895
Deferred taxes		
Germany	90,342	(4,124)
Outside Germany	16,737	(1,958)
Total	**291,770**	**205,610**

The following table presents a breakdown of the deferred tax assets and liabilities into the balance sheet items from which they are derived.

Deferred tax assets and deferred tax liabilities of all Group companies in EUR thousand	2009	2008
Deferred tax assets		
Tax loss carry-forwards	117,918	92,362
Loss and loss adjustment expense reserves	193,175	145,855
Benefit reserve	262,558	300,021
Other technical/non-technical provisions	81,354	74,633
Funds withheld	590	513
Accounts receivable/reinsurance payable	88,440	84,666
Valuation differences relating to investments	21,739	51,067
Contract deposits	30,533	51,579
Other valuation differences	307,875	183,664
Value adjustments	(146,651)	(120,176)
thereof on tax loss carry-forwards: –110,573 (2008: –80,205)		
Total	**957,531**	**864,184**
Deferred tax liabilities		
Loss and loss adjustment expense reserves	15,494	8,798
Benefit reserve	67,994	84,699
Other technical/non-technical provisions	130,667	100,098
Equalisation reserve	753,431	680,915
Funds withheld	12,500	3,675
Deferred acquisition costs	380,562	389,712
Accounts receivable/reinsurance payable	125,006	119,864
Valuation differences relating to investments	138,533	132,942
Present value of future profits on acquired life reinsurance portfolios (PVFP)	12,297	–
Other valuation differences	290,337	165,924
Total	**1,926,821**	**1,686,627**
Deferred tax liabilities	969,290	822,443

The deferred tax assets and deferred tax liabilities are shown unoffset in the above table. The deferred taxes are recognised as follows in the balance sheet after appropriate netting.

Netting of deferred tax assets and deferred tax liabilities in EUR thousand	2009	2008
Deferred tax assets	515,867	549,146
Deferred tax liabilities	1,485,157	1,371,589
Net deferred tax liabilities	969,290	822,443

The actual and deferred taxes recognised directly in shareholders' equity in the financial year amounted to –EUR 23.3 million (–EUR 53.5 million). They resulted from items that were charged or credited directly to equity.

The establishment of deferred tax liabilities in connection with the capitalised PVFP at the time of acquisition of the ING life reinsurance portfolio in an amount of EUR 13.0 million correspondingly reduced the negative goodwill.

The following table presents a reconciliation of the expected expense for income taxes with the actual expense for income taxes reported in the statement of income. The pre-tax result is multiplied by the Group tax rate in order to calculate the Group's expected expense for income taxes.

Reconciliation of the expected expense for income taxes with the actual expense in EUR thousand	2009	2008
Profit before income taxes	1,063,302	70,626
Expected tax rate	32%	32%
Expected expense for income taxes	340,257	22,600
Change in deferred tax rates	19	(1,023)
Taxation differences affecting foreign subsidiaries	(118,700)	(44,909)
Non-deductible expenses	41,567	132,251
Tax-exempt income	(25,544)	45,712
Tax expense not attributable to the reporting period	27,559	31,793
Utilisation of previously adjusted loss carry-forwards	228	–
Other	26,384	19,186
Actual expense for income taxes	291,770	205,610

Availability of capitalised loss carry-forwards

Unused tax loss carry-forwards of EUR 370.8 million (EUR 292.0 million) existed as at the balance sheet date. Making allowance for local tax rates, EUR 345.0 million (EUR 249.6 million) thereof was not capitalised since realisation is not sufficiently certain.

There were also temporary differences of EUR 103.5 million (EUR 114.2 million) and available tax credits of EUR 22.3 million (EUR 20.3 million), which were not capitalised.

Availability of loss carry-forwards and tax credits that have not been capitalised:

Expiry of loss carry-forwards in EUR thousand	One to five years	Six to ten years	More than ten years	Unlimited	Total
Loss carry-forwards	3,643	–	195,231	146,169	345,043
Tax credits	–	–	–	22,319	22,319
Total	**3,643**	**–**	**195,231**	**168,488**	**367,362**

8. Other notes

8.1 Derivative financial instruments

Derivatives are financial instruments, the fair value of which is derived from an underlying instrument such as equities, bonds, indices or currencies. We use derivative financial instruments to a limited extent in order to hedge parts of our portfolio against interest rate and market price risks, optimise returns or realise intentions to buy/sell. In this context we take special care to limit the risks, select first-class counterparties and adhere strictly to the standards defined by investment guidelines.

The fair values of the derivative financial instruments were determined on the basis of the market information available at the balance sheet date. Please see Section 3.2 "Summary of major accounting policies" with regard to the measurement models used. If the underlying transaction and the derivative are not carried as one unit, the derivative is recognised under other financial assets at fair value through profit or loss or under the other liabilities.

Hannover Re's portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange transactions predominantly taken out to hedge cash flows from reinsurance contracts. These transactions gave rise to recognition of other financial assets at fair value through profit or loss in an amount of EUR 0.3 million (previous year: none) and other liabilities in an amount of EUR 17.8 million (EUR 0.5 million). They can be broken down as follows according to the maturities of the underlying forward transactions.

Figures in EUR thousand	2009	
	Asset-side derivatives	Liability-side derivatives
Up to three months	245	729
Three months to one year	14	2,012
One to five years	–	8,887
Five to ten years	–	6,210
Total	**259**	**17,838**

The net changes in the fair value of these instruments produced a charge of EUR 17.1 million for the result of the financial year.

Derivative financial instruments in connection with reinsurance

A small number of treaties in life and health reinsurance meet criteria which require application of the prescriptions in IFRS 4.7 to 4.9 governing embedded derivatives. These accounting regulations require that certain derivatives embedded in reinsurance contracts be separated from the underlying insurance contract ("host contract"), reported separately at fair value in accordance with IAS 39 and recognised under investments. Fluctuations in the fair value of the derivative components are to be recognised in income in subsequent periods.

Within the scope of the accounting of "modified coinsurance" and "coinsurance funds withheld" (ModCo) reinsurance treaties, under which securities deposits are held by the ceding companies and payments rendered on the basis of the income from certain securities of the ceding company, the interest-rate risk elements are clearly and closely related to the underlying reinsurance arrangements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio.

Hannover Re calculates the fair value of the embedded derivatives in ModCo treaties using the market information available on the valuation date on the basis of a "credit spread" method. Under this method the derivative is valued at zero on the date when the contract commences and its value then fluctuates over time according to changes in the credit spreads of the securities. The derivative had a value of EUR 31.9 million as at the balance sheet date and was recognised under other financial assets at fair value through profit or loss (EUR 89.1 million recognised under other liabilities).

The markets for traded credit risks have evolved significantly. Hannover Re has responded to this trend and refined the calculation logic for derivatives resulting from ModCo contracts. The determination of credit risks based on rating classes was thus converted to a largely issue-based calculation. The risks from the aforementioned contracts are thereby established on a more market-oriented basis. Retention of the parameters used until the third quarter of 2009 to calculate the derivative would have produced a value of EUR 108.8 million. The effect of this refinement of the calculation logic on the value of the derivative in future reporting periods could only have been determined with a disproportionately high effort.

Owing to the sharp narrowing of credit spreads in the course of the year, the change in the fair value of the derivative gave rise to a positive profit contribution of EUR 121.8 million before tax (charge to investment income of EUR 72.1 million).

The derivative components of another group of contracts in the area of life and health reinsurance were measured on the basis of stochastic considerations. The measurement produced a positive derivative value of EUR 9.9 million (EUR 11.1 million) on the balance sheet date. The derivative was recognised under other financial assets at fair value through profit or loss. The valuation resulted in a charge against investment income of EUR 1.2 million (EUR 1.5 million) as at 31 December 2009.

Pursuant to IAS 39.9 the "Eurus" transactions give rise to a derivative, the fair value of which as at 31 December 2009 was –EUR 1.5 million and which we recognised under other liabilities (EUR 3.9 million recognised under other financial assets at fair value through profit or loss) as at the balance sheet date. Measurement resulted in a charge to investment income of EUR 5.4 million (improvement of EUR 6.9 million in investment income) in the year under review. We would refer the reader to the explanatory remarks in Section 4 "Consolidated companies and consolidation principles" regarding the securitisation of reinsurance risks.

The "Merlin" transaction also gives rise to a derivative, the fair value of which as at the balance sheet date was EUR 16.2 (EUR 29.6 million) and which we recognised under other financial assets at fair value through profit or loss. Measurement of this derivative resulted in a charge to investment income of EUR 13.3 million (improvement of EUR 23.8 million in investment income) in the year under review. We would refer the reader to the explanatory remarks in Section 4 "Consolidated companies and consolidation principles" regarding the securitisation of reinsurance risks.

All in all, application of the standards governing the carrying of derivatives in connection with the technical account led to recognition of assets totalling EUR 58.0 million (EUR 44.7 million) as well as recognition of liabilities from the derivatives resulting from technical items in an amount of EUR 3.3 million (EUR 91.2 million) as at the balance sheet date. Increases in investment income amounting to EUR 122.1 million (EUR 30.7 million) as well as charges to income of EUR 20.0 million (EUR 76.7 million) were recognised in the year under review from all separately measured derivatives in connection with the technical account.

8.2 Related party disclosures

IAS 24 defines related parties inter alia as parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself. In the year under review the following significant business relations existed with related parties.

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

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

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

Companies belonging to the Talanx Group granted the Hannover Re Group insurance protection inter alia in the areas of public liability, building, group accident and business travel collision insurance. In addition, Talanx AG billed Hannover Re and E+S Rück pro rata for the directors' and officers' (D&O) insurance of the Talanx Group. Divisions of Talanx AG also performed services for us in the areas of taxes and general administration.

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

Protection Reinsurance Intermediaries AG grants Hannover Re and E+S Rück a preferential position as reinsurers of cedants within the Talanx Group. In addition, Hannover Re and E+S Rück are able to participate in the protection covers on the retention of Group cedants and share in the protection afforded by them.

The reinsurance relationships with related parties in the year under review are summarised in the following table.

Business assumed and ceded in Germany and abroad in EUR thousand	31.12.2009	
	Premium	Underwriting result
Business assumed		
Non-life reinsurance	392,009	6,240
Life and health reinsurance	351,713	48,151
	743,722	54,391
Business ceded		
Non-life reinsurance	(896)	(6,282)
Life and health reinsurance	(5,551)	(2,683)
	(6,447)	(8,965)
Total	**737,275**	**45,426**

Effective 31 December 2008 Hannover Re assumed the life insurance business of a related party that had previously been retroceded to a reinsurer outside the Group by exercising its right of novation. This restructuring gave rise to non-recurring income of EUR 37.0 million as at 1 January 2009, which was opposed by a technical expense of EUR 36.9 million in connection with the non-Group reinsurer.

In the 2007 financial year Hannover Re (Bermuda) Ltd. extended a loan due on 31 May 2012 with a coupon of 4.98% to Talanx AG, the volume of which as at the balance sheet date was EUR 51.5 million (EUR 51.5 million). The carrying amount includes accrued interest of EUR 1.5 million (EUR 1.5 million). This instrument was recognised under other invested assets.

The Group companies E+S Rück, Hannover Finance (Luxembourg) S.A., Hannover Reinsurance (Ireland) Ltd. and Hannover Re (Bermuda) Ltd. invested in a nominal amount of EUR 150.0 million in a bearer debenture of Talanx AG with a term until 8 July 2013 and a coupon of 5.43%. The carrying amount of the instrument, which is recognised under fixed-income securities held to maturity, was EUR 153.9 million and included accrued interest of EUR 3.9 million (EUR 3.9 million) as at the balance sheet date.

As at 31 December 2009 Hannover Reinsurance (Ireland) Ltd. recognised loan receivables due from Aspecta Lebensversicherung AG and Aspecta Assurance International Luxembourg S.A. in an amount of altogether EUR 259.6 million (EUR 255.9 million). The loans result from a group of reinsurance contracts for which Talanx AG had furnished guarantees, which in 2007 were transferred to Hannover Reinsurance (Ireland) Ltd. In accordance with IAS 39 the contracts in question were classified as financial instruments with the character of loans and receivables measured at amortised cost, and the corresponding changes in income are recognised in ordinary investment income.

As part of long-term lease arrangements companies belonging to the Hannover Re Group rented out business premises in 2009 to HDI Direkt Versicherung AG, Hannover. In addition, IT and management services were performed for both HDI Direkt Versicherung AG and Protection Reinsurance Intermediaries AG, Hannover, under service contracts.

Actuarial opinions are drawn up for Hannover Re and E+S Rück by HDI-Gerling Pensionsmanagement AG under an actuarial service contract with respect to the pension commitments given to staff.

In May 2009 Hannover Re acquired shares of a non-Group financial services enterprise in the amount of EUR 12.5 million from HDI-Gerling Lebensversicherung AG, Cologne, and sold them again at short notice to Talanx Beteiligungs-GmbH & Co. KG, Hannover.

All transactions were effected at usual market conditions. We gave an account of these transactions with regard to Hannover Re and E+S Rück in the corresponding dependent company reports pursuant to § 312 Stock Corporation Act (AktG).

Remuneration and shareholdings of the management boards of the parent company

With regard to this information please see in general the remuneration report included as part of our Corporate Governance report, in particular page 81 et seq.

The remuneration report is based on the recommendation of the German Corporate Governance Code and contains information which also forms part of the notes to the 2009 consolidated financial statement as required by IAS 24 "Related Party Disclosures". In addition, we took into account the more specific provisions of GAS 17 "Reporting on the Remuneration of Members of Governing Bodies". Under German commercial law, too, this information includes data specified as mandatory for the notes (§ 314 HGB) and the management report (§ 315 HGB). These details are discussed as a whole in the remuneration report. Consequently, we have not provided any further explanation in the notes.

Share-based payment

With effect from 1 January 2000 the Executive Board of Hannover Re, with the consent of the Supervisory Board, introduced a virtual stock option plan that provides for the granting of stock appreciation rights to certain managerial staff. The content of the stock option plan is based solely on the Conditions for the Granting of Stock Appreciation Rights. All the members of the Group's management are eligible for the award of stock appreciation rights. Exercise of the stock appreciation rights does not give rise to any entitlement to the delivery of Hannover Re stock, but merely to payment of a cash amount linked to the performance of the Hannover Re share. Recognition of transactions involving stock appreciation rights with cash settlement is governed by the requirements of IFRS 2 "Share-based Payment".

Stock appreciation rights were first granted for the 2000 financial year and are awarded separately for each subsequent financial year (allocation year), provided the performance criteria defined in the Conditions for the Granting of Stock Appreciation Rights are satisfied.

The internal performance condition is achievement of the target performance defined by the Supervisory Board, which is expressed in terms of the diluted earnings per share calculated in accordance with IAS 33 "Earnings Per Share" (EPS). If the target EPS is surpassed or undershot, the provisional basic number of stock appreciation rights initially granted is increased or reduced accordingly to produce the EPS basic number. The external performance condition is the development of the share price in the allocation year. The benchmark used in this regard is the (weighted) ABN Amro Global Reinsurance Index. This index encompasses the performance of listed reinsurers worldwide. Depending upon the outperformance or underperformance of this index, the EPS basic number is increased – albeit by at most 400% of the EPS basic number – or reduced – although by no more than 50% of the EPS basic number.

The maximum period of the stock appreciation rights is ten years, commencing at the end of the year in which they are awarded. Stock appreciation rights which are not exercised by the end of the 10-year period lapse. Stock appreciation rights may only be exercised after a waiting period and then only within four exercise periods each year. For 40% of the stock appreciation rights (first tranche of each allocation year) the waiting period is two years; for each additional 20 % of the stock appreciation rights (tranches two to four of each allocation year) the waiting period is extended by one year. Each exercise period lasts for ten trading days, in each case commencing on the sixth trading day after the date of publication of the quarterly report of Hannover Rückversicherung AG.

On 4 November 2009 the Supervisory Board of Hannover Re decided to extend the waiting period applicable to members of the Executive Board from two to four years for stock appreciation rights granted from the 2010 allocation onwards; on 23 November 2009 the Executive Board decided to extend the waiting period accordingly for the members of the Group's management. Upon expiry of this waiting period a maximum 60% of the stock appreciation rights awarded for an allocation year may be exercised. The waiting period for each additional 20% of the stock appreciation rights awarded for this allocation year to a member of the managerial staff is one year.

Upon exercise of a stock appreciation right the amount paid out to the entitled party is the difference between the basic price and the current market price of the Hannover Re share at the time of exercise. In this context, the basic price corresponds to the arithmetical mean of the closing prices of the Hannover Re share on all trading days of the first full calendar month of the allocation year in question. The current market price of the Hannover Re share at the time when stock appreciation rights are exercised is determined by the arithmetical mean of the closing prices of the Hannover Re share on the last twenty trading days prior to the first day of the relevant exercise period.

The amount paid out is limited to a maximum calculated as a quotient of the total volume of compensation to be granted in the allocation year and the total number of stock appreciation rights awarded in the year in question.

In the event of cancellation of the employment relationship or termination of the employment relationship as a consequence of a termination agreement or a set time limit, a holder of stock appreciation rights is entitled to exercise all such rights in the first exercise period thereafter. Stock appreciation rights not exercised in this period and those in respect of which the waiting period has not yet expired shall lapse. Retirement, disability or death of the member of management shall not be deemed to be termination of the employment relationship for the purpose of exercising stock appreciation rights.

The allocations for the years 2000, 2002 to 2004 as well as 2006 and 2007 gave rise to the following commitments in the 2009 financial year. No allocations were made for 2001, 2005 or 2008:

Stock appreciation rights of Hannover Re						
	Allocation year					
	2007	2006	2004	2003	2002	2000
Award date	28.03.2008	13.03.2007	24.03.2005	25.03.2004	11.04.2003	21.06.2001
Period	10 years	10 years	10 years	10 years	10 years	10 years
Waiting period	2 years	2 years	2 years	2 years	2 years	2 years
Basic price (in EUR)	34.97	30.89	27.49	24.00	23.74	25.50
Participants in year of issue	110	106	109	110	113	95
Number of rights granted	926,565	817,788	211,171	904,234	710,429	1,138,005
Fair value at 31.12.2009 (in EUR)	5.76	6.50	10.96	8.63	8.79	5.49
Maximum value (in EUR)	10.79	10.32	24.62	8.99	8.79	5.49
Number of rights existing at 31.12.2009	908,637	789,773	156,454	55,897	10,047	1.503
Provisions at 31.12.2009 (in EUR million)	3.72	4.45	1.71	0.48	0.09	0.01
Amounts paid out in the 2009 financial year (in EUR million)	–	–	0.01	0.64	0.05	0.04
Expense in the 2009 financial year (in EUR million)	2.93	2.82	1.03	0.63	0.05	0.03

In the 2009 financial year the waiting period expired for 100% of the stock appreciation rights awarded in 2000, 2002 and 2003, 80% of those awarded in 2004 and 40% of those awarded in 2006. 6,525 stock appreciation rights from the 2000 allocation year, 560 stock appreciation rights from the 2002 allocation year, 79,262 stock appreciation rights from the 2003 allocation year and 1,500 stock appreciation rights from the 2004 allocation year were exercised. The total amount paid out stood at EUR 0.7 million.

The stock appreciation rights of Hannover Re have developed as follows:

Development of the stock appreciation rights of Hannover Re						
	Allocation year					
Number of options	2007	2006	2004	2003	2002	2000
Granted in 2001	–	–	–	–	–	1,138,005
Exercised in 2001	–	–	–	–	–	–
Lapsed in 2001	–	–	–	–	–	–
Number of options at 31.12.2001	–	–	–	–	–	1,138,005
Granted in 2002	–	–	–	–	–	–
Exercised in 2002	–	–	–	–	–	–
Lapsed in 2002	–	–	–	–	–	40,770
Number of options at 31.12.2002	–	–	–	–	–	1,097,235
Granted in 2003	–	–	–	–	710,429	–
Exercised in 2003	–	–	–	–	–	–
Lapsed in 2003	–	–	–	–	23,765	110,400
Number of options at 31.12.2003	–	–	–	–	686,664	986,835
Granted in 2004	–	–	–	904,234	–	–
Exercised in 2004	–	–	–	–	–	80,137
Lapsed in 2004	–	–	–	59,961	59,836	57,516
Number of options at 31.12.2004	–	–	–	844,273	626,828	849,182
Granted in 2005	–	–	211,171	–	–	–
Exercised in 2005	–	–	–	–	193,572	647,081
Lapsed in 2005	–	–	6,397	59,834	23,421	25,974
Number of options at 31.12.2005	–	–	204,774	784,439	409,835	176,127
Granted in 2006	–	–	–	–	–	–
Exercised in 2006	–	–	–	278,257	160,824	153,879
Lapsed in 2006	–	–	14,511	53,578	22,896	10,467
Number of options at 31.12.2006	–	–	190,263	452,604	226,115	11,781
Granted in 2007	–	817,788	–	–	–	–
Exercised in 2007	–	–	12,956	155,840	110,426	3,753
Lapsed in 2007	–	8,754	13,019	38,326	10,391	0
Number of options at 31.12.2007	–	809,034	164,288	258,438	105,298	8,028
Granted in 2008	926,565	–	–	–	–	–
Exercised in 2008	–	–	1,699	121,117	93,747	–
Lapsed in 2008	–	3,103	1,443	2,162	944	–
Number of options at 31.12.2008	926,565	805,931	161,146	135,159	10,607	8,028
Granted in 2009	–	–	–	–	–	–
Exercised in 2009	–	–	1,500	79,262	560	6,525
Lapsed in 2009	17,928	16,158	3,192	–	–	–
Number of options at 31.12.2009	908,637	789,773	156,454	55,897	10,047	1,503
Exercisable at 31.12.2009	–	315,877	123,432	55,897	10,047	1,503

The existing stock appreciation rights are valued on the basis of the Black/Scholes option pricing model.

The calculations were based on the year-end closing price of the Hannover Re share of EUR 32.63 as at 21 December 2009, expected volatility of 32.97% (historical volatility on a five-year basis), a dividend yield of 6.13% and risk-free interest rates of 0.70% for the 2000 allocation year, 1.59% for the 2002 allocation year, 1.96% for the 2003 allocation year, 2.29% for the 2004 allocation year, 2.83% for the 2006 allocation year and 3.06 % for the 2007 allocation year.

The average fair value of each stock appreciation right was EUR 5.49 for the 2000 allocation year, EUR 8.79 for the 2002 allocation year, EUR 8.63 for the 2003 allocation year, EUR 10.96 for the 2004 allocation year, EUR 6.50 for the 2006 allocation year and EUR 5.76 for the 2007 allocation year.

On this basis the aggregate provisions amounted to EUR 10.5 million (EUR 3.7 million). The expense for the 2009 financial year totalled altogether EUR 7.5 million.

8.3 Staff and expenditures on personnel

Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group during the reporting period was 1,984 (1,790). The increase in the workforce was attributable chiefly to the acquisition of the ING life reinsurance portfolio.

As at the balance sheet date altogether 2,069 (1,812) staff were employed by the Hannover Re Group, with 1,032 (963) employed in Germany and 1,037 (849) working for the consolidated Group companies abroad.

Personnel information	2009					2008	
	31.03.	30.06.	30.09.	31.12.	Average	31.12.	Average
Number of employees (excluding Board members)	1,973	2,011	2,053	2,069	1,984	1,812	1,790

The nationalities of the workforce as at the balance sheet date were as follows:

Nationality of employees	2009						
	German	US	South African	UK	Irish	Other	Total
Number of employees	961	338	166	144	27	433	2,069

Expenditures on personnel

The expenditures on insurance business, claims expenses (claims settlement) and expenditures on the administration of investments include the following personnel expenditures:

Personnel expenditures in EUR thousand	2009	2008
a) Wages and salaries		
aa) Expenditures on insurance business	118,495	101,065
ab) Expenditures on the administration of investments	9,742	10,115
	128,237	111,180
b) Social security contributions and expenditure on provisions and assistance		
ba) Social security contributions	17,327	15,261
bb) Expenditures for pension provision	11,819	12,644
bc) Expenditures for assistance	1,922	2,059
	31,068	29,964
Total	**159,305**	**141,144**

8.4 Earnings per share and dividend proposal

Calculation of the earnings per share	2009	2008
Group net income in EUR thousand	731,185	(126,987)
Weighted average of issued shares	120,594,371	120,594,783
Earnings per share in EUR	6.06	(1.05)

Neither in the year under review nor in the previous reporting period were there any dilutive effects. On the basis of the employee share option plan Hannover Re acquired treasury shares in the course of the third quarter of 2009 and sold them to the eligible employees. The weighted average of shares in circulation during the reporting period was therefore insignificantly lower than in the previous year. For further details please see our comments in Section 6.13 "Shareholders' equity, minority interests and treasury shares".

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

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

Dividend per share

No dividend (previous year: EUR 277.4 million) was paid in the year under review for the 2008 financial year.

On the occasion of the Annual General Meeting to be held on 4 May 2010 it will be proposed that a dividend of EUR 2.10 per share should be paid for the 2009 financial year. This corresponds to a total distribution of EUR 253.3 million. The dividend proposal does not form part of this consolidated financial statement.

8.5 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.

8.6 Contingent liabilities and commitments

Effective 31 March 2009 Hannover Re repaid in full a subordinated debt issued in the 1999 financial year by Hannover Finance, Inc., Wilmington/USA. The guarantee given by Hannover Re to secure the debt was thus also terminated.

Hannover Re has placed three subordinated debts on the European capital markets through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured by subordinated guarantee both the debt issued in 2001, the volume of which now stands at EUR 138.1 million, and the debts from financial years 2004 and 2005 in amounts of EUR 750.0 million and EUR 500.0 million respectively. For further details please see Section 6.12 "Debt and subordinated capital".

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

In July 2004 Hannover Re and the other shareholders sold the participation that they held through Willy Vogel Beteiligungsgesellschaft mbH in Willy Vogel AG. In order to secure the guarantees assumed under the purchase agreement Hannover Re and the other shareholders jointly gave the purchaser a directly enforceable guarantee, the term of which ended on 8 July 2009. No call was made on the guarantee.

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 2,341.3 million (EUR 2,352.8 million). The securities held in the master trust are shown as available-for-sale investments. Further collateral exists in an amount of EUR 309.6 million (EUR 269.3 million) in the form of so-called "single trust funds".

As part of our business activities we hold collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the Group's major companies was EUR 1,587.8 million (EUR 1,388.8 million) as at the balance sheet date.

As security for our technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount as at the balance sheet date was EUR 2,552.2 million (EUR 2,524.3 million). The standard market contractual clauses contained in some of the underlying letter of credit facilities regarding compliance with stipulated conditions are explained in greater detail in the "Financial position" section of the management report, page 77 on the information pursuant to § 315 Para. 4 German Commercial Code (HGB) as well as in Section 6.12 "Debt and subordinated capital" on other financial facilities.

For liabilities in connection with participating interests in real estate companies and real estate transactions Hannover Re Real Estate Holdings has furnished the usual collateral under such transactions to various banks, the amount of which totalled EUR 174.4 million (EUR 85.5 million) as at the balance sheet date.

Outstanding capital commitments with respect to special investments exist on the part of the Group in an amount of EUR 328.8 million (EUR 291.1 million). These primarily involve as yet unfulfilled payment obligations from participations entered into in private equity funds and venture capital firms.

8.7 Long-term commitments

Following the termination of the German Aviation Pool with effect from 31 December 2003, our participation consists of the run-off of the remaining contractual relationships.

Several Group companies are members of the association for the reinsurance of pharmaceutical risks and the association for the insurance of German nuclear reactors. In the event of one of the other pool members failing to meet its liabilities, an obligation exists to take over such other member's share within the framework of the quota participation.

8.8 Rents and leasing

Leased property

Future leasing commitments in EUR thousand	Payments
2010	6,704
2011	6,274
2012	4,651
2013	3,939
2014	3,345
Subsequent years	7,126

Operating leasing contracts produced expenditures of EUR 5.4 million (EUR 2.7 million) in the year under review.

Rented property

Altogether, non-cancellable contracts will produce the rental income shown below in subsequent years.

Rental income in EUR thousand	Payments to be received
2010	15,513
2011	14,760
2012	14,762
2013	15,510
2014	15,550
Subsequent years	46,004

Rental income totalled EUR 16.3 million (EUR 1.5 million) in the year under review. The rental income resulted principally from the renting out of properties by Hannover Real Estate Holdings.

8.9 Currency translation

Items in the annual financial statements of Group subsidiaries were measured in the currencies corresponding to the economic environment in which each subsidiary primarily operates. These currencies are referred to as functional currencies. The euro is the reporting currency in which the consolidated financial statement is prepared.

Transactions in foreign currencies reported in Group companies' individual financial statements are converted into the reporting currency at the transaction rate. In accordance with IAS 21 the recognition of exchange differences on translation is guided by the nature of the underlying balance sheet item.

Exchange differences from the translation of monetary assets and liabilities are recognised directly in the statement of income.

Currency translation differences from the translation of non-monetary assets measured at fair value via the statement of income are recognised with the latter as profit or loss from fair value measurement changes.

Exchange differences from non-monetary items – such as equity securities – classified as available for sale are initially recognised outside income in a separate item of shareholders' equity and only booked to income when such non-monetary items are settled.

The individual companies' statements of income prepared in the national currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statement. The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange on the balance sheet date. In accordance with IAS 21 "The Effects of Changes in Foreign Exchanges Rates" differences from the currency translation of financial statements of foreign Group companies must be recognised in the consolidated financial statement as a separate item in shareholders' equity. Currency translation differences resulting from long-term loans or lendings without specified maturity between Group companies are similarly recognised outside the statement of income in a separate item of shareholders' equity.

Key exchange rates	Mean rate of exchange on the balance sheet date		Average rate of exchange	
1 EUR corresponds to:	31.12.2009	31.12.2008	2009	2008
AUD	1.6048	2.0257	1.7839	1.7437
BHD	0.5404	0.5312	0.5267	0.5563
CAD	1.5048	1.7160	1.5916	1.5561
CNY	9.7847	9.6090	9.5419	10.2693
GBP	0.9042	0.9600	0.8966	0.7985
HKD	11.1172	10.8323	10.8274	11.4733
KRW	1,669.5842	1,775.0000	1,771.3279	1,602.6923
MYR	4.9113	4.8700	4.9076	4.9064
SEK	10.2986	10.9150	10.6210	9.6662
USD	1.4336	1.3977	1.3969	1.4739
ZAR	10.6121	13.1698	11.6273	11.9514

8.10 Fee paid to the auditor

Total fees of EUR 8.9 million (EUR 6.6 million) were incurred for accountants' services throughout the Hannover Re Group worldwide in the year under review. They were principally comprised of auditing and tax consultancy fees.

Of this total amount, EUR 2.5 million (EUR 2.2 million) was attributable to the fee paid to the appointed auditor of the consolidated financial statement as defined by § 318 German Commercial Code (HGB). The amount includes a fee of EUR 2.3 million (EUR 2.0 million) for the auditing of the financial statement and EUR 0.1 million (EUR 0.1 million) for tax consultancy services. Expenditure of EUR 0.1 million (EUR 0.1 million) was incurred for consultancy and other services performed for the parent or subsidiary companies in the year under review.

8.11 Events after the balance sheet date

Based on early estimates, Hannover Re anticipates loss expenditure of around EUR 25.0 million as a consequence of the severe earthquake in Haiti in January 2010.

In a press release dated 27 January 2010 we announced that we had increased the "K6" transaction launched in the year under review with effect from 1 January 2010 by the maximum targeted amount of EUR 106.0 million to a total volume of EUR 229.5 million. The new tranches were taken up by both new and existing investors.

According to initial estimates, an explosion at a power plant under construction in the United States on 7 February 2010 will result in loss expenditure of approximately EUR 10.0 million for Hannover Re.

Responsibility statement

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

Hannover, 10 March 2010

Executive Board

Wallin   Arrago   Dr. Becke

Gräber   Dr. Pickel   Vogel

Auditors' report

We have audited the consolidated financial statements prepared by Hannover Rückversicherung AG, Hannover – comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, notes to the consolidated financial statements, consolidated cash flow statement, consolidated statement of changes in equity and segmental report – as well as the group management report for the business year from 1 January to 31 December 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Para 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hannover, 8 March 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

Husch	Busch
Wirtschaftsprüfer	Wirtschaftsprüfer

Report by the Supervisory Board

of Hannover Re for the Hannover Re Group

In our function as the Supervisory Board we considered at length during the 2009 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 five meetings in order to adopt the necessary resolutions after appropriate discussion. Resolutions were adopted by a written procedure with respect to three matters requiring attention at short notice. We received quarterly written reports from the Executive Board on the course of business and the position of the company and the Group. These reports describe, inter alia, 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, ratings 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 2008 results in non-life and life/health reinsurance as well as a presentation from the Executive Board covering the profit expectations for the 2009 financial year and the operational planning for the 2010 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. No audit measures pursuant to § 111 Para. 2 Sentence 1 German Stock Corporation Act were required in the 2009 financial year.

Key points of deliberation

The Supervisory Board obtained information about pending legal proceedings, the relevance of ratings to reinsurance business as well as special capital market risks on the underwriting side in life reinsurance. We considered the currently existing collateral structures for reinsurance obligations and adopted the necessary resolutions to be in a position going forward, as in the past, to be able to respond flexibly to additional collateral requirements in connection with reinsurance business. Within the scope of the annual review of the investment guidelines, the revisions concentrated in particular on the distortions on the capital market caused by the subprime crisis and the associated fundamental revaluations of securities and investments covered by securities. Considerable attention was also devoted to discussions of the future risk-oriented positioning on the underwriting side as well as risk management in the area of investments, including the organisational integration of the investment guidelines into Hannover Re's system of limits and thresholds.

As part of the updating of the Rules of Procedure for the Executive Board, the canon of measures and transactions subject to approval was extended – for example, in connection with borrowing and the agreement of "Change of Control" clauses. A duty to notify the agreement of particularly significant downgrade clauses was also implemented. With an eye to § 87 Para. 1 German Stock Corporation Act as amended by the Act on the Adequacy of Management Board Remuneration, the full Supervisory Board undertook for the first time a review of the fixed remuneration of individual members of the Executive Board. In light of the changes in the legal situation, the profit bonus for members of the Executive Board was also restructured, and the conditions of the stock option plan for members of the Executive Board were adjusted to the new legal framework conditions. Furthermore, the personnel changes on the company's Executive Board in the year under review were the subject of intense discussion.

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 Finance and Audit Committee as well as the Standing Committee each met on four occasions. The Standing Committee took one decision by way of a written procedure. The Chairman of the Supervisory Board updated the full Supervisory Board on the major deliberations of the committee meetings at its next meeting and provided an opportunity for further questions.

The Finance and Audit 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 auditors 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 compliance report/report on adherence to 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 the stress tests with regard to the investments and their implications for net income and the equity base – and defined the audit concentrations for the 2009 financial year. The discussion of the quarterly financial statements for the Hannover Re Group, the measures taken to reduce the volatility of results and the risk exposure as well as the findings of the audits conducted by the Internal Auditing unit constituted further key areas of deliberation.

The Standing Committee dealt with the determination of the performance bonuses of the members of the Executive Board for the 2008 financial year and defined the basic number of stock participation rights to be awarded in total to the Executive Board for the 2009 financial year. Recommendations regarding the restructuring of the profit bonus and the modification of the virtual stock option plan were drawn up for the full Supervisory Board. In addition, recommendations were formulated for the specification of the target performance (target EPS) and the total volume of remuneration payable for the 2010 financial year. What is more, recommendations were submitted to the full Supervisory Board in the context of the review of the fixed remuneration of members of the Executive Board. The Standing Committee considered at length the impending changes on the company's Executive Board and submitted the appropriate recommendations to the full Supervisory Board.

Since no elections to the Supervisory Board were upcoming, the Nomination Committee did not meet.

Corporate Governance

The Supervisory Board once again devoted considerable attention to the issue of Corporate Governance. The Rules of Procedure for the Supervisory Board, the Standing Committee and the Finance and Audit Committee were modified with an eye to the revised version of the German Corporate Governance Code (DCGK) as amended 18 June 2009. The full Supervisory Board examined and approved the remuneration system for the Executive Board including the material contractual elements. In addition, an interim activity report on compliance matters for 2009 was discussed, and the Supervisory Board agreed upon an efficiency audit of the Supervisory Board's work using a questionnaire that was significantly expanded in comparison with previous surveys.

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 – as in the previous year – not to comply with the recommendation in Code Item 4.2.3 Para. 4 of the German Corporate Governance Code 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 context of the Corporate Governance declaration. Further information on the topic of corporate governance is available on Hannover Re's website.

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. The Supervisory Board selected the auditor and the Chairman of the Supervisory Board awarded the audit mandate. The auditor's independence declaration was received. In addition to the usual audit tasks, the auditors focused particularly on the methodology and adequacy of estimation systems on the underwriting side, the calculation and impairment of deferred taxes, the risk reporting in the management report and the balance sheet recognition of the acquisition of entire insurance portfolios. 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 risk reporting in the management report, the balance sheet recognition of the acquisition of entire insurance portfolios, the calculation and presentation of run-off triangles, the internal control system and the representation of capital market risks in reinsurance and retrocession treaties to particular scrutiny. The mandate for the review report by the independent auditors on the interim financial report as at 30 June 2009 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 Finance and Audit 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 2009 – 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. We concur with the Executive Board's proposal regarding the appropriation of the disposable profit for 2009.

Changes on the Supervisory Board and the Executive Board

There were no changes in the composition of the Supervisory Board in the year under review. After Mr. Baumgartl had stepped down as Chairman of the Supervisory Board of Hannover Re with effect from the end of the Annual General Meeting on 5 May 2009, the Supervisory Board elected Mr. Herbert K. Haas as Chairman of the Supervisory Board as well as of the Supervisory Board's Finance and Audit Committee with effect from the above date until the end of the company's Annual General Meeting in 2012. Since the aforementioned date Mr. Baumgartl has served as an ordinary member on the Supervisory Board and its committees.

Mr. Wilhelm Zeller retired on 30 June 2009 at the age of sixty-five after leading the company for more than 13 years as its Chief Executive Officer. The Supervisory Board thanked Mr. Zeller for his extraordinarily successful work, which had been instrumental in shaping the development of the company and the Hannover Re Group. At an extraordinary meeting of the Supervisory Board Mr. Ulrich Wallin was appointed as the new Chief Executive Officer of the company with effect from 1 July 2009. 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 company and 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 2010

For the Supervisory Board
Herbert K. Haas
Chairman

Supervisory Board of Hannover Re

Herbert K. Haas[1, 2, 3]
Burgwedel
Chairman (from 5 May 2009)
Chairman of the Board of Management of Talanx AG
Chairman of the Board of Management of HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Dr. Klaus Sturany[1]
Dortmund
Deputy Member
Member of various supervisory boards

Wolf-Dieter Baumgartl[1, 2, 3]
Berg
Chairman (until 5 May 2009)
Member (from 6 May 2009)
Chairman of the Supervisory Board of Talanx AG
Chairman of the Supervisory Board of HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Uwe Kramp[4]
Hannover

Karl Heinz Midunsky[3]
Gauting
Former Corporate Vice President and Treasurer Siemens AG

Ass. jur. Otto Müller[4]
Hannover

Dr. Immo Querner
Ehlershausen
Member of the Board of Management of Talanx AG
Member of the Board of Management of HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Dr. Erhard Schipporeit[2]
Hannover
Former Member of the Executive Board of E.ON Aktiengesellschaft

Gert Waechtler[4]
Burgwedel

1 Member of the Standing Committee
2 Member of the Finance and Audit Committee
3 Member of the Nomination Committee
4 Staff representative

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

Branch offices and subsidiaries of the Hannover Re Group abroad

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Ross Littlewood

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Thomas Barenthein

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Glossary

Accumulation loss: sum of several individual losses incurred by various policyholders as a result of the same loss event (e.g. windstorm, earthquake). This may lead to a higher loss for the direct insurer or reinsurer if several affected policyholders are insured by the said company.

Acquisition cost, deferred (DAC): cost of an insurance company that arises from the acquisition or the renewal of an insurance contract (e.g. commission for the closing, costs of proposal assessment and underwriting etc.). Capitalisation results in a distribution of the cost over the duration of the contract.

Aggregate excess of loss treaty: a form of excess of loss treaty reinsurance under which the reinsurer responds when a ceding insurer incurs losses on a particular line of business during a specific period (usually 12 months) in excess of a stated amount.

Alternative risk financing: use of the capacity available on the capital markets to cover insurance risks, e.g. through the securitisation of natural catastrophe risks.

American Depositary Receipt (ADR): share certificates written by US banks on foreign shares deposited there. Instead of trading the foreign shares directly, US stock exchanges trade the ADRs.

Bancassurance: partnership between a bank and an insurance company for the purpose of selling insurance products through the banking partner‘s branches. The link between the insurer and the bank is often characterised by an equity participation or a long-term strategic cooperation between the two parties.

Benefit reserves: value arrived at using mathematical methods for future liabilities (present value of future liabilities minus present value of future incoming premiums), primarily in life and health insurance.

Block assumption transaction (BAT): proportional reinsurance treaty on a client‘s life or health insurance portfolio, by means of which it is possible, inter alia, for our clients to realise in advance the future profits so as to be able to efficiently ensure the attainment of corporate objectives, e.g. in the areas of financial or solvency policy.

CAPM: cf. → Capital Asset Pricing Model

Capital asset pricing model (CAPM): the CAPM is used to explain the materialisation of prices/returns on the capital market based on investor expectations regarding the future probability distribution of returns. Under this method, the opportunity cost rate for the shareholders‘ equity consists of three components – a risk-averse interest rate, a market-specific risk loading and an enterprise-specific risk assessment, the beta coefficient. The cost of shareholders‘ equity is therefore defined as follows: risk-averse interest rate + beta * enterprise-specific risk assessment.

Cash flow statement: statement on the origin and utilisation of cash and cash equivalents during the accounting period. It shows the changes in liquid funds separated into cash flows from operating, investing and financing activities.

Catastrophe loss: loss which has special significance for the direct insurer or reinsurer due to the amount involved; it is defined as a catastrophe loss in accordance with a fixed loss amount or other criteria.

Cedant: direct insurer or reinsurer which passes on (also: cedes) shares of its insured or reinsured risks to a reinsurer in exchange for premium.

Cession: transfer of a risk from the direct insurer to the reinsurer.

Claims and claims expenses: sum total of paid claims and provisions for loss events that occurred in the business year; this item also includes the result of the run-off of the provisions for loss events from previous years, in each case after the deduction of own reinsurance cessions.

Coinsurance Funds Withheld- (CFW) Treaty: type of coinsurance contract where the ceding company retains a portion of the original premium at least equal to the ceded reserves. Similar to a → Modco contract the interest payment to the reinsurer reflects the investment return on an underlying asset portfolio.

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

Confidence (also: probability) level: the confidence level defines the probability with which the defined amount of risk will not be exceeded.

Contribution margin accounting level 5 (DB 5): this level of contribution margin accounting constitutes the clear profit after earning the discounted claims expenditure plus all external and internal costs including the cost of capital.

Corporate Governance: serves to ensure responsible management and supervision of enterprises and is intended to foster the trust of investors, clients, employees and the general public in companies.

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

Creditworthiness: cf. → credit status

Critical illness coverages: cf. → dread disease coverages

DB 5: cf. → contribution margin accounting level 5

Deposit accounting: an accounting method originating in US accounting principles for the recognition of short-term and multi-year insurance and reinsurance contracts with no significant underwriting risk transfer. The standard includes inter alia provisions relating to the classification of corresponding contract types as well as the recognition and measurement of a deposit asset or liability upon inception of such contracts.

Deposits with ceding companies/deposits received from retrocessionaires (also: funds held by ceding companies/funds held under reinsurance treaties): collateral provided to cover insurance liabilities that a (re-)insurer retains from the liquid funds which it is to pay to a reinsurer under a reinsurance treaty. In this case, the retaining company shows a deposit received, while the company furnishing the collateral shows a deposit with a ceding company.

Derivatives, derivative financial instruments: these are financial products derived from underlying primary instruments such as equities, fixed-income securities and foreign exchange instruments, the price of which is determined on the basis of an underlying security or other reference asset. Notable types of derivatives include swaps, options and futures.

Direct business: business focused on narrowly defined → portfolios of niche or other non-standard risks.

Direct (also: primary) insurer: company which accepts risks in exchange for an insurance premium and which has a direct contractual relationship with the policyholder (private individual, company, organisation).

Discounting of loss reserves: determination of the present value of future profits through multiplication by the corresponding discount factor. In the case of the loss reserves this is necessary because of the new profit calculation methods for tax purposes applicable to German joint-stock corporations.

Diversification: orientation of business policy towards various revenue streams in order to minimise the effects of economic fluctuations and stabilise the result. Diversification is an instrument of growth policy and risk policy for a company.

Dread disease (also: critical illness) coverages: personal riders on the basis of which parts of the sum insured which would otherwise only become payable on occurrence of death are paid out in the event of previously defined severe illnesses.

Due diligence: activity generally performed as part of a capital market transaction or in the case of mergers and acquisitions, covering inter alia an examination of the financial, legal and tax situation.

Earnings per share, diluted: ratio calculated by dividing the consolidated net income (loss) by the weighted average number of shares outstanding. The calculation of the diluted earnings per share is based on the number of shares including subscription rights already exercised or those that can still be exercised.

Earnings retention: non-distribution of a company‘s profits leading to a different treatment for tax purposes than if profits were distributed.

EEV: cf. → European Embedded Value

European embedded value (EEV): present value of shareholders‘ interests in the earnings distributable from assets allocated to the covered business after sufficient allowance for the aggregate risks in the covered business.

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

Excess return on capital allocated (xRoCA): describes the → IVC in relation to the allocated capital and shows the relative excess return generated above and beyond the weighted cost of capital.

Expense ratio: administrative expenses in relation to the (gross or net) premiums written.

Exposure: level of danger inherent in a risk or portfolio of risks; this constitutes the basis for premium calculations in reinsurance.

Facultative reinsurance: participation on the part of the reinsurer in a particular individual risk assumed by the direct insurer. This is in contrast to → obligatory (also: treaty) reinsurance.

Fair value: price at which a financial instrument would be freely traded between two parties.

FASB Accounting Standards Codification, FASB ASC: since 15 September 2009 the single source of authoritative → US GAAP. It is a codification of all previous standards.

Financial Accounting Standards Board (FASB): committee in the USA whose task is to determine and improve upon the standards of accounting and reporting.

Financial Accounting Standards (FAS): cf. → Statement of Financial Accounting Standards (SFAS)

Financial Solutions: targeted provision of financial support for primary insurers through reinsurance arrangements under which the reinsurer participates in the original costs of an insurance portfolio and receives as a consideration a share of the future profits of the said portfolio. This approach is used primarily for long-term products in personal lines, such as life, annuity and personal accident insurance.

Free float: the free float refers to the part of the capital stock held by shareholders with a low stockholding in both absolute and relative terms.

Funds held by ceding companies/funds held under reinsurance treaties: cf. → deposits with ceding companies/deposits received from retrocessionaires

Goodwill: the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed.

Gross/Retro/Net: gross items constitute the relevant sum total deriving from the acceptance of direct insurance policies or reinsurance treaties; retro items constitute the relevant sum total deriving from own reinsurance cessions. The difference is the corresponding net item (gross – retro = net, also: for own account).

Hybrid capital: debt structure which because of its subordination bears the character of both debt and equity

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

Impairment: extraordinary amortisation taken when the present value of the estimated future cash flow of an asset is less than its book value.

International Accounting Standards (IAS): cf. → International Financial Reporting Standards (IFRS)

International Accounting Standards Board (IASB): committee in the EU whose task is to determine and improve upon the international standards of accounting and reporting.

International Financial Reporting Standards (IFRS): standards published by the International Accounting Standards Board on accounting and reporting (until 2002 they were named International Accounting Standards, IAS).

International Securities Identification Number (ISIN): ten-character universal code used to identify securities internationally. It is prefixed by a country code that specifies the country where the issuer entity is legally registered or in which it has legal domicile, e.g. DE = Germany.

Intrinsic value creation (IVC): the IVC is calculated according to the following formula: real operating value creation = adjusted operating profit (EBIT) – (capital allocated x weighted cost of capital). IVC is a tool of value-based enterprise management used to measure the accomplishment of long-term targets on the level of the Group, the individual business groups and the operating units (profit centres).

Investment grade: investment grade ratings are awarded to companies and assigned to securities that have a low risk profile. They contrast with non-investment-grade ratings, which by definition include speculative elements and therefore entail a significantly higher risk.

IVC: cf. → Intrinsic Value Creation

Issuer: private enterprise or public entity that issues securities, e.g. the federal government in the case of German Treasury Bonds and a joint-stock corporation in the case of shares.

Leader: if several (re-)insurers participate in a contract, one company assumes the role of leader. The policyholder deals exclusively with this lead company. The lead (re-) insurer normally carries a higher percentage of the risk for own account.

Letter of credit (LOC): bank guarantee; at the request of the guaranteed party, the bank undertakes to render payment to the said party up to the amount specified in the LOC. This method of providing collateral in reinsurance business is typically found in the USA.

Life and health (re-)insurance: collective term for the lines of business concerned with the insurance of persons, i.e. life, pension, health and personal accident insurance.

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

Loss, economic: total loss incurred by the affected economy as a whole following the occurrence of a loss. The economic loss must be distinguished from the → insured loss.

Loss, insured: the insured loss reflects the total amount of losses covered by the insurance industry (insurers and reinsurers).

Loss ratio: proportion of loss expenditure in the → retention relative to the (gross or net) premiums earned.

Market Consistent Embedded Value (MCEV): a refinement and closer specification of the previous principles of → European Embedded Value (EEV). In particular, the market-consistent calculation method is intended to bring about better comparability. The MCEV is established using risk-neutral assumptions in relation to the expected investment income and the discounting approach. In addition, the swap curve is adopted as a risk-neutral interest rate structure.

Mark-to-market valuation: the evaluation of financial instruments to reflect current market value or → fair value.

Matching currency cover: coverage of technical liabilities in foreign currencies by means of corresponding investments in the same currency in order to avoid exchange-rate risks.

Modified Coinsurance- (Modco) Treaty: type of reinsurance treaty where the ceding company retains the assets supporting the reinsured reserves by withholding a fund, thereby creating an obligation to render payments to the reinsurer at a later date. Such payments include a proportional share of the gross premium plus a return on the assets.

Net: cf. → Gross/Retro/Net

Non-life business: by way of distinction from business activities in our life and health reinsurance business group, we use this umbrella term to cover our business groups of property and casualty reinsurance, financial reinsurance and specialty insurance.

Non-proportional reinsurance: reinsurance treaty under which the reinsurer assumes the loss expenditure in excess of a particular amount (→ priority) (e.g. under an excess of loss treaty). This is in contrast to → proportional reinsurance.

Obligatory (also: treaty) reinsurance: reinsurance treaty under which the reinsurer participates in a → cedant's total, precisely defined insurance portfolio. This is in contrast to → facultative reinsurance.

Other securities, available-for-sale: securities that are not classified as „trading" or „held-to-maturity"; these securities can be disposed of at any time and are reported at their market value at the balance sheet date. Changes in market value do not affect the statement of income.

Other securities, held-to-maturity: investments in debt securities intended to be held to maturity. They are measured at amortised cost.

Other securities, trading: securities that are held principally for short-term trading purposes. They are measured at their market value at the balance sheet date.

(Insurance) Pool: a risk-sharing partnership under civil law formed by legally and economically independent insurers and reinsurers in order to create a broader underwriting base for particularly large or unbalanced risks. The members undertake to write certain risks only within the scope of the insurance pool. They include such risks – while maintaining their commercial independence – in the insurance pool against a commission fee. Each insurer participates in the profit or loss of the insurance pool according to its proportionate interest. Reinsurance is often ceded or accepted in order to further diversify the risk. Pools can be divided into two types: coinsurance pools, in which all members take the role of primary insurers according to their interests, and reinsurance pools, in which a primary insurer writes the risks and then spreads them among the participating insurers by way of reinsurance.

Portfolio: a) all risks assumed by an insurer or reinsurer in a defined sub-segment (e.g. line of business, country) or in their entirety; b) group of investments defined according to specific criteria.

Premium: agreed remuneration for the risks accepted from an insurance company. Unlike the earned premiums, the written premiums are not deferred.

Present value of future profits (PVFP): intangible asset primarily arising from the purchase of life and health insurance companies or portfolios. The present value of expected future profits from the portfolio assumed is capitalised and amortised according to schedule.

Price earnings ratio (PER): ratio of the market value of a share to the earnings per share of a publicly traded corporation.

Primary insurer: cf. → direct insurer

Priority: direct insurer's loss amount stipulated under → non-proportional reinsurance treaties; if this amount is exceeded, the reinsurer becomes liable to pay. The priority may refer to an individual loss, an → accumulation loss or the total of all annual losses.

Probability level: cf. → confidence level

Property and casualty (re-)insurance: collective term for all lines of business which in the event of a claim reimburse only the incurred loss, not a fixed sum insured (as is the case in life and personal accident insurance, for example). This principle applies in all lines of property and casualty insurance.

Proportional reinsurance: reinsurance treaties on the basis of which shares in a risk or → portfolio are reinsured under the relevant direct insurer's conditions. → Premiums and losses are shared proportionately on a pro-rata basis. This is in contrast to → non-proportional reinsurance.

Protection cover: protection of segments of an insurer's portfolio against major losses (per risk/per event), primarily on a non-proportional basis.

Provision: liability item as at the balance sheet date to discharge obligations which exist but whose extent and/or due date is/are not known. Technical provisions, for example, are for claims which have already occurred but which have not yet been settled, or have only been partially settled (= provision for outstanding claims, abbreviated to: claims provision).

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

Purchase cost, amortised: the cost of acquiring an asset item including all ancillary and incidental purchasing costs; in the case of wasting assets less scheduled and/or special amortisation.

Quota share reinsurance: form of proportional reinsurance under which the reinsurer assumes a contractually set percentage share of the written risk. Since the insurer is responsible for acquisition, pricing, policy administration and claims handling, the administrative expenditure for the reinsurer is very low. The latter therefore participates in the aforementioned expenses through payment of a reinsurance commission. This commission can amount to 15%–20% of the original premium depending upon the market and cost situation.

Rate: percentage rate (usually of the premium income) of the 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) premiums.

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 premiums).

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.

Special Purpose Entity (SPE): legal structure with specific characteristics not bound to a certain form of organisation used to conduct defined activities or to hold assets.

Specialty insurance: a specialty form of non-life primary insurance that focuses on narrowly defined, homogenous portfolios of niche or other non-standard risks (specialty business), whereby the typical insurer functions (acquisition, underwriting, policy issuing, premium collection, policy administration, claims settlement, etc.) can be outsourced to specialized managing general agents (MGAs) or third-party administrators (TPAs).

Statement of Financial Accounting Standards, SFAS (also: Financial Accounting Standards, FAS): the accounting and reporting standards published by the → Financial Accounting Standards Board; since 15 September 2009 superseded by → FASB ASC.

Spread loss treaty: treaty between an insurer and a reinsurer that covers risks of a defined portfolio over a multi-year period.

Structured products: reinsurance with limited potential for profits and losses; the primary objective is to strive for risk equalisation over time and to stabilise the → cedant's balance sheet.

Surplus reinsurance: form of proportional reinsurance under which the risk is not spread between the insurer and reinsurer on the basis of a previously agreed, set quota share. Instead, the insurer determines a maximum sum insured per risk up to which it is prepared to be liable. Risks that exceed the ceding company's retention (surpluses) are borne by the reinsurer. The reinsurer's lines thus vary according to the level of the retention and the sum insured of the reinsured contract. The reinsurer's liability is generally limited to a multiple of the ceding company's retention.

Surplus relief treaty: a portfolio reinsurance contract under which an admitted reinsurer assumes (part of) a ceding company's business to relieve stress on the cedant's policyholders' surplus.

Survival ratio: reflects the ratio of loss reserves to paid losses under a specific contract or several contracts in a balance sheet year.

Technical result: the balance of income and expenditure allocated to the insurance business and shown in the technical statement of income (after additional allowance is made for the allocation to/withdrawal from the equalisation reserve: net technical result).

Treaty reinsurance: cf. → obligatory reinsurance

Underwriting: process of examining, accepting or rejecting (re-)insurance risks and classifying those selected in order to charge the proper premium for each. The purpose of underwriting is to spread the risk among a pool of (re-) insureds in a manner that is equitable for the (re-) insureds and profitable for the (re-)insurer.

Unearned premium reserve: cf. → provision for unearned premiums

US GAAP (United States Generally Accepted Accounting Principles): internationally recognised US accounting principles. Not all the provisions which together constitute US GAAP have been codified. In addition to the authoritative standards of the → FASB ASC, US GAAP also includes, for example, standard accounting practices in specific industries.

Value of in-force business (VIF): present value of expected future profit flows from the portfolio of in-force retained business, discounted by a currency-specific risk discount rate. It is determined in accordance with local accounting principles.

Variable Interest Entity: legal entity not bound to a certain form of organisation for which the traditional approach to consolidation based on voting rights is ineffective in identifying where control of the entity really lies, or in which the equity investors do not bear the economic risks and rewards of the entity. The definition is broader than the previously used term → special-purpose entity (SPE).

Volatility: measure of the variability of stock prices, interest rates and exchange rates. Standard practice is to measure the volatility of a stock price by calculating the standard deviations of relative price differences.

xRoCA: cf. → Excess Return on Capital Allocated

Index of key terms

Strategic business groups of the Hannover Re Group

hannover re

Non-life reinsurance

hannover re

E+S Rück
Hannover

Hannover Rück
Hannover

Hannover Re Africa
Johannesburg

Hannover Re Bermuda
Hamilton

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Dublin

Hannover ReTakaful
Manama

Inter Hannover
London

Compass Ins. Co
Johannesburg

Life and health reinsurance

hannover life re

Hannover Life Re Africa
Johannesburg

Hannover Life Re America
Orlando/Florida

Hannover Life Re Australasia
Sydney

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This is a translation of the original German text; the German version shall be authoritative in case of any discrepancies in the translation.

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Annual Results Press Conference
Hannover Re
Karl-Wiechert-Allee 50
30625 Hannover, Germany

12 March 2010

DVFA-Analysts' meeting, Frankfurt
Analysts' meeting, London

4 May 2010

Annual General Meeting
Beginning 10:30 a.m.
Hannover Congress Centrum
Theodor-Heuss-Platz 1–3
30175 Hannover, Germany

4 May 2010

Interim Report 1/2010

10 August 2010

Interim Report 2/2010

10 November 2010

Interim Report 3/2010

3 May 2011

Annual General Meeting
Beginning 10:30 a.m.
Hannover Congress Centrum
Theodor-Heuss-Platz 1-3
30175 Hannover, Germany

3 May 2011

Interim Report 1/2011

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