

MANAGEMENT REPORT

of the Hannover Re Group

Economic climate

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

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

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

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

The economic climate around the world took a sharply darker turn as a consequence of the financial market crisis. The recession in the United States began to spill over to other countries; this was especially true of economic regions in which the financial sector and building industry contributed a large share of economic output. Yet the downturn was considerable even in countries whose eco-

nomical expansion is crucially driven by exports. Only in threshold markets was it possible to boost output, although here too it flagged towards year-end.

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

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

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

Business development

The effects of the financial market crisis on Hannover Re

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

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

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

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

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

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

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

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

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

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

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

Development of operating business

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

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

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

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

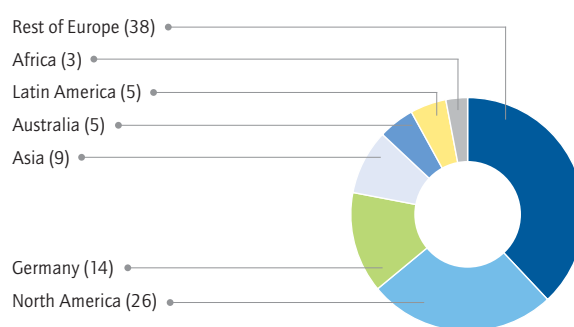
+++ Restrained growth in life and health reinsurance +++

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

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

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

Gross premium by region (in %)



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

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

Investment performance

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

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

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

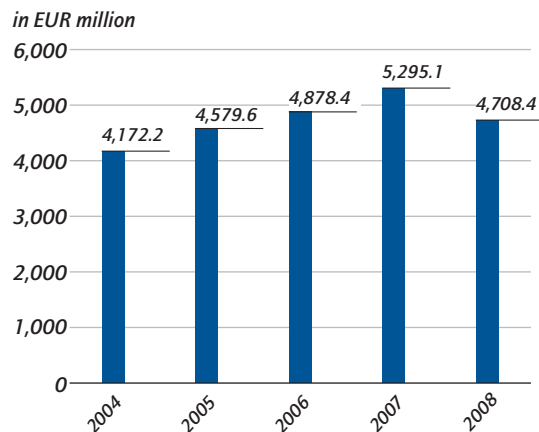
+++ Financial market crisis leaves a clear mark on investment income +++

Result of total business

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

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

Policyholders' surplus



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

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

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

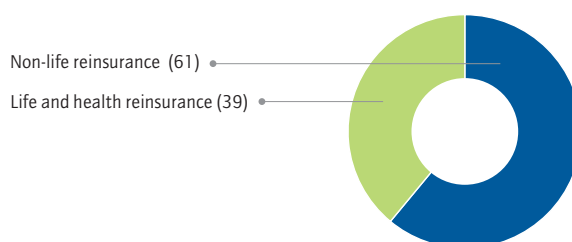
In the year under review Hannover Re was the recipient of several distinctions: the highly respected international trade magazine "The Review" crowned us Reinsurance Company of the Year, and our Chief Executive Officer

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

Our business groups

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

Gross premium by business group (in %)



Non-life reinsurance

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

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

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

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

+++ Focus remains on cycle management +++

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

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

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

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

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

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

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

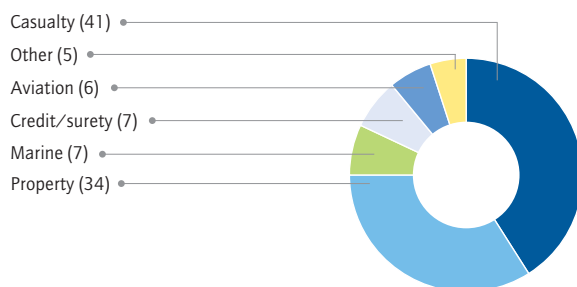
+++ Further capital market transactions in the year under review +++

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

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

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

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



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

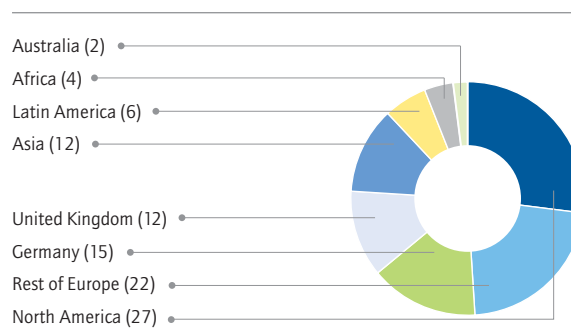
Total net expenditure on catastrophe losses and major claims in 2008 amounted to EUR 457.8 million (EUR 285.4 million). This figure corresponds to 10.7% of net premium in non-life reinsurance and was thus only

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

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

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

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



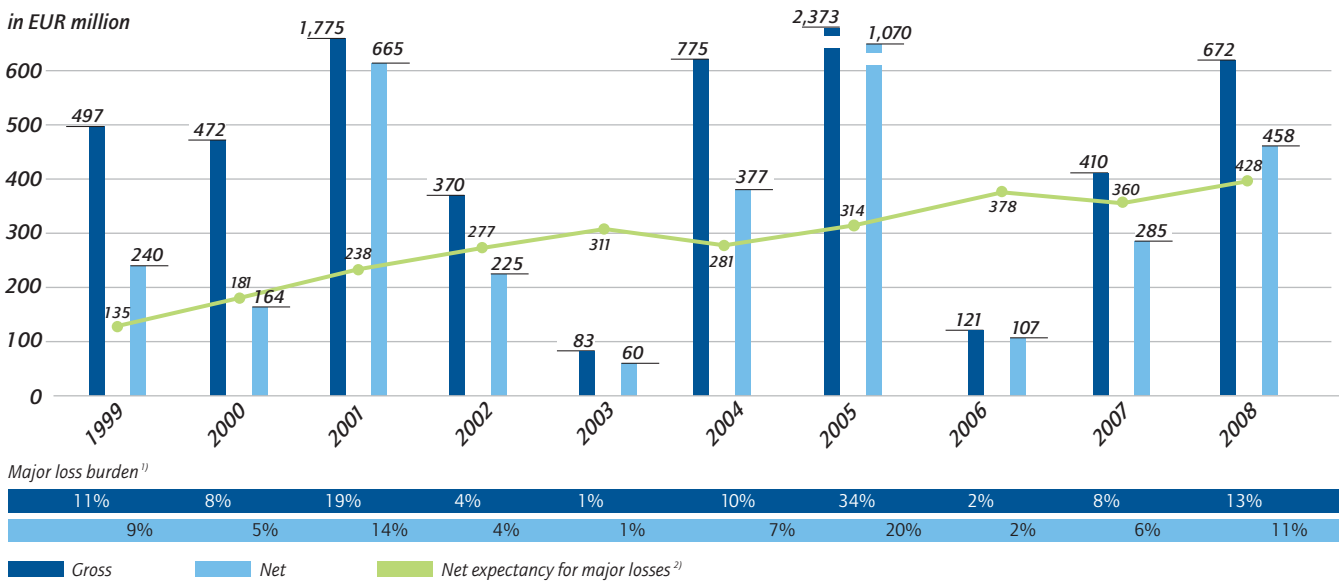
Key figures for non-life reinsurance

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

¹⁾ Figures for 2005 and 2004 before new segmentation

²⁾ Incl. deposit interests

Major loss trend



¹⁾ Relative to premium in non-life reinsurance (1999–2006 adjusted to new segmentation)

²⁾ 1999–2004 = 5%, 2005 = 6%, from 2006–2007 = 8% from 2008 = 10% of net premium earned in non-life reinsurance

Germany

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

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

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

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

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

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

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

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

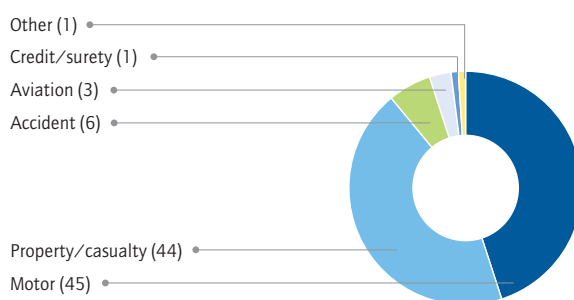
Personal accident insurance, which remains one of our target lines, continued to develop favourably. In addition to the traditional assumption of risks in treaty and facultative reinsurance, our clients again benefited from our product innovations in the year under review; by way of example, we may cite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

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

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

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

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



United Kingdom and the London Market

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

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

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

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

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

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

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

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

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

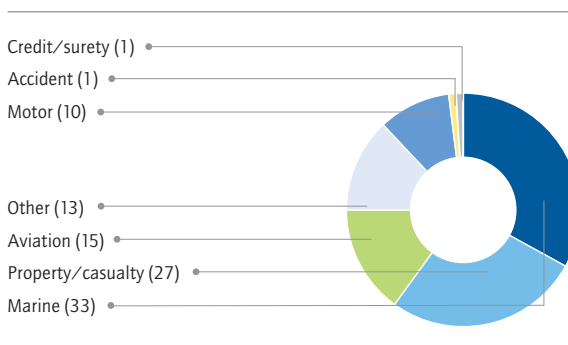
Our net burden of losses from hurricane "Ike" was in the order of EUR 222.1 million and encompassed not only offshore but also onshore business, i.e. the insured property damage on land. Another hurricane – by the name of "Gustav" – was recorded in the Caribbean in the year under review, although the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

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

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

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

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



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

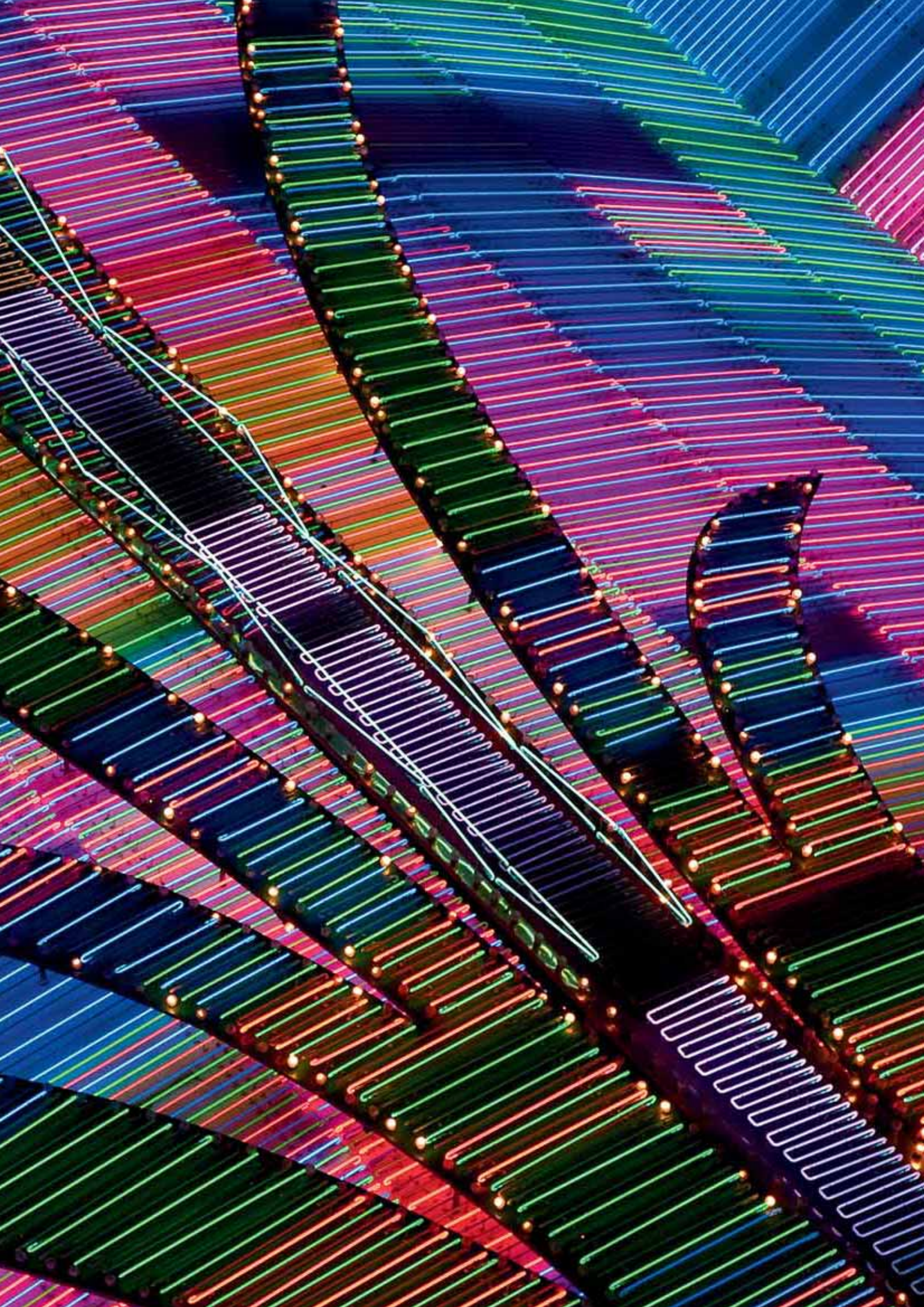
We selectively expanded our involvement in credit and surety business in the year under review – primarily by increasing shares under existing programmes, although also through new business relations in the surety line; the premium volume was consequently slightly boosted. We were able to cement our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

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



APPEARANCES CAN BE DECEIVING

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



Western and Southern Europe

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

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

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

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

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

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

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

Italy

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

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

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

Our premium volume from the Dutch market remained virtually unchanged.

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

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

+++ Premium volume enlarged +++

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

technically acceptable prices overall. We enlarged our premium volume.

Northern Europe

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

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

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

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

Central and Eastern Europe

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

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

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

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

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

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

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

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

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

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

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

North America

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

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

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

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

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

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

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

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

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

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

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

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

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

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

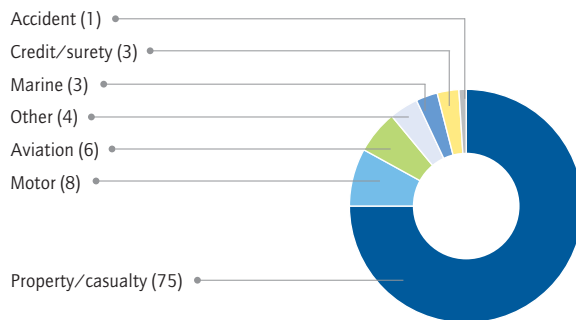
In most casualty segments – such as directors' and officers' (D&O) covers – rates showed further single-digit declines in the first nine months of the year under review. In the shadow of the financial market crisis, however, they stabilised in the fourth quarter. We purposefully relinquished market shares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

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

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

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

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



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

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

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

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

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

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

Other international markets

Latin America

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

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

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

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

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

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

Africa

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

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

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

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

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

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

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

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

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

Asia

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

+++ Competition remains fierce in China +++

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

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

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

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

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

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

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

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

Australia

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

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

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

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

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

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

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





IN SIMPLICITY LIES TRUTH

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

Life and health reinsurance

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

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

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

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

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

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

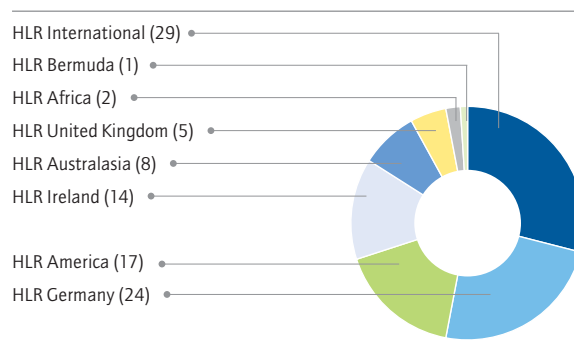
Hannover Life Re – expanding the international network

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

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

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

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



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

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

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

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

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

Hannover Life Re – the "Five Pillar" business model

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

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

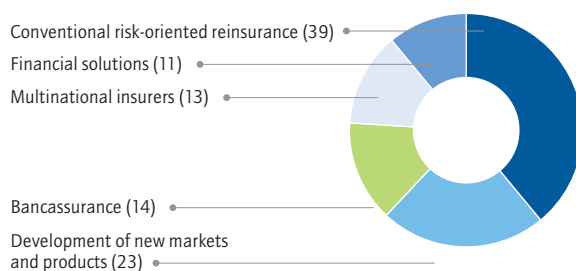
Relationship Marketing (as an overarching conceptual business approach) and Customer Relationship Management (as a package of actions to be implemented) continue to play an essential role in our global acquisition and underwriting policy.

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

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

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

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



Development of premium income

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

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

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

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

Key figures for life and health reinsurance

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

¹⁾ Figures for 2005 and 2004 before new segmentation

²⁾ Operating profit (EBIT)/net premium earned

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

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

Results

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

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

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

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

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

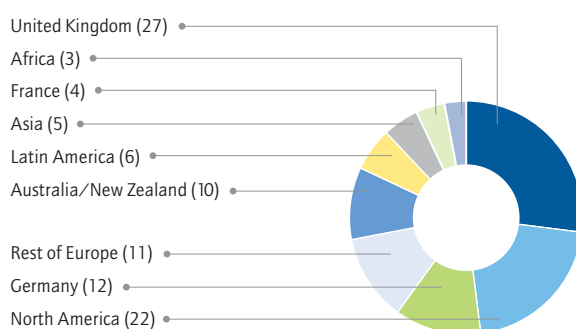
The morbidity factor is constituted by a combination of different risk profiles from critical illness covers, US senior health medicare supplement plans, long-term care annuities and the usual occupational disability riders

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

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

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

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



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

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

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

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

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

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

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

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

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

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

Germany

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

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

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

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

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

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

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

United Kingdom

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

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

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

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

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

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

Ireland

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

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

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

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

France, Maghreb and Arab countries

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

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

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

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

Italy, Spain and Southeastern Europe

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

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

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

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

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

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

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

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

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

North America incl. Bermuda

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

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

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

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

Other international markets

Africa

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

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

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

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

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

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

Central and South America

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

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

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

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

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

Asia

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

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

+++ New customer relationships in China +++

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

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

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

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

Australia and New Zealand

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

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

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

Investments

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

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

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

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

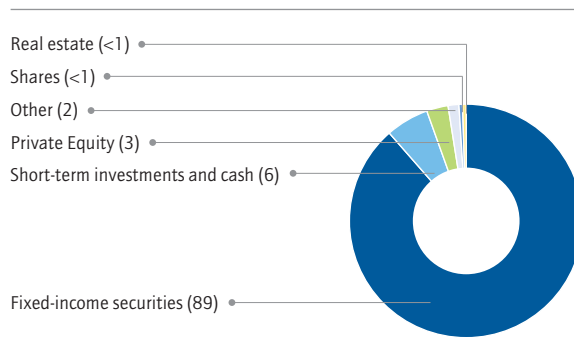
- generation of stable, plannable and tax-optimised returns while at the same time maintaining the high quality standard of the portfolio;
- ensuring the company's liquidity and solvency at all times;
- high diversification of risks;
- limitation of currency exposures in accordance with the principle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

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

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

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

Breakdown of investments (in %)



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

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

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

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

Investments

in EUR million



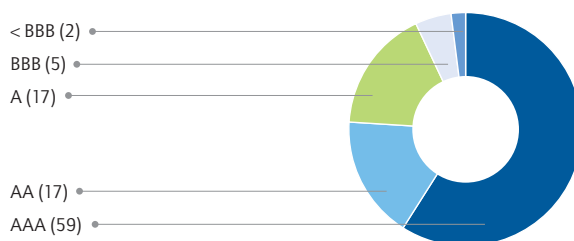
shareholders' equity totalled EUR 101.7 million, compared to hidden losses of EUR 103.4 million in the previous year. The quality of the bonds – measured in terms of rating categories – was maintained on a consistently high level. The proportion of securities rated "A" or better – at 92.9% – was slightly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

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

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

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

Rating of fixed-income securities (in %)



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

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

Net investment income

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

¹⁾ Excluding expenses on funds withheld and contract deposits

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

Liquidity and financing

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

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

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

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

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

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

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

Value-based management

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

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

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

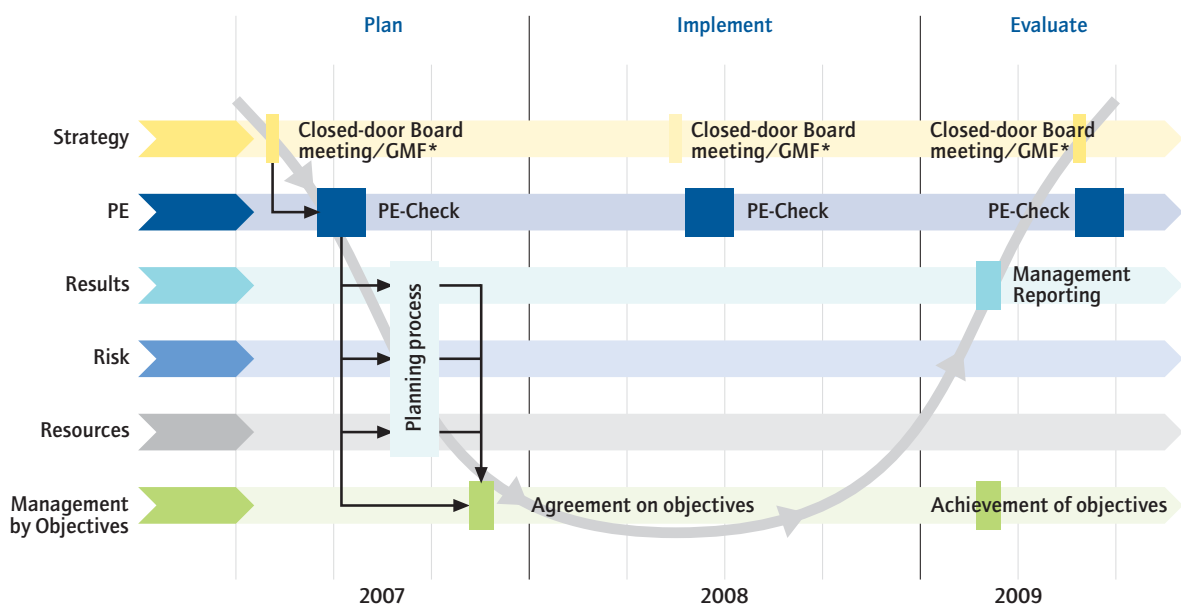
In life and health reinsurance we use the Market-Consistent Embedded Value (MCEV). The MCEV is defined as

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

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

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

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



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

Profit growth targets

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

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

²⁾ Operating profit (EBIT)/net premium earned

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

⁴⁾ Embedded value after consolidation, before minority interests

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

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

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

⁷⁾ Risk-free interest rate + cost of capital

⁸⁾ Excl. tax effect

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

Performance Excellence Check

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

Planning process

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

Management by Objectives

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

Management reporting

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

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

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

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

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

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

Intrinsic Value Creation and excess return on capital allocated

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

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

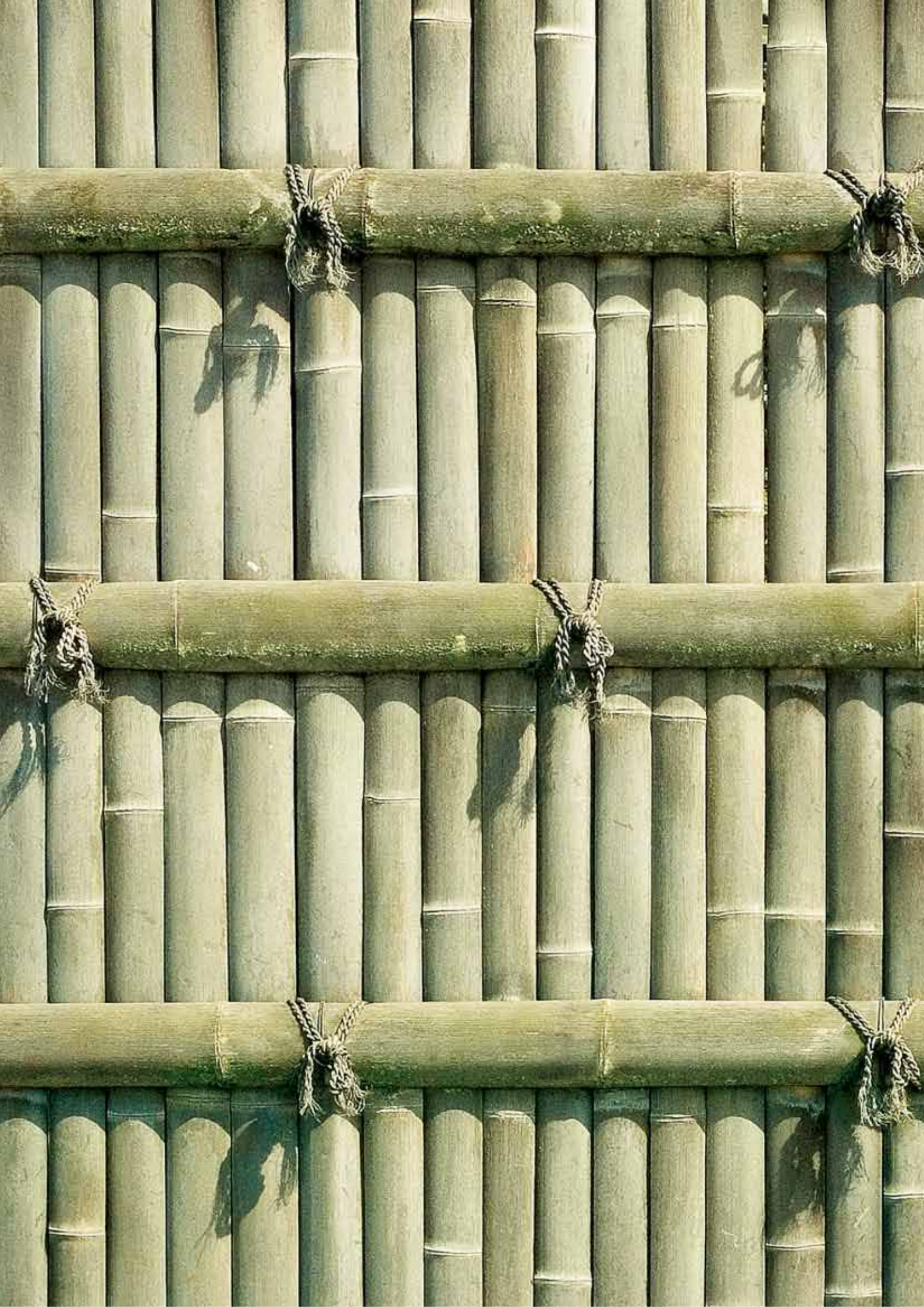
Value drivers

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

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

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

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





THE LESSON OF BAMBOO

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

Human resources

Our staff

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

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

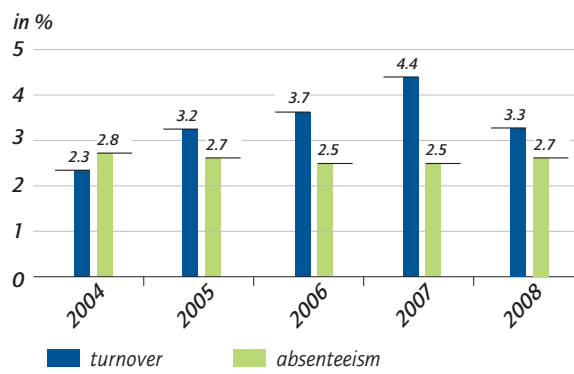
Number of employees at our worldwide permanent establishments

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

Key personnel data

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

Staff turnover and absenteeism (Hannover Home Office)



Future Workshop – entrepreneurial thinking on all levels

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

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

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

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

Labour market for qualified university graduates remains fiercely competitive

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

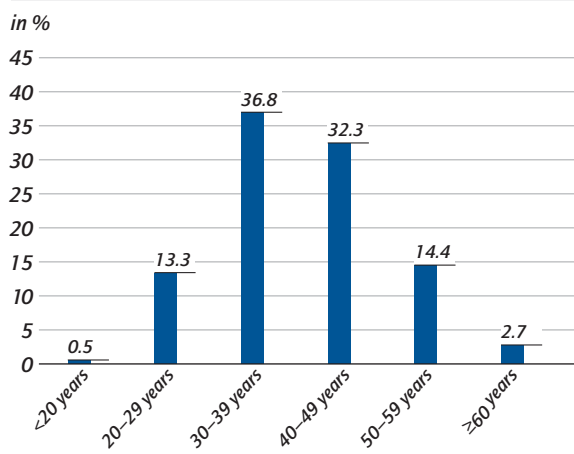
With a view to consolidating and further extending our position as an attractive employer in the market, we systematically seek to identify room for optimisation within the scope of our strategic human resources planning. In 2008 we therefore set up a "Task Force" for the recruitment of mathematicians.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

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

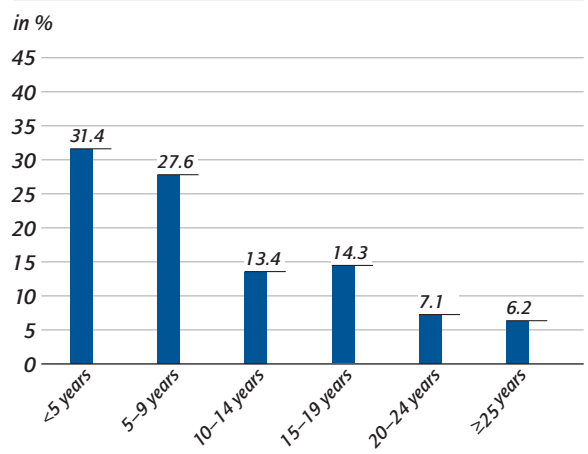
Flanking these marketing-oriented approaches, we have also created a trainee programme specially aimed at mathematicians: in the future, Hannover Re will offer

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

Age structure (Hannover Home Office)



Length of service (Hannover Home Office)



Work/life balance

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

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

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

Management feedback

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

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

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

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

New module for personnel development

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

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

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

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

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

Fostering of a culture of achievement

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

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

Employee shares

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

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

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

Word of thanks to our staff

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

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

Sustainability report

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

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

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

Social commitment

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

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

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

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

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

Research and development

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

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

Environment

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

house gases to an extent comparable with the effect on the climate of the emissions produced by flying. Preferential support is given to projects in developing countries, although all projects must deliver a demonstrable contribution to climate protection.

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

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

Support for the arts

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

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

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

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

Risk report

Risk strategy

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

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



Risk conception

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

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

Overriding goals and organisation of our risk management

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

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

Central elements of the risk management system

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

Quantitative and qualitative risk management

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

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

Technical risks in non-life reinsurance

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

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

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

Technical risks in life and health reinsurance

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

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

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

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

Capital market risks

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

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

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

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

Credit risks

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

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

all, these tools support diversification within the total portfolio and promote risk reduction. Credit risks are also relevant in life and health reinsurance because we pre-finance acquisition costs for our ceding companies. Our investments similarly entail a credit risk. Our clients, retrocessionaires and broker relationships as well as our investments are therefore carefully evaluated and limited in light of credit considerations and are constantly monitored and controlled within the scope of our system of limits and thresholds.

Operational risks

In our understanding, this category encompasses the risk of losses occurring because of the inadequacy or failure of internal processes or as a result of events triggered by employee-related, system-induced or external factors. Operational risks also encompass legal risks, although they do not extend to strategic or reputational risks.

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

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

Other risks

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

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

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

Hannover Re's reputation as a company is one of its most vital intangible assets. It often takes decades to build up a positive reputation, yet this reputation can be damaged or even destroyed within a very brief space of time. Like the strategic risk, the reputational risk usually manifests itself in combination with other risks, such as market or technical risks. Management of this risk is facilitated by our mandatory communication channels and processes that have been specified for defined crisis scenarios as well as by our business principles. The liquidity risk refers to the risk of being unable to convert investments and others assets into cash in order to meet our financial obligations when they become due. The liquidity risk consists of the refinancing risk, i.e. the necessary cash

cannot be obtained or can only be raised at increased costs, and the market liquidity risk, meaning that financial market transactions can only be completed at a poorer price than expected due to a lack of market liquidity. Regular liquidity planning and a liquid asset structure are core elements of our ability to manage this risk. Our active liquidity management has helped to ensure that even in times of financial crisis we are able to meet our payment obligations at all times without reservation.

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

Assessment of the risk situation

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

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

Forecast

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

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

With consumption already on the wane in the United States, exports are now also declining. This is likely to be reflected in a sharp contraction in gross domestic prod-

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

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

Non-life reinsurance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Life and health reinsurance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Overall business outlook

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

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

The expected positive cash flow that we generate ourselves from the technical account and our investments should – subject to stable exchange rates – lead to further

growth in our asset portfolio. In the area of fixed-income securities we continue to stress the high quality and diversification of our portfolio.

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

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

We define our long-term goals as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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