

Consolidated Accounts of the Hannover Re Group

CONSOLIDATED BALANCE SHEET

as at 31 December 2008

Figures in EUR thousand		2008	2007
Assets	Notes	31.12.	31.12.
Fixed-income securities – held to maturity	7.1	1,475,202	1,488,816
Fixed-income securities – loans and receivables	7.1	1,680,857	1,537,889
Fixed-income securities – available for sale	7.1	14,482,832	12,477,055
Fixed-income securities – at fair value through profit or loss	7.1	254,528	158,740
Equity securities – available for sale	7.1	22,589	2,000,390
Other financial assets – at fair value through profit or loss	7.1	44,654	20,385
Real estate	7.1	25,514	16,962
Investments in associated companies	7.1	128,680	170,839
Other invested assets	7.1	784,421	677,957
Short-term investments	7.1	807,719	930,821
Cash		430,225	335,422
Total investments and cash under own management		20,137,221	19,815,276
Funds held	7.3	9,776,147	8,610,554
Contract deposits	7.3	288,782	616,134
Total investments		30,202,150	29,041,964
Reinsurance recoverables on unpaid claims	7.2	2,079,168	2,471,585
Reinsurance recoverables on benefit reserve	7.2	159,151	255,076
Prepaid reinsurance premium	7.2	29,733	92,322
Reinsurance recoverables on other technical reserves	7.2	9,928	5,574
Deferred acquisition costs	7.2	1,860,783	1,807,143
Accounts receivable	7.2	2,801,762	2,525,871
Goodwill	7.4	42,833	45,438
Deferred tax assets	7.5	549,146	577,731
Other assets	7.12	260,265	244,278
Accrued interest and rent		6,824	1,425
		38,001,743	37,068,407

Figures in EUR thousand		2008	2007
Liabilities	Notes	31.12.	31.12.
Loss and loss adjustment expense reserve	7.2	16,932,069	16,553,888
Benefit reserve	7.2	5,913,075	6,143,460
Unearned premium reserve	7.2	1,333,856	1,186,382
Provisions for contingent commissions	7.2	156,996	183,725
Funds held	7.3	565,952	956,912
Contract deposits	7.3	5,146,424	3,668,825
Reinsurance payable		1,236,912	1,141,067
Provisions for pensions	7.7	72,207	67,101
Taxes	7.5	201,960	202,621
Provision for deferred taxes	7.5	1,371,589	1,350,679
Other liabilities	7.12	319,183	277,037
Long-term debt and subordinated capital	7.8	1,420,027	1,414,877
Total liabilities		34,670,250	33,146,574
Shareholders' equity			
Common shares	7.9	120,597	120,597
Nominal value 120,597 Authorised capital 60,299	7.9		
Additional paid-in capital		724,562	724,562
Common shares and additional paid-in capital		845,159	845,159
Cumulative other comprehensive income			
Unrealised gains and losses on investments		113,864	181,395
Cumulative foreign currency translation adjustment		(247,565)	(213,117)
Other changes in cumulative other comprehensive income		(4,577)	6,482
Total other comprehensive income		(138,278)	(25,240)
Retained earnings		2,123,178	2,529,170
Shareholders' equity before minorities		2,830,059	3,349,089
Minority interests		501,434	572,744
Total shareholders' equity		3,331,493	3,921,833
		38,001,743	37,068,407

CONSOLIDATED STATEMENT OF INCOME

for the 2008 financial year

Figures in EUR thousand	Notes	2008	2007
		1.1.–31.12.	1.1.–31.12.
Gross written premium		8,120,919	8,258,901
Ceded written premium		886,621	1,036,950
Change in gross unearned premium		(113,480)	298,490
Change in ceded unearned premium		(59,193)	(227,511)
Net premium earned		7,061,625	7,292,930
Ordinary investment income	7.1	829,786	859,020
Profit/loss from investments in associated companies	7.1	4,199	11,028
Income/expense on funds withheld and contract deposits	7.1	199,587	220,108
Realised gains on investments	7.1	379,202	244,046
Realised losses on investments	7.1	492,756	69,735
Unrealised gains and losses on investments	7.1	(119,718)	(18,771)
Total depreciation, impairments and appreciation of investments	7.1	480,420	71,982
Other investment expenses	7.1	41,421	51,968
Net investment income		278,459	1,121,746
Other technical income	7.13	7,294	1,130
Total revenues		7,347,378	8,415,806
Claims and claims expenses	7.2	4,702,127	5,031,071
Change in benefit reserves	7.2	421,342	397,934
Commission and brokerage, change in deferred acquisition costs	7.2, 7.13	1,635,941	1,759,010
Other acquisition costs	7.2	11,676	12,571
Other technical expenses	7.2, 7.13	12,166	20,081
Administrative expenses	7.13	216,047	204,358
Total technical expenses		6,999,299	7,425,025
Other income and expenses	7.14	(200,011)	(62,779)
Operating profit/loss (EBIT)		148,068	928,002
Interest on hybrid capital	7.8	77,442	77,600
Net income before taxes		70,626	850,402
Taxes	7.5	205,610	47,452
Net income (loss) from continuing operations		(134,984)	802,950
Net income (loss) from discontinued operations		–	35,085
Net income (loss)		(134,984)	838,035
thereof			
Minority interest in profit and loss		(7,997)	116,372
Group net income (loss)		(126,987)	721,663
Earnings per share			
Earnings per share in EUR	7.11	(1.05)	5.98
from continuing operations in EUR		(1.05)	5.69
from discontinued operations in EUR		–	0.29

CONSOLIDATED STATEMENT

of changes in shareholders' equity 2008

Figures in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)			Retained earnings	Minority interests	Shareholders' equity
			Currency translation	Unrealised gains/losses	Other			
Balance as at 1.1.2007	120,597	724,562	(71,518)	144,199	(1,526)	1,981,521	608,551	3,506,386
Capital repayments							(69)	(69)
Income and expense directly recognised in equity			(147,395)	61,070	11,392	18,941	(119,087)	(175,079)
Tax effects on income and expense directly recognised in equity			5,796	(23,874)	(3,384)			(21,462)
Dividends paid						(192,955)	(33,023)	(225,978)
Net income (loss)						721,663	116,372	838,035
Balance as at 31.12.2007	120,597	724,562	(213,117)	181,395	6,482	2,529,170	572,744	3,921,833
Balance as at 1.1.2008	120,597	724,562	(213,117)	181,395	6,482	2,529,170	572,744	3,921,833
Income and expense directly recognised in equity			(22,526)	(17,285)	(17,182)	(1,632)	(21,821)	(80,446)
Tax effects on income and expense directly recognised in equity			(11,922)	(50,246)	6,123			(56,045)
Dividends paid						(277,373)	(41,492)	(318,865)
Net income (loss)						(126,987)	(7,997)	(134,984)
Balance as at 31.12.2008	120,597	724,562	(247,565)	113,864	(4,577)	2,123,178	501,434	3,331,493

CONSOLIDATED CASH FLOW STATEMENT

2008

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

Figures in EUR thousand	2008	2007
	1.1.–31.12.	1.1.–31.12.
I. Cash flow from operating activities		
Net income (loss)	(134,984)	838,035
Appreciation/depreciation	537,578	92,725
Net realised gains and losses on investments	113,554	(174,311)
Net realised gains and losses on discontinued operations	–	(92,080)
Amortisation of investments	(8,737)	(9,043)
Changes in funds held	(1,735,801)	(728,897)
Net changes in contract deposits	1,645,271	155,984
Changes in prepaid reinsurance premium (net)	204,187	(71,536)
Changes in tax assets/provisions for taxes	(12,341)	(141,612)
Changes in benefit reserve (net)	399,654	566,914
Changes in claims reserves (net)	733,112	461,279
Changes in deferred acquisition costs	(136,715)	83,135
Changes in other technical provisions	(35,452)	(956)
Changes in clearing balances	(189,891)	(161,390)
Changes in other assets and liabilities (net)	79,418	93,806
Cash flow from operating activities	1,458,853	912,053
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	39,245	86,516
Purchases	–	(43,518)
Fixed-income securities – loans and receivables		
Maturities, sales	86,975	129,315
Purchases	(219,451)	(490,617)
Fixed-income securities – available for sale		
Maturities, sales	10,421,889	5,459,925
Purchases	(12,558,404)	(5,624,716)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	34,663	23,602
Purchases	(111,206)	(25,001)

Figures in EUR thousand	2008	2007
	1.1.–31.12.	1.1.–31.12.
Equity securities – available for sale		
Sales	2,159,265	1,550,732
Purchases	(1,010,888)	(1,880,906)
Equity securities – at fair value through profit or loss		
Sales	–	20,340
Purchases	–	(13,830)
Other financial instruments – at fair value through profit or loss		
Sales	156,010	–
Purchases	(69,012)	–
Other invested assets		
Sales	19,962	93,616
Purchases	(163,638)	(137,436)
Affiliated companies and participating interests		
Sales	41,405	591,223
Purchases	(5,543)	(1,663)
Real estate		
Sales	–	1
Purchases	(10,076)	(166)
Short-term investments		
Changes	183,949	(279,507)
Other changes (net)	(29,247)	(28,464)
Cash flow from investing activities	(1,034,102)	(570,554)
III. Cash flow from financing activities		
Contribution from capital measures	5,908	2,833
Structural change without loss of control	(5,126)	(108,157)
Dividends paid	(318,865)	(225,978)
Proceeds from long-term debts	39	–
Repayment of long-term debts	(630)	(10,006)
Cash flow from financing activities	(318,674)	(341,308)
IV. Exchange rate differences on cash	(11,274)	(16,545)
Change in cash and cash equivalents (I+II+III+IV)	94,803	(16,354)
Cash and cash equivalents at the beginning of the period	335,422	351,776
Change in cash and cash equivalents according to cash flow statement	94,803	(16,354)
Cash and cash equivalents at the end of the period	430,225	335,422
Income taxes	(134,451)	(181,816)
Interest paid	(99,203)	(163,643)

SEGMENTAL REPORT

as at 31 December 2008

Hannover Re's segmental report is based on IAS 14 "Segment Reporting" and on the principles set out in German Accounting Standard No. 3 "Segment Reporting" (DRS 3) of the German Standards Council, supplemented by the requirements of DRS 3–20 "Segment Reporting of Insurance Enterprises".

The segments are shown after consolidation of internal transactions within the individual segment, but before consolidation across the segments. This is reported separately in the "Consolidation" column.

Segmentation of assets

Figures in EUR thousand	Non-life reinsurance	
	2008	2007
	31.12.	31.12.
Assets		
Held to maturity	1,262,866	1,262,619
Loans and receivables	1,418,271	1,263,764
Available for sale	11,244,214	11,387,469
At fair value through profit or loss	145,226	118,573
Other invested assets	871,345	808,047
Short-term investments	654,969	587,455
Cash	324,659	241,812
Total investments and cash under own management	15,921,550	15,669,739
Funds held by ceding companies	789,996	870,892
Contracts deposits	–	137
Total investments	16,711,546	16,540,768
Reinsurance recoverables on unpaid claims	1,975,496	2,371,387
Reinsurance recoverables on benefit reserves	–	–
Prepaid reinsurance premium	23,582	86,217
Reinsurance recoverables on other reserves	9,813	3,031
Deferred acquisition costs	302,229	262,176
Accounts receivable	1,976,575	1,373,824
Other assets in the segment	1,187,502	1,287,379
Total	22,186,743	21,924,782

Life/health reinsurance		Consolidation		Total	
2008	2007	2008	2007	2008	2007
31.12.	31.12.	31.12.	31.12.	31.12.	31.12.
43,058	52,071	169,278	174,126	1,475,202	1,488,816
105,019	116,567	157,567	157,558	1,680,857	1,537,889
2,646,643	2,496,286	614,564	593,690	14,505,421	14,477,445
55,409	35,227	98,547	25,325	299,182	179,125
67,270	57,711	–	–	938,615	865,758
148,189	146,952	4,561	196,414	807,719	930,821
97,315	88,295	8,251	5,315	430,225	335,422
3,162,903	2,993,109	1,052,768	1,152,428	20,137,221	19,815,276
8,988,523	7,741,902	(2,372)	(2,240)	9,776,147	8,610,554
288,782	615,997	–	–	288,782	616,134
12,440,208	11,351,008	1,050,396	1,150,188	30,202,150	29,041,964
103,672	101,629	–	(1,431)	2,079,168	2,471,585
159,151	255,076	–	–	159,151	255,076
6,151	6,105	–	–	29,733	92,322
115	2,543	–	–	9,928	5,574
1,558,554	1,544,967	–	–	1,860,783	1,807,143
825,477	1,152,705	(290)	(658)	2,801,762	2,525,871
336,508	304,312	(664,942)	(722,819)	859,068	868,872
15,429,836	14,718,345	385,164	425,280	38,001,743	37,068,407

SEGMENTAL REPORT

as at 31 December 2008

Segmentation of technical and other liabilities

Figures in EUR thousand	Non-life reinsurance	
	2008	2007
	31.12.	31.12.
Liabilities		
Loss and loss adjustment expense reserve	15,376,337	15,114,553
Benefit reserve	–	–
Unearned premium reserve	1,250,648	1,148,723
Provisions for contingent commissions	122,923	146,638
Funds held	170,294	186,802
Contracts deposits	91,329	156,829
Reinsurance payable	953,518	427,552
Long-term liabilities	43,144	41,583
Other liabilities in the segment	1,222,087	1,239,046
Total	19,230,280	18,461,726

Life/health reinsurance		Consolidation		Total	
2008	2007	2008	2007	2008	2007
31.12.	31.12.	31.12.	31.12.	31.12.	31.12.
1,555,732	1,440,774	–	(1,439)	16,932,069	16,553,888
5,913,075	6,143,460	–	–	5,913,075	6,143,460
83,208	37,659	–	–	1,333,856	1,186,382
34,073	37,087	–	–	156,996	183,725
398,039	772,352	(2,381)	(2,242)	565,952	956,912
5,055,095	3,511,996	–	–	5,146,424	3,668,825
284,223	714,857	(829)	(1,342)	1,236,912	1,141,067
–	–	1,376,883	1,373,294	1,420,027	1,414,877
1,378,233	1,283,393	(635,381)	(625,001)	1,964,939	1,897,438
14,701,678	13,941,578	738,292	743,270	34,670,250	33,146,574

SEGMENTAL REPORT

as at 31 December 2008

Segmental statement of income

Figures in EUR thousand	Non-life reinsurance	
	2008	2007
	1.1.–31.12.	1.1.–31.12.
Gross written premium	4,987,823	5,189,508
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	4,987,823	5,189,508
Net premium earned	4,276,748	4,497,597
Net investment income	11,114	783,282
thereof		
Deposit interest and expenses	13,208	42,572
Claims and claims expenses	3,028,007	3,359,951
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	915,339	1,016,676
Administrative expenses	148,751	147,642
Other income and expenses	(193,493)	(99,923)
Operating profit/loss (EBIT)	2,272	656,687
Interest on hybrid capital	–	–
Net income before taxes	2,272	656,687
Taxes	178,022	47,191
Net income (loss) from continuing operations	(175,750)	609,496
Net income (loss) from discontinued operations	–	12,131
Net income (loss)	(175,750)	621,627
thereof		
Minority interest in profit or loss	(14,838)	72,104
Group net income (loss)	(160,912)	549,523

life/health reinsurance		Consolidation		Total	
2008	2007	2008	2007	2008	2007
1.1.–31.12.	1.1.–31.12.	1.1.–31.12.	1.1.–31.12.	1.1.–31.12.	1.1.–31.12.
3,134,416	3,082,904	(1,320)	(13,511)	8,120,919	8,258,901
1,320	13,511	(1,320)	(13,511)	–	–
3,133,096	3,069,393	–	–	8,120,919	8,258,901
2,784,877	2,795,333	–	–	7,061,625	7,292,930
245,518	293,850	21,827	44,614	278,459	1,121,746
186,373	177,486	6	50	199,587	220,108
1,674,732	1,672,196	(612)	(1,076)	4,702,127	5,031,071
421,342	397,934	–	–	421,342	397,934
743,394	780,548	(6,244)	(6,692)	1,652,489	1,790,532
70,062	61,194	(2,766)	(4,478)	216,047	204,358
(187)	52,471	(6,331)	(15,327)	(200,011)	(62,779)
120,678	229,782	25,118	41,533	148,068	928,002
–	–	77,442	77,600	77,442	77,600
120,678	229,782	(52,324)	(36,067)	70,626	850,402
35,494	(2,183)	(7,906)	2,444	205,610	47,452
85,184	231,965	(44,418)	(38,511)	(134,984)	802,950
–	–	–	22,954	–	35,085
85,184	231,965	(44,418)	(15,557)	(134,984)	838,035
6,841	44,268	–	–	(7,997)	116,372
78,343	187,697	(44,418)	(15,557)	(126,987)	721,663

Our secondary segmental reporting covers the continuing operations and is based on the regional origin of the investments and gross written premium.

Total investments ¹⁾

Figures in EUR thousand	2008	2007
	31.12.	31.12.
Total investments		
Germany	6,172,406	6,252,371
United Kingdom	1,134,915	1,187,499
France	1,628,884	1,117,610
Other	3,167,276	3,251,338
Europe	12,103,481	11,808,818
USA	5,812,077	5,909,163
Other	695,394	589,295
North America	6,507,471	6,498,458
Asia	426,485	384,628
Australia	664,541	659,006
Australasia	1,091,026	1,043,634
Africa	230,475	276,441
Other	204,768	187,925
Total	20,137,221	19,815,276

Gross written premium ¹⁾

Figures in EUR thousand	2008	2007
	1.1.–31.12.	1.1.–31.12.
Gross written premium		
Germany	1,140,992	1,385,552
United Kingdom	1,453,402	1,512,164
France	381,205	386,054
Other	1,227,653	1,131,846
Europe	4,203,252	4,415,616
USA	1,732,645	1,879,555
Other	357,869	390,375
North America	2,090,514	2,269,930
Asia	745,202	563,461
Australia	420,381	476,560
Australasia	1,165,583	1,040,021
Africa	266,974	262,427
Other	394,596	270,907
Total	8,120,919	8,258,901

¹⁾ After elimination of internal transactions within the Group across segments

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NOTES

1. Company information

The parent company Hannover Rückversicherung AG ("Hannover Re") and its subsidiaries (collectively referred to as the "Hannover Re Group") transact all lines of non-life and life/health reinsurance. The Group maintains business relations with more than 5,000 insurance companies in about 150 countries. With gross premium of approximately EUR 8.1 billion, Hannover Re is one of the largest reinsurance groups in the world. The Group's global network consists of more than 100 subsidiaries, affiliates, branches and representative offices in around 20 countries. The Group's German business is conducted exclusively by the subsidiary E+S Rück. We employ over 900 staff in Hannover and roughly 1,800 worldwide. The parent company is a joint-stock corporation, the registered office of which is located at Karl-Wiechert-Allee 50, 30625 Hannover, Germany.

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

2. Accounting principles

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

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

The consolidated financial statement reflects all IFRS in force as at 31 December 2008 as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), application of which was mandatory for the 2008 financial year.

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

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

The declaration of conformity required pursuant to § 161 German Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code has been submitted and made available to the shareholders.

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

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

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

The present consolidated financial statement was examined by the Supervisory Board, adopted at the meeting of the Supervisory Board held on 10 March 2009 and hence released for publication.

New accounting principles

In November 2006 the IFRIC published IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions". The interpretation provides guidance on the application of IFRS 2 "Share-based Payment" to share-based payments involving an entity's own equity instruments or rights to such equity instruments granted within the group. IFRIC 11 is mandatory for financial years beginning on or after 1 March 2007. Application of the interpretation had no implications for Hannover Re's consolidated financial statement.

In July 2007 the IFRIC published IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". The interpretation provides guidance inter alia for determining the limit on the amount of a surplus in a pension plan that may be recognised as an asset pursuant to IAS 19. Application of the interpretation had no implications for Hannover Re's consolidated financial statement.

On 13 October 2008, in response to the turmoil on international capital markets, the IASB adopted and published the amendments to "IAS 39 & IFRS 7 Reclassification of Financial Assets". By way of the Regulation (EC) No. 1004/2008 the European Commission adopted the amendments in European law on 15 October 2008. The amendments permit, in particular circumstances, reclassifications of (1.) non-derivative financial assets out of the fair value through profit or loss category and (2.) financial assets classified in the available-for-sale category to the loans and receivables category, and provide for additional disclosures in this regard. Hannover Re investigated the implications of the amendments and in view of the scarcely available scope for application did not avail itself of the facilities associated with the amendments as at the balance sheet date.

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

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

In November 2006 the IASB issued IFRS 8 "Operating Segments", which replaces the previous IAS 14 "Segment Reporting". IFRS 8 requires adoption of the "management approach" for reporting on the economic position of segments. Under this approach, the segmentation and the disclosures for the segments are based on the information used internally by management for evaluating segment performance and deciding on the allocation of resources. IFRS 8 applies to financial years beginning on or after 1 January 2009. Hannover Re does not currently expect the standard to have any influence on the presentation of segments in the consolidated financial statement.

In September 2007 the IASB issued a revised IAS 1 "Presentation of Financial Statements". The revision is aimed at improving users' ability to analyse and compare the information given in financial statements. IAS 1 defines the basic principles for the presentation and structure of the annual financial statement. It also contains minimum requirements for the content of an annual financial statement. The revised standard is applicable to financial years beginning on or after 1 January 2009; early adoption is permitted.

In January 2008 the IASB published the revised versions of IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements". The new provisions primarily cover the recognition of minority interests, measurement issues in connection with successive acquisition, changes in a participating interest with or without a loss of control and adjustments to acquisition costs depending upon future events and their effects on goodwill. The revised IFRS 3 still does not apply to combinations of entities under common control. The amendments are mandatory for financial years beginning on or after 1 July 2009. As at the balance sheet date neither of these revised versions had been ratified by the European Union.

In February 2008 the amendments to IAS 32 and IAS 1 "Puttable Financial Instruments and Obligations arising on Liquidation" were published. The revised version of IAS 32 permits the balance sheet classification of puttable financial instruments as equity in the future under certain conditions. The amendment cannot be applied to the consolidated financial statement, and in particular minority interests in partnerships shall continue to be recognised as a financial liability. The amendment of IAS 1 refers to revised disclosure requirements applicable to puttable financial instruments and obligations arising on liquidation. The application of both standards is mandatory from 1 January 2009 onwards. Hannover Re does not expect the amendments to have any effect on the consolidated financial statement.

In July 2008 the IFRIC published IFRIC 16 "Hedges of a Net Investment in a Foreign Operation". This interpretation provides guidance on possible hedges of a net investment in a foreign operation and on the accounting thereof in an entity's consolidated financial statements. Application of the clarifications is mandatory for financial years beginning on or after 1 October 2008. Hannover Re does not expect application of the interpretation to have any effect on the consolidated financial statement.

3. Accounting policies

3.1 Change in accounting policies

With effect from the second quarter of 2008 onwards Hannover Re made use of the option provided for in the currently valid version of IFRS 3 to recognise outside income changes in shares in fully consolidated group companies with no change of control status. In accordance with IAS 8 the figures for the previous year have been adjusted retrospectively for the sake of comparison. As at 31 December of the previous year this change resulted in a profit reduction of EUR 12.0 million, which was attributable to the changes in shares held in E+S Rück. A reclassification was made in the same amount within retained earnings in the Group shareholders' equity of the previous year. The amount was reclassified from the net income recognised in shareholders' equity to the item "Income and expense directly recognised in equity".

3.2 Summary of major accounting policies

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

Financial assets: as a basic principle we recognise the purchase and sale of directly held financial assets including derivative financial instruments as at the settlement date.

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

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

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

Establishment of the fair value of financial instruments carried as assets or liabilities: the fair value of a financial instrument corresponds to the amount that Hannover Re would receive or pay if it were to sell or settle the said financial instrument on the balance sheet date. Insofar as market prices are listed on markets for financial instruments, these prices are used. In other cases the fair values are established on the basis of the market conditions prevailing on the balance sheet date. These fair values are calculated using recognised models of mathematical finance. Hannover Re uses a number of different valuation models, the details of which are set out in the following table.

Valuation models

Financial instrument	Pricing method	Parameter	Pricing model
Listed equity options	Listed price	–	–
OTC equity options	Theoretical price	Listing of underlying shares Implicit volatilities Money-market interest rate Dividend yield	Black-Scholes
OTC equity index options	Theoretical price	Listing of underlying shares Implicit volatilities Money-market interest rate Dividend yield	Black-Scholes
Insurance derivatives	Theoretical price	Market values of the cat. bonds Interest-rate curve	Present-value method
Credit default swaps	Theoretical price	Credit spreads Recovery rates Interest-rate curve	Present-value method

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

The fair value of fixed-income and variable-yield securities is determined primarily by means of prices fixed on publicly quoting markets or exchanges on the basis of "bid" prices. If such financial assets are not quoted on public markets, the fair value is calculated on the basis of the acknowledged effective interest rate method or estimated using other financial assets with similar credit rating, duration and return characteristics. Under the effective interest rate method the current market interest rate levels in the relevant fixed-interest-rate periods are always taken as a basis. The fair value of equities and equity-like financial assets is also calculated primarily on the basis of prices fixed on publicly quoting markets and exchanges.

Impairments: As at each balance sheet date we review our financial assets with an eye to objective, substantial indications of impairment. Permanent impairments on all fixed-income and variable-yield securities are recognised directly in the statement of income. In this context we take as a basis the same indicators as those discussed below for securities with the character of equity. Qualitative case-by-case analysis is also carried out. IAS 39.59 contains a list of objective, substantial indications for impairments of financial assets. In the case of fixed-income securities and loans reference is made, in particular, to the rating of the instrument, the rating of the issuer/borrower as well as the individual market assessment in order to establish whether they are impaired. When held-to-maturity instruments measured at amortised cost as well as loans and receivables are tested for impairment, we examine whether material items – looked at on their own – are impaired. The amount of the probable loss is arrived at from the difference between the book value of the asset and the present value of the expected future earnings flows. The book value is reduced directly by this amount and recognised as an expense. With the exception of value adjustments taken on accounts receivable, we recognize impairments directly on the assets side – without using an adjustment account – separately from the relevant items. If the reasons for the write-down cease to apply, a write-up is made in income up to at most the original amortised cost for fixed-income securities.

With respect to impairments on securities with the character of equity, IAS 39.61 (rev. 2003) states, in addition to the aforementioned principles, that a significant or prolonged decrease in fair value below acquisition cost constitutes objective evidence of impairment. Hannover Re considers securities to be impaired under IAS 39 if their fair value falls significantly, i.e. by at least 20%, or for a prolonged period, i.e. at least nine months, below acquisition cost. In accordance with IAS 39.69 the reversal of impairment losses on equities to the statement of income once impairment has been taken is prohibited, as is adjustment of the cost basis. Impairment is tested in each reporting period using the criteria defined by Hannover Re. If a security is considered to be impaired on the basis of these criteria, IAS 39.68 requires that a value adjustment be recognised in the amount of the fair value less historical cost and less prior value adjustments, meaning that depreciation is taken on the fair value as at the closing date – if available, on the publicly quoted stock exchange price.

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

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

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

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

Cash is carried at face value.

Funds held are receivables due to reinsurers from their clients in the amount of their contractually withheld cash deposits; they are recognised at acquisition cost (nominal amount). Appropriate allowance is made for credit risks.

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

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

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

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

Deferred tax assets: IAS 12 requires that assets-side deferred taxes be established if assets had to be recognised in a lower amount or liabilities in a higher amount in the consolidated balance sheet than in the tax balance sheet and if these differences will be cancelled out again for tax purposes in the future (so-called temporary differences). Deferred tax assets are also to be recognised on tax loss carry-forwards. Insofar as unrealised losses on securities are carried directly in shareholders' equity (cf. explanatory notes on financial assets held as available for sale), the resulting deferred tax assets are also recognised outside the statement of income. Valuation allowances are made for deferred tax assets as soon as realisation of the receivable no longer appears likely.

Other assets are accounted for at amortised cost.

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

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

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

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

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

Deferred tax liabilities: in accordance with IAS 12 deferred tax liabilities must be accounted for if assets are to be recognised in a higher amount or liabilities in a lower amount in the consolidated balance sheet than in the tax balance

sheet and if these differences will be cancelled out again in the future for tax purposes (so-called temporary differences).

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

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

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

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

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

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

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

3.3 Major discretionary decisions and estimates

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

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

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

For further details, for example concerning the modelling of natural catastrophe scenarios and the assumptions relating to asbestos and pollution risks, the reader is referred to our comments in Section 6 "Management of technical and financial risks". We would further refer to our explanatory remarks on the technical reserves in Section 3.2 "Summary of major accounting policies" and Section 7.2 "Technical assets and liabilities".

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

The projections, which cover various model scenarios ("conservative assumptions" versus "best estimate"), constitute the starting point for numerous areas of application encompassing quotation, the determination of carrying values and embedded values as well as contract-specific analyses, e.g. regarding the appropriateness of the recognised reinsurance liabilities ("liability adequacy test"). In this context we would refer the reader to our comments on technical assets and reserves in Section 3.2 "Summary of major accounting policies" and on the "liability adequacy test" in Section 7.2 "Technical assets and liabilities".

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

4. Consolidated companies and consolidation principles

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

In conformity with Item 7.1.4 of the recommendations of the German Corporate Governance Code as amended on 6 June 2008, the following table also lists major participations in unconsolidated third companies.

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

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

Companies included in the consolidated financial statement

Name and registered office of the company (Figures in currency units of 1,000)	Participation in %	Capital and reserves	Result for the last financial year
Affiliated companies resident in Germany			
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany ¹⁾²⁾	100.0	EUR 2,627,154	EUR –
Hannover Life Re AG, Hannover/Germany ¹⁾²⁾³⁾	100.0	EUR 621,166	EUR –
HILSP Komplementär GmbH, Hannover/Germany ¹⁾	100.0	EUR 25	EUR (3)
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover/Germany ¹⁾	100.0	EUR 22,040	EUR (443)
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover/Germany ⁴⁾	95.3	EUR 139,331	EUR 666
HAPEP II Holding GmbH, Hannover/Germany ⁴⁾	95.3	EUR 47,756	EUR 685
Hannover Re Euro PE Holdings GmbH & Co. KG, Cologne/Germany ⁴⁾⁵⁾	91.1	EUR 8,599	EUR (40)
Hannover Re Euro RE Holdings GmbH, Cologne/Germany ⁴⁾	82.1	EUR 4,025	EUR (37)
Hannover Euro Private Equity Partners III GmbH & Co. KG, Hannover/Germany ⁴⁾	67.3	EUR 49,991	EUR 7,002
HEPEP III Holding GmbH, Hannover/Germany ⁴⁾	67.3	EUR 8,229	EUR 1,369
E+S Rückversicherung AG, Hannover/Germany ¹⁾	64.2	EUR 542,281	EUR 52,000
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Hannover/Germany ⁴⁾	60.4	EUR 60,499	EUR (1,839)
Hannover Euro Private Equity Partners II GmbH & Co. KG, Hannover/Germany ⁴⁾	57.8	EUR 9,597	EUR 5,177
HEPEP II Holding GmbH, Hannover/Germany ⁴⁾	57.8	EUR 7,604	EUR 5,028

Name and registered office of the company (Figures in currency units of 1,000)	Participation in %	Capital and reserves	Result for the last financial year
Affiliated companies resident abroad			
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland ⁶⁾	100.0	EUR –	EUR –
Hannover Finance (Luxembourg) S.A., Luxembourg/Luxembourg ¹⁾	100.0	EUR 36,486	EUR (13,181)
Hannover Finance (UK) Limited, Virginia Water/United Kingdom ¹⁾	100.0	GBP 131,119	GBP (10)
Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda ¹⁾	100.0	EUR 131,355	EUR 9,214
Hannover Life Reassurance Company of America, Orlando/USA ¹⁾	100.0	USD 128,073	USD (11,357)
Hannover Life Reassurance (Ireland) Ltd., Dublin/Ireland ¹⁾	100.0	EUR 291,689	EUR (3,030)
Hannover Life Reassurance (UK) Ltd., Virginia Water/United Kingdom ¹⁾	100.0	GBP 43,958	GBP (4,275)
Hannover Life Re of Australasia Ltd., Sydney/Australia ¹⁾	100.0	AUD 191,844	AUD 39,337
Hannover Re Advanced Solutions Ltd., Dublin/Ireland ⁶⁾	100.0	EUR –	EUR –
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda ¹⁾	100.0	EUR 930,790	EUR 86,339
Hannover Reinsurance (Dublin) Ltd., Dublin/Ireland ⁶⁾	100.0	EUR 31	EUR –
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland ¹⁾	100.0	EUR 430,704	EUR 18,395
Hannover ReTakaful B.S.C. (c), Manama/Bahrain ¹⁾	100.0	BHD 20,138	BHD 515
Hannover Services (UK) Ltd., Virginia Water/United Kingdom ¹⁾	100.0	GBP 650	GBP (99)
International Insurance Company of Hannover Ltd., Bracknell/United Kingdom ¹⁾	100.0	GBP 104,621	GBP 1,916
Secquaero ILS Fund Ltd., George Town, Grand Cayman/Cayman Islands ¹⁾⁷⁾	100.0	USD 50,214	USD 214
Hannover Finance, Inc., Wilmington/USA ¹⁾⁷⁾	100.0	USD 373,848	USD (80,076)
Hannover Finance, Inc. compiles its own subgroup financial statement in which the following major company is included:			
Clarendon Insurance Group, Inc., Wilmington/USA ¹⁾⁷⁾	100.0	USD 67,518	USD (103,399)
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa ¹⁾	100.0	ZAR 156,133	ZAR 33,712
Hannover Reinsurance Group Africa (Pty) Ltd. compiles its own subgroup financial statement in which the following major companies are included:			
Hannover Life Reassurance Africa Ltd., Johannesburg/South Africa ¹⁾	100.0	ZAR 169,724	ZAR 60,091
Hannover Reinsurance Africa Ltd., Johannesburg/South Africa ¹⁾	100.0	ZAR 686,963	ZAR 76,008

Name and registered office of the company (Figures in currency units of 1,000)	Participation in %	Capital and reserves		Result for the last financial year	
Hannover Re Real Estate Holdings, Inc., Orlando/USA ¹⁾	95.2	USD	138,741	USD	(11,498)
Hannover Re Real Estate Holdings, Inc. holds a subgroup in which the following major company is included:					
5115 Sedge Corporation, Chicago/USA ¹⁾	95.2	USD	2,078	USD	200
Penates A, Ltd., Tortola/British Virgin Islands ¹⁾⁷⁾	90.4	USD	105,984	USD	(2,315)
Kaith Re Ltd., Hamilton/Bermuda ¹⁾⁷⁾	88.0	USD	296	USD	(479)
Associated companies resident in Germany					
Oval Office Grundstücks GmbH, Hannover/Germany ¹⁾	50.0	EUR	58,198	EUR	1,398
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover/Germany ⁸⁾⁹⁾	32.8	EUR	73,544	EUR	11,638
HANNOVER Finanz GmbH, Hannover/Germany ⁸⁾	25.0	EUR	80,934	EUR	11,441
Associated companies resident abroad					
ITAS Vita S.p.A., Trient/Italy ⁹⁾	34.9	EUR	64,173	EUR	146
WPG CDA IV Liquidation Trust, Grand Cayman/Cayman Islands ¹⁰⁾¹¹⁾	27.3	USD	444	USD	(461)
Participations abroad					
Globe Re Ltd., Hamilton/Bermuda ¹²⁾	15.2	USD	34,729	USD	1,729

¹⁾ Provisional (unaudited) figures²⁾ Year-end result after profit transfer³⁾ Formerly Zweite Hannover Rück Beteiligung Verwaltungs-GmbH⁴⁾ Financial year as at 30 September 2008⁵⁾ Abbreviated financial year from 10 April - 30 September 2008⁶⁾ Company is inactive and does not compile an annual report⁷⁾ IFRS figures⁸⁾ Financial year as at 31 December 2007⁹⁾ Formerly WeHaCo Unternehmensbeteiligungs-AG¹⁰⁾ Company is in liquidation¹¹⁾ Figures as at 31 August 2006¹²⁾ Unaudited US GAAP figures, abbreviated financial year from 30 May - 30 September 2008

Capital consolidation

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

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

The capital consolidation is based on the revaluation method. In the context of the "purchase accounting" method the acquisition costs of the parent company are netted with the proportionate shareholders' equity of the subsidiary at the time when it is first included in the consolidated financial statement after the revaluation of all assets and liabilities. After recognition of all acquired intangible assets that in accordance with IFRS 3 "Business Combinations" are to be accounted for separately from goodwill, the difference between the revalued shareholders' equity of the subsidiary and

the purchase price is recognised as goodwill. Under IFRS 3 scheduled amortisation is not taken on goodwill. Instead, unscheduled amortisation is taken where necessary on the basis of annual impairment tests. Immaterial and negative goodwill are recognised in the statement of income in the year of their occurrence.

Minority interests in shareholders' equity are reported separately within Group shareholders' equity in accordance with IAS 1 "Presentation of Financial Statements". The minority interest in profit or loss, which forms part of net income and is shown separately after net income as a "thereof" note, amounted to -EUR 8.0 million (EUR 116.4 million) as at 31 December 2008.

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

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

Debt consolidation

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

Consolidation of expenses and profit

The effects of business transactions within the Group were eliminated.

Consolidation of special purpose entities

Securitisation of reinsurance risks

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

Since November 2000 Hannover Re had held voting equity interests in an amount of 33.3% in the special purpose entity Mediterranean Re PLC for the securitisation of reinsurance risks in France and Monaco. The securitisation ended as per the contractual agreement on 18 November 2005. The bonds issued as security were repaid in full to investors. The additional paid-in capital was repaid to the partners. The special purpose entity was liquidated effective 5 February 2008.

Under a transaction designated "K5" Hannover Re uses the capital market to securitise reinsurance risks. The transaction was increased to USD 540.0 million in January 2008 and had a volume of EUR 386.3 million (EUR 360.2 million) as at the balance sheet date. The securitisation was placed with institutional investors in North America, Europe and Asia. The portfolio assembled for the securitisation consists of non-proportional reinsurance treaties in the natural catastrophe, aviation and marine lines, including offshore business. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is used for the transaction. The planned term of the transaction runs until 31 December 2008. In accordance with SIC 12 Kaith Re Ltd. is included in the consolidated financial statement.

In the previous year Hannover Re placed on the capital market a protection cover on its worldwide natural catastrophe business in an amount of USD 200.0 million with a term of two years. It provides Hannover Re with aggregate excess of loss coverage. The special purpose entity Kepler Re, a separate cell within Kaith Re Ltd., is used for the transaction. The volume as at the balance sheet date was EUR 143.1 million (EUR 135.9 million). The underlying portfolio consists of the natural catastrophe business retained under the existing "K5" securitisation. The cover attaches upon occurrence of an aggregated 83-year-event for "K5" and is fully utilised upon occurrence of a 250-year accumulation. Within this spread the outside investors in this and the "K5" transaction combined assume 90% of the "K5" losses, while the remaining 10% remain with Hannover Re. Hannover Re does not bear the majority of the economic benefits or risks arising out of this company's activities through any of its business relations with the special purpose entity.

In the previous year the Hannover Re Group also transferred risks from reinsurance recoverables to the capital market. By way of this securitisation in a nominal amount of EUR 95.0 million, which has a term of five years, Hannover Re reduces the default risk associated with reinsurance recoverables. The portfolio of recoverables underlying the transaction has a nominal value of EUR 1.0 billion and is comprised of exposures to retrocessionaires. The securities serving as collateral are issued through the special purpose entity Merlin CDO I B.V. A payment to Hannover Re is triggered by the insolvency of one or more retrocessionaires as soon as Hannover Re's contractually defined cumulative deductible of EUR 60.0 million over the term of the contract is exceeded. In the months of May and November 2008 Hannover Re purchased securitisations issued by Merlin with a nominal value of altogether EUR 10.5 million on the secondary market, which it holds in its asset portfolio. Hannover Re does not derive the majority of the economic benefits or risks arising out of the special purpose entity's activities through any of its business relations.

In June 2008 Hannover Re completed the first transaction as part of its extended Insurance-Linked Securities (ILS) activities. Property catastrophe risks of a number of US cedants were pooled and transferred to the capital market in several tranches. A special purpose entity named Globe Re was established in Bermuda for this transaction; it is capitalised at USD 133.0 million. Globe Re is funded through the issue of an equity tranche of USD 33.0 million and a further USD 100.0 million in bonds split into various rating categories. The term of the transaction is one year. Hannover Re has a stake of USD 5.0 million – or 15.2% – in the equity tranche. Hannover Re does not exercise a controlling influence over the special purpose entity through any of its business relations. Pursuant to IAS 28 "Investments in Associates" Globe Re is to be carried as an investment at cost or amortised cost and is recognised under other invested assets.

As a means of transferring peak exposures deriving from natural disasters to the capital market, Hannover Re issued a catastrophe ("CAT") bond that can be traded on a secondary market. The CAT bond, which has a volume of USD 150.0 million and a term of 3 years, was placed with institutional investors from Europe and North America by Eurus Ltd., a special purpose entity domiciled in the Cayman Islands. In the third quarter of 2008 Hannover Insurance-Linked Securities GmbH & Co. KG purchased catastrophe bonds issued by Eurus Ltd. with a nominal value of altogether EUR 6.0 million on the secondary market, which it holds in its asset portfolio. Hannover Re does not exercise a controlling influence over the special purpose entity through any of its business relations.

Investments

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

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

5. Major acquisitions, new formations and other corporate changes

5.1 Acquisitions and new formations

On 9 April 2008 the Cologne-based Hannover Re Euro PE Holdings GmbH & Co. KG commenced business operations. Hannover Re and E+S Rück hold interests of 75% and 25% respectively in the company. Payment of the limited partner's share in an amount of altogether EUR 4.5 million was made in the second quarter. The company's business object is to build, hold and manage a portfolio of assets.

On 19 May 2008 the Shanghai-based Hannover Rückversicherung AG Shanghai Branch commenced business operations as a permanent establishment of Hannover Re. The business object of the branch is the writing of life and health reinsurance business.

On 23 May 2008 the Seoul-based Hannover Rückversicherung AG Korea Branch commenced business operations as a permanent establishment of Hannover Re. The business object of the branch is the writing of life and health reinsurance business.

Effective 29 May 2008 Hannover Re participated as the first investor in Secquaero ILS Fund Ltd., which is domiciled in the Cayman Islands. The fund in question is a so-called "Seed Money Fund", the business object of which is to underwrite, hold and sell insurance-linked securitisations. As at the balance sheet date Hannover Re had invested altogether USD 50 million in this fund by way of several tranches. Hannover Re will consolidate this fund until such time as other investors hold the majority stake in the fund.

In the context of the sale of the interest held by Hannover Re in ITAS Assicurazioni S.p.A., a portion of the purchase price was paid by the purchaser in the form of shares in E+S Rück. The stake of 1.41% in the common shares of E+S Rück received in this way was transferred to Hannover Rück Beteiligung Verwaltungs-GmbH (HRBV) on 30 December 2008 by way of a capital increase for a non-cash contribution. Upon closing of the transaction HRBV held 64.19% of the shares in E+S Rück. Please see our explanatory remarks in Section 5.2 "Disposals and discontinued operations".

5.2 Disposals and discontinued operations

Effective 3 March 2008 HRBV, which is wholly owned by Hannover Re, reached agreement with a third party outside the Group on the sale of 1% of its stake in E+S Rück – by way of a share reduction without a change of control status – in order to intensify the business relations. In the capital consolidation as at the balance sheet date this transaction was recognised directly in equity. Please see our explanatory remarks in Section 3.1 "Change in accounting policies".

Effective 30 December 2008 Hannover Re sold its interest of 43.7% in ITAS Assicurazioni S.p.A. at book value. The proceeds from the sale totalled altogether EUR 26.4 million and were rendered in the form of a cash component amounting to EUR 7.4 million and a transfer of E+S Rück shares held by the purchaser worth EUR 19.0 million. Hannover Re transferred these shares to HRBV by way of a capital increase for a non-cash contribution. Please see our explanatory remarks in Section 5.1 "Acquisitions and new formations".

After Hannover Re had already paid out the paid-in capital of WRH Offshore High Yield Partners L.P. in the 2007 financial year and during the third quarter of 2008 by way of two distribution resolutions, the company's application for cancellation was filed on 17 December 2008. Deconsolidation of the company gave rise to a loss of altogether EUR 13.6 million, of which EUR 12.1 million was attributable to Hannover Re.

In the 2006 financial year Hannover Re reached agreement on the sale of its American subgroup Praetorian Financial Group, Inc., New York (PFG), to an Australian insurance group. Effective 31 May 2007 beneficial ownership of the assets and liabilities belonging to the subgroup classified in the previous periods as discontinued operations was transferred. They were therefore no longer recognised as at the balance sheet date. In compliance with IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations", we recognise the profit or loss of PFG in the consolidated statement of income for the previous period after tax in a separate line.

The profit or loss and net cash flows of the discontinued operations for the comparative period of the previous year are presented in the following tables and broken down into their major components.

Major items in the statement of income of the discontinued operations

Figures in EUR thousand	2008	2007
Gross written premium	–	287,114
Ceded written premium	–	318,152
Net change in gross unearned premium	–	178,494
Net premium earned	–	147,456
Net investment income	–	20,444
Net underwriting result	–	11,430
Other income and expenses	–	(7,075)
Operating profit/loss (EBIT)	–	24,799
Interest on hybrid capital	–	2,283
Net income before taxes	–	22,516
Taxes	–	11,048
Acquirer's share of current income from discontinued operations	–	12,833
Group share of current income from discontinued operations	–	11,468
Income/loss from deconsolidation (after taxes)	–	23,617
Net income	–	35,085

Statement of cash flows from the discontinued operations

Figures in EUR thousand	2008	2007
Cash flow from operating activities	–	172,834
Cash flow from investing activities	–	(18,125)
Change in cash and cash equivalents	–	154,709

5.3 Further corporate changes

Effective 1 January 2008 Hannover Rückversicherung AG, Bahrain Branch, which had received a corresponding licence in June 2007 from the Central Bank of Bahrain (CBB), commenced business operations alongside the already existing subsidiary Hannover ReTakaful B.S.C. (c), which had been established in 2006.

Effective 1 January 2008 the company name of Hannover Rückversicherung AG Succursale Française pour la Réassurance Vie, a branch of Hannover Re, was changed to Hannover Rückversicherung AG Succursale Française and the object of its business was expanded to include non-life reinsurance activities for the markets of France, Belgium and Luxembourg. The service company Hannover Re Gestion de Réassurance France S.A. was also merged into the new composite branch with effect from the same date.

Effective 1 January 2008 Hannover Re and E+S Rück, which were equal partners in GbR Hannover Rückversicherung AG/E+S Rückversicherung AG-Grundstücksgesellschaft (GbR), liquidated the company. The partnership assets of GbR were divided equally between the former partners by way of de facto splitting. The transaction had no implications for the consolidated financial statement as at 31 December 2008.

With effect from 10 January 2008 the majority interest in Hannover Re has been held in an unchanged amount (50.22%) exclusively by Talanx AG, into which both HDI Verwaltungs-Service GmbH and Zweite HDI Beteiligungsgesellschaft mbH were merged with legal force on the same date.

In the previous year Hannover Re acquired the 50% stake held by E+S Rück in Hannover Life Re of Australasia Ltd., Sydney, and thus held all shares in the company; full allowance was made for transaction costs. All intercompany profits arising out of this transaction were eliminated. Effective 31 March 2008 Hannover Re transferred its shares in the company at book value by way of a capital increase for a non-cash contribution to the former Zweite Hannover Rück Beteiligung Verwaltungs-GmbH, all shares of which were held by Hannover Re. Effective 1 July 2008 Zweite Hannover Rück Beteiligung Verwaltungs-GmbH was converted to Hannover Life Re AG, the registered office of which is in Hannover. The change in corporate form came into effect upon entry in the commercial register on 7 August 2008.

6. Management of technical and financial risks

6.1 Quantitative risk management using the internal capital model

Hannover Re's risk management makes use of appropriate quantitative simulation models. The purpose of risk quantification – using the internal capital model – is inter alia to calculate the risk capital and determine the diversification effect. We also use the model to perform scenario analyses.

In determining our capital requirement we proceed on the assumption that an AA rating is equivalent to a default probability of 0.03%. The breakdown of the risk capital is as follows:

Internal capital model for the VaR

Figures in EUR million	2008	2007
Risk		
Technical risk in non-life reinsurance	3,559.2	3,593.8
Technical risk in life and health reinsurance	663.2	662.5
Investment risk	1,730.4	1,709.7
Diversification effect	2,415.8	2,356.8
Hannover Re Group	3,537.1	3,609.2

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

Market scenarios

Figures in EUR million	Effect on forecast shareholders' equity	
	2008	2007
Rise in the overall interest rate curve, from 200 basis points for the three-month interest rate to 100 basis points for the 10-year interest rate (with a linear interpolation between the two)	(480.3)	(485.8)
Parallel upward shift in the overall interest rate curve by 100 basis points	(423.7)	(401.3)
Decline of 35% in equities	(6.0)	(584.8)
European currency crisis (1992) ¹⁾	(295.2)	(262.3)
Property crash associated with interest rate rise ¹⁾	(492.7)	(401.3)
Stock market crash (2000/2001) ¹⁾	4.1	(697.4)

¹⁾ Stress associated with the risk factors for these scenarios as specified by the Swiss Solvency Test

Stress tests for natural catastrophes after retrocessions

Figures in EUR million	Effect on forecast net income	
	2008	2007
100-year loss California earthquake	(260.2)	(222.9)
100-year loss European windstorm	(203.3)	(109.8)
100-year loss US windstorm	(279.4)	(291.5)
100-year loss Japanese windstorm	(97.7)	(95.1)
100-year loss Tokyo earthquake	(217.6)	(243.2)

6.2 Technical risks in non-life reinsurance

The underreserving of claims constitutes a significant technical risk. Loss reserves are determined using actuarial methods, primarily based on information provided by our cedants, and supplemented as necessary by additional reserves established on the basis of our own loss assessments. Especially in liability business, reserves are also set aside for claims that have been incurred but not yet reported (IBNR) owing to the long run-off periods for such claims. The additional IBNR reserve established by the Hannover Re Group amounted to EUR 3,236.2 million in the year under review. The IBNR reserve is calculated on a differentiated basis according to risk categories and regions. All in all, the anticipated ultimate loss ratios are calculated in 76 subsegments. The correct measurement of loss reserves for asbestos- and pollution-related claims is a highly complex matter since decades may elapse between causation of the loss and reporting of the claim. Hannover Re's exposure to asbestos-related claims and pollution damage is comparatively slight. The adequacy of these reserves is normally measured using the so-called "survival ratio". This ratio expresses how many years the reserves would cover if the average level of paid claims over the past three years were to continue. At the end of the year under review our survival ratio stood at 25.0 years.

Reserves for asbestos-related claims and pollution damage

	2008			2007		
	Individual loss reserves in EUR million	IBNR reserves in EUR million	Survival ratio in years	Individual loss reserves in EUR million	IBNR reserves in EUR million	Survival ratio in years
Asbestos-related claims/ pollution damage	23.0	127.2	25.0	26.5	119.2	26.2

Run-off triangles are another tool used to verify our assumptions. Such triangles show the changes over time in the reserves as a consequence of paid claims and in the recalculation of the reserves that are to be established as at each balance sheet date. Adequacy is monitored using actuarial methods (cf. here our explanatory remarks on technical reserves in Section 7.2 "Technical assets and liabilities").

The following catastrophe losses and major claims were of relevance to our company in the financial year:

Catastrophe losses and major claims

Figures in EUR million	Catastrophe losses and major claims in 2008	
	Gross	Net
Snow- and ice-storm in China, 10 January – 15 February	16.2	16.2
Flooding in Queensland/Australia, 16 – 20 January	7.1	2.3
Flooding in Queensland/Australia, 12 – 16 February	6.4	2.2
Winter storm "Emma", 1 – 2 March	17.8	13.3
Earthquake in China, 12 May	8.4	8.3
Hail in southern Germany ("Hilal"), 28 May – 3 June	55.7	55.2
Flooding in the US, 28 May – 20 June	10.0	7.2
Hailstorms in southern Germany, 22 – 23 June	12.2	12.0
Hailstorms in Slovenia, 15 August	5.4	5.4
Hurricane "Gustav", 29 August – 2 September	24.9	18.1
Hurricane "Ike", 4 – 12 September	392.8	222.1
	556.9	362.3
Industrial fire claim in the US, 5 – 6 January	8.1	8.1
Shipping accident in Brazil, 30 January	12.1	4.7
Industrial fire claim in the US, 18 February	10.7	10.7
Industrial fire claim in South Africa, 25 February	5.3	1.0
Industrial fire claim in Korea, 3 March	5.1	5.1
Industrial fire claim in Brazil, 6 March	7.5	3.6
Fraud claim in Japan, 12 March	6.6	6.6
Satellite failure, 15 March	5.2	5.2
Industrial fire claim in the US, 1 June	5.5	5.5
Energy claim in Australia, 3 June	13.2	10.3
Aviation claim in Spain, 20 August	9.6	8.7
Industrial fire claim in France/UK, 11 September	6.3	6.3
Industrial fire claim in Germany, 12 September	8.9	8.9
Industrial fire claim in Italy, 13 October	10.8	10.8
	114.9	95.5
Total	671.8	457.8

The combined ratio is tracked over time in non-life reinsurance in order to monitor the risk of losses exceeding premiums:

Combined and catastrophe loss ratio over the past ten years

Figures in %	2008 ²⁾	2007 ²⁾	2006 ²⁾	2005	2004	2003 ¹⁾	2002 ¹⁾	2001 ¹⁾	2000 ¹⁾	1999 ¹⁾
Combined ratio (non-life reinsurance)	95.4	99.7	100.8	112.8	97.2	96.0	96.3	116.5	107.8	111.1
Thereof catastrophe losses ³⁾	10.7	6.3	2.3	26.3	8.3	1.5	5.2	23.0	3.7	11.4

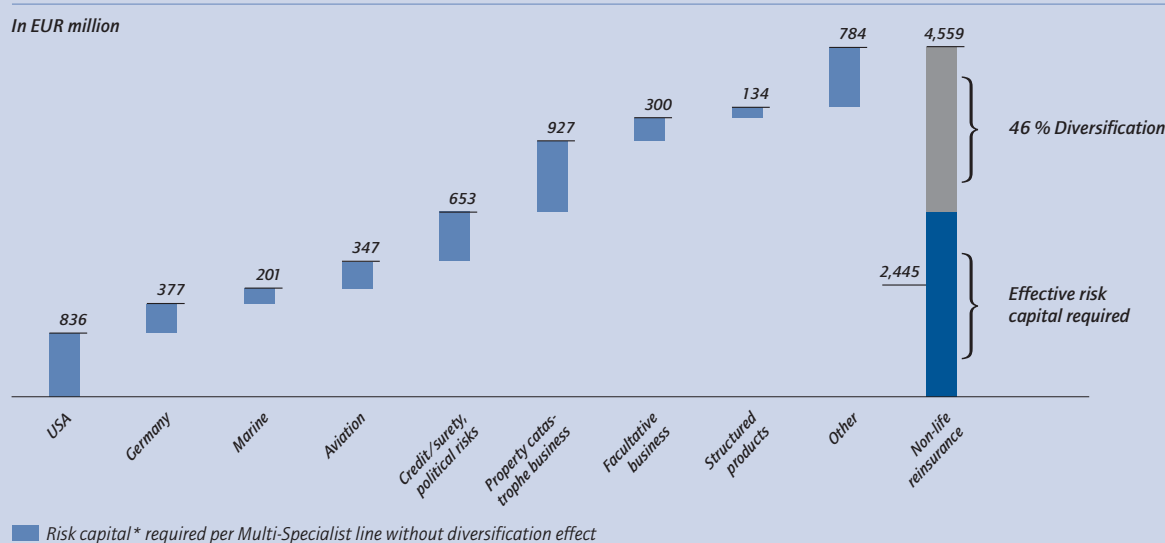
¹⁾ Based on figures reported in accordance with US GAAP

²⁾ Figures from 2006 onwards in accordance with new segmentation

³⁾ Natural catastrophes and other man-made major losses > EUR 5 million gross for the share of the Hannover Re Group as a percentage of net premium earned

As part of a holistic analysis of technical risks, the risk deriving from the accepted new business is considered in addition to the reserving risk. The risk capital for the premium and reserving risk per line of business is set out in the chart below. Risk spreading across lines of business is referred to as diversification. In this way we are able to enhance the efficiency of the allocated capital while at the same time reducing the required equity resources. Depending upon the capital required by our business segments and lines and their contribution to diversification, we define the cost of capital to be generated for each business unit.

Diversification effect within the non-life reinsurance business group



* Calibrated to the 99.97% quantile as per internal risk model; equivalent to "AA" S&P rating

Within the scope of accumulation control for natural catastrophe risks, the Executive Board defines the appetite for assuming natural hazards risks on the basis of the risk strategy derived from the overall corporate strategy. This specification of the risk appetite takes place once a year and thus constitutes a crucial basis for our underwriting approach in this segment.

For the purpose of risk limitation, maximum underwriting limits (capacities) are stipulated for various extreme loss scenarios and return periods in light of profitability criteria. Adherence to these limits is constantly monitored by Group Risk Management. The Risk Committee, Executive Board and the body responsible for managing non-life reinsurance are regularly updated on the extent to which these capacities are utilised. The limits for the 100- and 250-year aggregate annual loss as well as the utilisation thereof were as follows:

Natural catastrophes and annual aggregate loss

Figures in EUR million	Limit 2008	Actual utilisation (July 2008)
All natural catastrophe risks, net exposure		
100-year aggregate annual loss	864	93%
250-year aggregate annual loss	1.123	91%

Furthermore, we establish the portfolio risk for various scenarios (e.g. hurricanes in the US, windstorms in Europe, earthquakes in the US) in the form of probability distributions. The range of tools used for accumulation control is supplemented by the progressive inclusion of realistic extreme loss scenarios.

6.3 Technical and financial risks in life and health reinsurance

A key tool of our risk management in the area of life and health reinsurance is the European Embedded Value (EEV). The EEV is a ratio used to evaluate life insurance and reinsurance business. It is comprised of the value of in-force business and the corresponding capital. The value of in-force business is determined as the present value of the future shareholders' earnings from worldwide life and health reinsurance business after appropriate allowance for all risks underlying this business. Since the 2006 financial year the EEV has been calculated on a basis that is consistent with the market. Going forward, the Market Consistent Embedded Value (MCEV) will be determined on the basis of the principles published by the CFO Forum in June 2008. The MCEV will be published on our website at the same time as the quarterly financial report on the first quarter of 2009.

Based on the latest available data published on 6 May 2008, the following table shows the EEV and its sensitivity to selected scenarios in comparison with the corresponding figures for the previous year.

Sensitivity analysis of the European Embedded Value (EEV)¹⁾

Figures in EUR million	EEV ²⁾	
	2007	2006
EEV (base value)	2,483.9	2,089.5
Interest rate curve -100 basis points	-0.8%	+0.8%
Fair value of equities and real estate -10%	+0.0%	-0.1%
Value of local currencies +5% ³⁾	-0.7%	-0.9%
Costs -10%	+0.8%	+0.8%
Lapse -10%	+0.4%	-0.8%
Mortality -5%	+7.8%	+10.9%

¹⁾ More extensive information is provided in the EEV reports for 2006 and 2007 published on our website. The presentation is based on the principles for publication of the EEV which were published for the first time in May 2004 and subsequently further expanded in September 2005 by the CFO Forum, an international organisation of Chief Financial Officers from major insurance and reinsurance enterprises

²⁾ Before consolidation, without minority interests

³⁾ For contracts in foreign currencies

The moderate change in the EEV under the scenarios set out above is in line with our expectation and reflects our portfolio's high degree of diversification. The consolidated EEV before minority interests amounted to EUR 1,715.1 million (EUR 1,527.6 million) as at 31 December 2007, an increase of 12.3% (16.3%) compared to the corresponding figure for the previous year. Regarding the change relative to the previous year, please see our publication "European Embedded Value Report 2007". The operating embedded value earnings totalled EUR 280.0 million (EUR 185.6 million), while the value of new business stood at EUR 106.4 million (EUR 64.2 million). Leaving aside non-recurring special effects, the development relative to the previous year's figures was in line with our expectations.

6.4 Market risks

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

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

The VaR is calculated using a multi-factor model designed by APT (Advanced Portfolio Technologies). The data basis consists of all asset classes of the investment portfolios. The APT model distinguishes between three different perspectives on the expected volatility:

- Total risk: annualised volatility (expected volatility of the portfolio)
- Systematic risk: expected volatility (can be explained by model factors)
- Specific risk: residual (cannot be explained by model factors)

The model takes into account the following market risk factors:

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

Time series of selected representative market parameters (equity prices, yield curves, spread curves, exchange rates, commodity prices and macro-economic variables) serve as the database for the APT model. All correlations between these time series are reduced to up to 25 main components, which for their part are by definition linearly independent. All asset positions can be mapped in this multidimensional space. Inexplicable volatilities of individual securities make up the residual, from which the specific risk of the security is derived.

Normal market scenarios are used to calculate the Value at Risk. In addition, stress tests are conducted in order to be able to map extreme scenarios as well. In this context, the loss potentials are simulated on the basis of already occurred or notional extreme events.

Value at Risk¹⁾ in the Hannover Re Group



¹⁾ VaR upper limit according to Hannover Re's investment guidelines: 2.5%

In order to monitor interest rate risks and share price risks we also use stress tests that estimate the loss potential under extreme market conditions as well as sensitivity and duration analyses that complement our range of risk management tools. Interest rate risks refer to an unfavourable change in the value of financial assets held in the portfolio due to changes in the market interest rate level. Declining market yields lead to increases and rising market yields to decreases in the fair value of fixed-income securities portfolios. One of the central objectives of our strategy in this regard is to match cash flows on the assets and liabilities sides as closely as possible. Quantitative support for this strategy is provided by Hannover Re's internal capital model as well as a broad diversity of value at risk calculations. In addition, tightly defined tactical duration ranges are in place, within which asset managers can position themselves opportunistically according to their market expectations. The parameters for these ranges are directly linked to our risk-carrying capacity.

Scenarios for changes in the fair value of our securities

2008	Scenario	Portfolio change based on fair value in EUR million
Fixed-income securities	Yield increase +50 basis points	(345.8)
	Yield increase +100 basis points	(683.5)
	Yield decrease -50 basis points	355.9
	Yield decrease -100 basis points	720.1
	Fair value as at 31.12.2008	18,056.2

Share price risks derive from unfavourable changes in the value of equities and equity or index derivatives due, for example, to downward movements on particular stock indices. We spread these risks through systematic diversification across various sectors and regions.

Scenarios for changes in the fair value of our securities

2008	Scenario	Portfolio change based on fair value in EUR million
Equity securities	Share prices +10%	2.3
	Share prices +20%	4.5
	Share prices -10%	(2.3)
	Share prices -20%	(4.5)
	Fair value as at 31.12.2008	22.6

Currency risks are of considerable importance to an internationally operating reinsurance enterprise that writes a significant proportion of its business in foreign currencies. These risks are, however, largely neutralised since we systematically adhere to the principle of matching currency coverage.

Further information on the risk concentrations of our investments can be obtained from the tables on the rating structure of fixed-income securities as well as on the currencies in which investments are held. Please see our comments in Section 7.1 "Investments including income and expenses".

We use short-call and long-put options as well as swaps to partially hedge portfolios, especially against price, exchange and interest rate risks. In the year under review we also used derivative financial instruments to optimise our portfolio in light of risk/return considerations. The contracts are concluded solely with first-class counterparties and compliance with the standards defined in the investment guidelines is strictly controlled in order to avoid risks – especially credit risks – associated with the use of such transactions.

As a consequence of the crisis on international financial markets we took a number of further risk-minimising measures in the second half of the year under review. In this regard please see our explanatory remarks on market risks in the risk report on page 66 et seq.

6.5 Credit risks

Bad debt risks in reinsurance are of relevance to our company because the business that we accept is not always fully retained, but instead portions are retroceded as necessary. Our retrocession partners are therefore carefully selected in light of credit considerations. This is also true of our broker relationships, under which risks may occur inter alia through the loss of the premium paid by the cedant to the broker or through double payments of claims. The associated risks are therefore minimised with the aid of a number of mechanisms. For example, all broker relationships are reviewed once a year with an eye to criteria such as the existence of professional indemnity insurance, payment performance and proper contract implementation.

Hannover Re counters the risk of default on reinsurance recoverables by carefully selecting its partners with the aid of an expertly staffed Security Committee. The Security Committee continuously monitors the credit status of retrocessionaires and approves measures where necessary to secure receivables. The Group Protections unit is responsible for the Hannover Re Group's ongoing cession management. This process is supported by our "Cession Limits" Web-based risk management application. This assists with the Group's cession management by specifying cession limits for the individual retrocessionaires participating in protection cover programmes and determining the capacities still available for short-, medium- and long-term business. Depending on the type and expected run-off duration of the reinsured business, the selection of reinsurers takes account not only of the minimum ratings of the rating agencies Standard & Poor's (S&P) and A. M. Best but also internal and external (e.g. market information from brokers) expert assessments.

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

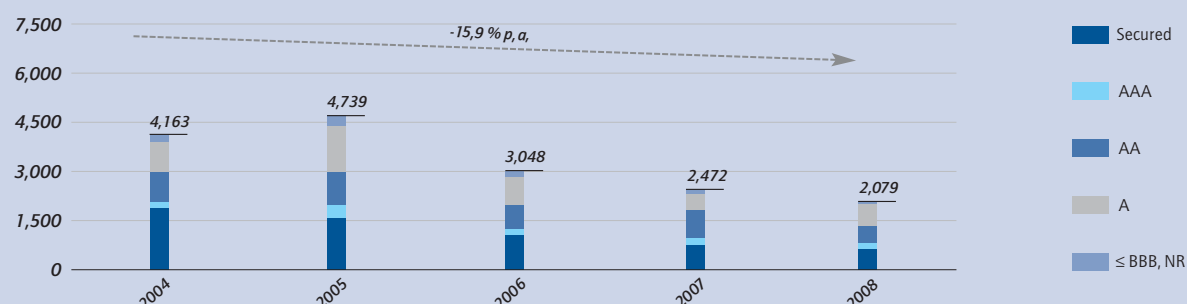
- 95.5% of our retrocessionaires have an investment grade rating (AAA to BBB), and 95.3% thereof are rated "A" or better.
- Since 2004 we have reduced the level of recoverables by altogether 50.0%.
- 30.3% of our recoverables from reinsurance business are secured by deposits or letters of credit. What is more, for the majority of our retrocessionaires we also function as reinsurer, meaning that in principle recoverables can potentially be set off against our own liabilities.
- In terms of the Hannover Re Group's major companies, EUR 290.3 million (10.4%) of our accounts receivable from reinsurance business totalling EUR 2,801.8 million were older than 90 days as at the balance sheet date.
- The average default rate over the past three years was 0.3%.

Retrocession, that is to say the passing on of portions of our assumed risks, gives rise to claims that we hold against our retrocessionaires. These reinsurance recoverables – i.e. the reinsurance recoverables on unpaid claims – amounted to EUR 2,079.2 million (EUR 2,471.6 million) as at the balance sheet date.

The following chart shows the development of reinsurance recoverables on unpaid claims:

Reinsurance recoverables as at the balance sheet date

Figures in EUR million



The chart shows the high quality of security backing our reinsurance recoverables. It also provides insight into the ratings of our retrocessionaires.

The retention, i.e. the portion of assumed risks that we do not retrocede, developed as follows in recent years:

Retention as a percentage of gross written premium

in %	2008	2007	2006	2005 ¹⁾	2004 ¹⁾
Hannover Re Group	89.1	87.4	76.3	79.2	77.6
Non-life reinsurance	88.9	85.3	72.4	85.9	83.0
Life and health reinsurance	89.3	90.8	85.4	92.8	90.2

¹⁾ Figures for 2004 – 2005 before new segmentation

The ratios shown below constitute further key tools for the monitoring and management of the credit risks associated with our entire business operations.

Key ratios

	2008	2007	2006	2005	2004
Solvency margin ¹⁾	66.7%	72.6%	68.8%	61.1%	55.1%
Debt leverage ²⁾	41.3%	35.0%	39.1%	45.8%	36.5%
Interest coverage ³⁾	1.9x	12.0x	10.5x	1.2x	8.0x
Reserves/premium ⁴⁾	312.4%	291.3%	305.2%	304.8%	274.0%
Combined ratio (non-life reinsurance)	95.4%	99.7%	100.8%	112.8%	97.2%

¹⁾ (Shareholders' equity + minority interests + hybrid capital) / net written premium

²⁾ Hybrid capital / (shareholders' equity + minority interests)

³⁾ EBIT / interest on hybrid capital

⁴⁾ Net reserves / net premium earned (Group)

For further remarks on technical and other assets which are unadjusted but considered overdue as at the balance sheet date as well as on significant unscheduled depreciation taken in the year under review please see Section 7.2 "Technical assets and liabilities" and Section 7.12 "Other assets and liabilities".

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

Rating structure of our fixed-income securities¹⁾

	Government bonds		Securities issued by semi-governmental entities		Corporate bonds		Asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	91.0	5,105.8	59.9	2,763.8	5.1	239.4	78.6	2,367.7
AA	2.3	130.0	34.1	1,572.3	20.2	939.3	13.7	414.1
A	4.3	241.3	5.1	237.4	54.9	2,553.1	1.8	54.1
BBB	2.2	123.6	0.7	30.5	14.4	668.4	2.4	71.5
< BBB	0.2	12.3	0.2	10.2	5.4	252.5	3.5	106.1
Total	100.0	5,613.0	100.0	4,614.2	100.0	4,652.7	100.0	3,013.5

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

On a fair value basis EUR 2,482.9 million of the corporate bonds held by our company were issued by entities in the financial sector. Of this amount, EUR 1,749.5 million was attributable to banks. The vast majority of these bank bonds (almost 90%) were rated "A" or better.

Against the backdrop of the US real estate crisis and credit crunch, it should be noted that our investment portfolio does not contain any directly written credit derivatives. We did not write any off-balance sheet risks through structured transactions with special purpose entities. Of our total portfolio of asset-backed securities, more than 88% were attributable to mortgage bonds, municipal bonds and collateralised debt obligations as at the balance sheet date, 5% were comprised of commercial mortgage-backed securities and 4% consisted of residential mortgage-backed securities.

The latter items, which also encompass lower-quality mortgage loans, had a fair value of altogether EUR 31.0 million as at the balance sheet date; the underlyings for these securities were in part subprime assets. The write-downs taken on this portfolio amounted to EUR 15.7 million. Similarly, the value adjustments prompted by insolvencies at financial institutions remained within comparatively modest bounds. The failures of Lehman Brothers, Washington Mutual and Bradford & Bingley caused write-downs of EUR 28.1 million. Of this amount, EUR 25.6 million was apportionable to fixed-income securities and EUR 2.5 million to equity and equity-related securities.

In addition, we would refer the reader to our comments in the risk report on risk-minimising measures taken as a consequence of the crisis on international financial markets on page 66 et seq.

6.6 Liquidity risks

We counter the liquidity risk by means of regular liquidity planning and a liquid asset structure. In this way we ensure that Hannover Re is able to make the necessary payments at all times. We manage the liquidity risk inter alia by allocating a liquidity code to every security. Adherence to the limits defined in our investment guidelines for each liquidity class is subject to daily control. The spread of investments across the various liquidity classes is specified in the monthly investment reports and controlled by limits. The proportion of investment holdings that can be liquidated on any trading day without a mark-down was almost 60% as at the balance sheet date, a reflection of the high liquidity of our portfolio. Last but not least, active liquidity management in terms of portfolio regrouping and the continuing high level of diversification has helped us to safeguard our unqualified ability to meet our payment obligations at all times in periods of financial crisis.

Weighting of major asset classes¹⁾

in %	Parameter as per investment guidelines	2008	2007
Bonds (direct holdings and investment funds)	At least 50.0	89.0	79.1
Listed equities (direct holdings and investment funds)	At most 17.5	0.1	10.1
Real estate	At most 5.0	0.1	0.1

¹⁾ Calculated on a fair value basis

For basic qualitative statements, e.g. regarding organisation of our risk management or assessment of the risk situation, please see the risk report contained in the management report.

7. Notes on the individual items of the balance sheet and statement of income

7.1 Investments including income and expenses

Investments are classified and measured in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

Hannover Re classifies investments according to the following categories: held-to-maturity, loans and receivables, financial assets at fair value through profit or loss and available-for-sale. The allocation and measurement of investments are determined by the investment intent.

The investments also encompass investments in associated companies, own-use real estate, investment property, other invested assets, short-term investments, cash and funds held/contract deposits.

In the case of financial assets that are not traded on an active market, the fair value is determined using a measurement method (e.g. effective interest rate method). The value determined in this way at time of acquisition can, however, diverge from the actual cost of acquisition. The resulting measurement difference constitutes a theoretical "day-one profit/loss". As at the balance sheet date this produced only an insignificant loss.

For further explanation please see Section 3.2 "Summary of major accounting policies".

Maturities of the fixed-income and variable-yield securities

Figures in EUR thousand	2008		2007	
	Cost or amortised cost ¹⁾	Fair value	Cost or amortised cost	Fair value
Held to maturity				
Due in one year	12,087	9,803	34,241	32,885
Due after one through two years	29,736	30,260	1,705	1,662
Due after two through three years	197,804	206,450	34,779	34,363
Due after three through four years	255,693	267,561	194,052	195,724
Due after four through five years	297,477	304,497	251,385	254,908
Due after five through ten years	673,498	728,460	962,695	966,897
Due after ten years	8,907	8,978	9,959	10,396
Total	1,475,202	1,556,009	1,488,816	1,496,835
Loans and receivables				
Due in one year	71,859	72,140	32,710	33,086
Due after one through two years	136,024	136,654	68,132	67,068
Due after two through three years	82,013	83,086	131,788	127,981
Due after three through four years	9,898	9,873	113,524	109,759
Due after four through five years	198,037	203,531	19,496	19,417
Due after five through ten years	970,241	996,374	1,037,707	1,002,324
Due after ten years	212,785	209,757	134,532	136,201
Total	1,680,857	1,711,415	1,537,889	1,495,836
Available for sale				
Due in one year ²⁾	3,496,170	3,473,225	2,921,871	2,917,572
Due after one through two years	1,947,238	1,966,672	1,407,784	1,403,733
Due after two through three years	1,725,197	1,751,528	1,214,907	1,196,631
Due after three through four years	1,217,321	1,239,933	1,273,380	1,276,467
Due after four through five years	1,867,138	1,933,328	1,377,471	1,372,244
Due after five through ten years	4,021,163	4,059,484	3,854,813	3,813,167
Due after ten years	1,344,802	1,296,606	1,796,485	1,763,484
Total	15,619,029	15,720,776	13,846,711	13,743,298
Financial assets at fair value through profit or loss				
Due in one year	68,553	65,907	66,784	66,784
Due after one through two years	4,788	4,991	29,087	29,087
Due after two through three years	71,132	70,476	–	–
Due after three through four years	641	626	–	–
Due after four through five years	56,687	58,560	–	–
Due after five through ten years	34,675	34,529	34,133	35,089
Due after ten years	23,373	19,439	27,187	27,780
Total	259,849	254,528	157,191	158,740

¹⁾ Including accrued interest²⁾ Including short-term investments and cash

The stated maturities may in individual cases diverge from the contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

Variable-rate bonds (so-called "floaters") are shown under the maturities due in one year and constitute our interest-related, within-the-year reinvestment risk.

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as held to maturity as well as their fair value

Figures in EUR thousand		2008			
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	41,342	3,181	–	641	45,164
US treasury notes	341,902	64,196	–	2,775	408,873
Other foreign government debt securities	14,268	969	–	22	15,259
Debt securities issued by semi-governmental entities	432,412	21,532	886	8,797	461,855
Corporate securities	384,156	6,033	14,518	9,142	384,813
Asset-backed securities	234,601	1,390	1,090	5,144	240,045
Total	1,448,681	97,301	16,494	26,521	1,556,009

Figures in EUR thousand		2007			
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	49,589	–	827	760	49,522
US treasury notes	322,776	20,604	–	2,628	346,008
Other foreign government debt securities	18,315	121	52	26	18,410
Debt securities issued by semi-governmental entities	426,857	9,617	2,887	8,694	442,281
Corporate securities	410,476	3,595	12,911	10,562	411,722
Asset-backed securities	232,997	–	9,241	5,136	228,892
Total	1,461,010	33,937	25,918	27,806	1,496,835

The carrying amount of the investments held to maturity is arrived at from the cost or amortised cost plus accrued interest..

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value

Figures in EUR thousand		2008			
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member state	29,410	1,228	–	407	31,045
Debt securities issued by semi-governmental entities	300,795	7,069	1,045	4,174	310,993
Corporate securities	545,536	12,509	3,005	9,410	564,450
Asset-backed securities	527,288	20,094	6,292	7,916	549,006
Other	209,102	–	–	46,819	255,921
Total	1,612,131	40,900	10,342	68,726	1,711,415

Figures in EUR thousand		2007			
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member state	29,327	80	975	563	28,995
Debt securities issued by semi-governmental entities	248,616	22	11,583	3,403	240,458
Corporate securities	558,914	1,455	18,794	11,575	553,150
Asset-backed securities	427,704	2,904	15,162	7,952	423,398
Other	215,606	–	–	34,229	249,835
Total	1,480,167	4,461	46,514	57,722	1,495,836

The carrying amount of the loans and receivables is arrived at from the cost or amortised cost plus accrued interest.

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as available for sale as well as their fair value

Figures in EUR thousand	2008				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	2,565,205	74,577	2,000	46,936	2,684,718
US treasury notes	1,831,104	136,650	7	15,269	1,983,016
Other foreign government debt securities	471,278	21,667	1,022	7,694	499,617
Debt securities of semi-governmental entities	3,654,452	156,244	12,446	61,737	3,859,987
Corporate securities	3,219,639	43,884	192,436	64,724	3,135,811
Asset-backed securities	2,222,092	32,488	121,628	41,675	2,174,627
From investment funds	179,356	11,663	45,963	–	145,056
	14,143,126	477,173	375,502	238,035	14,482,832
Equity securities					
Shares	19,711	1,830	734	–	20,807
From investment funds	1,897	82	197	–	1,782
	21,608	1,912	931	–	22,589
Short-term investments	806,718	76	–	925	807,719
Total	14,971,452	479,161	376,433	238,960	15,313,140

The carrying amounts of the fixed-income securities and equity securities classified as available for sale as well as the short-term investments allocated to this category correspond to their fair values including accrued interest.

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as available for sale as well as their fair value

Figures in EUR thousand	2007				
	Cost or amortised cost	gains	losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	901,704	4,112	5,851	16,732	916,697
US treasury notes	1,526,131	46,316	175	17,660	1,589,932
Other foreign government debt securities	376,357	2,266	2,471	3,265	379,417
Debt securities of semi-governmental entities	3,148,956	37,330	31,213	50,896	3,205,969
Corporate securities	3,384,791	26,302	117,316	64,942	3,358,719
Asset-backed securities	2,201,889	18,982	49,708	36,101	2,207,264
From investment funds	842,933	13,547	45,534	8,111	819,057
	12,382,761	148,855	252,268	197,707	12,477,055
Equity securities					
Shares	701,961	84,757	23,583	–	763,135
From investment funds	1,107,388	129,867	–	–	1,237,255
	1,809,349	214,624	23,583	–	2,000,390
Short-term investments	929,976	–	–	845	930,821
Total	15,122,086	363,479	275,851	198,552	15,408,266

Fair value of financial assets at fair value through profit or loss before and after accrued interest as well as accrued interest on such financial assets

Figures in EUR thousand	2008		
	Fair value before accrued interest	Accrued interest	Fair value
Financial assets at fair value through profit or loss			
Fixed-income securities			
Other foreign government debt securities	2,577	–	2,577
Debt securities of semi-governmental entities	7,767	332	8,099
Corporate securities	176,237	3,730	179,967
Asset-backed securities	63,880	5	63,885
	250,461	4,067	254,528
Other financial assets			
Derivatives	44,654	–	44,654
	44,654	–	44,654
Total	295,115	4,067	299,182

Figures in EUR thousand	2007		
	Fair value before accrued interest	Accrued interest	Fair value
Financial assets at fair value through profit or loss			
Fixed-income securities			
Debt securities of semi-governmental entities	9,844	331	10,175
Corporate securities	146,280	1,631	147,911
Asset-backed securities	654	–	654
	156,778	1,962	158,740
Other financial assets			
Derivatives	20,385	–	20,385
	20,385	–	20,385
Total	177,163	1,962	179,125

The carrying amounts of the financial assets allocated to this category correspond to their fair values including accrued interest.

Under financial assets at fair value through profit or loss Hannover Re recognised as at the balance sheet date the derivative financial instruments originally allocated to this item in an amount of EUR 44.7 million (EUR 20.4 million) as well as fixed-income securities amounting to EUR 254.5 million (EUR 158.7 million) designated in this category. The growth in the portfolio of fixed-income securities at fair value through profit or loss in an amount of EUR 95.8 million derived largely from the commencement of investment activities in the year under review by two Group companies whose business object is to build, hold and manage portfolios of insurance-linked securities. Analysis of the portfolio indicated that the changes in the fair value of these financial assets were not due to changes in their rating.

We additionally use an internal rating method to back up this analysis. Our internal rating system is based on the corresponding credit ratings of securities assigned by the agencies Standard & Poor's and Moody's and in each case reflects the lowest of the available ratings.

For further information please see the explanatory remarks on derivative financial instruments in this section.

Investment income

Figures in EUR thousand	2008	2007
Real estate	1,460	1,653
Dividends	43,333	40,656
Interest income on investments	736,629	759,187
Other income	48,364	57,524
Ordinary investment income	829,786	859,020
Profit or loss on shares in associated companies	4,199	11,028
Realised gains on investments	379,202	244,046
Realised losses on investments	492,756	69,735
Unrealised gains and losses on investments	(119,718)	(18,771)
Impairments/depreciation on real estate	514	545
Impairments on equity securities	356,052	34,242
Impairments on fixed-income securities	96,941	26,603
Impairments on participating interests and other financial assets	26,913	10,592
Other investment expenses	41,421	51,968
Net income from assets under own management	78,872	901,638
Interest income on funds withheld and contract deposits	336,554	259,921
Interest expense on funds withheld and contract deposits	136,967	39,813
Total investment income	278,459	1,121,746

Carrying amounts before impairment

Figures in EUR thousand	2008		2007	
	Carrying amount before impairment	Impairment	Carrying amount before impairment	Impairment
Fixed-income securities – held to maturity	1,475,202	–	1,488,816	–
Fixed-income securities – loans and receivables	1,680,857	–	1,537,889	–
Fixed-income securities – available for sale	14,579,773	96,941	12,503,658	26,603
Equity securities – available for sale	378,641	356,052	2,034,632	34,242
Participating interests and other invested assets	811,334	26,913	688,549	10,592
Total	18,925,807	479,906	18,253,544	71,437

The unscheduled impairments of EUR 479.9 million (EUR 71.4 million) were predominantly attributable to assets classified as available for sale. Of the impairments taken on fixed-income securities of EUR 96.9 million (EUR 26.6 million), an amount of EUR 15.7 million (EUR 9.6 million) related to structured products connected with the crisis on the US housing market in respect of which Hannover Re identified a risk of default. The impairments on fixed-income securities were taken largely on structured assets and determined on the basis of a case-by-case analysis. In this context consideration was given not only to pure changes in the fair value of the securities, but also to qualitative criteria. The fair value of the underlying instruments totalled EUR 77.7 million (EUR 66.8 million) as at 31 December 2008. They accounted for accrued interest of EUR 0.5 million (EUR 0.1 million) as at the balance sheet date. In addition, an impairment loss of EUR 356.1 million (EUR 34.2 million) was recognised on equities whose fair value had fallen significantly or for a prolonged period below acquisition cost. The portfolio did not contain any overdue, unadjusted assets as at the balance sheet date since overdue securities are written down immediately.

For further explanatory remarks on the impairment criteria please see Section 3.2 "Summary of major accounting policies".

Interest income on investments

Figures in EUR thousand	2008	2007
Fixed-income securities – held to maturity	59,748	66,680
Fixed-income securities – loans and receivables	52,749	45,898
Fixed-income securities – available for sale	551,848	558,477
Financial assets – at fair value through profit or loss	8,808	12,284
Other	63,476	75,848
Total	736,629	759,187

The net gains and losses on investments held to maturity, loans and receivables and the available-for-sale portfolio shown in the following table are composed of interest income, realised gains and losses and impairments. In the case of the fixed-income securities at fair value through profit or loss designated in this category and the other financial assets, which include the technical derivatives, changes in unrealised gains and losses are also recognised.

Making allowance for the other investment expenses of EUR 41.4 million (EUR 52.0 million), net income from assets under own management of altogether EUR 78.9 million (EUR 901.6 million) was recognised in the year under review.

Net gains and losses on investments

Figures in EUR thousand	2008					
	Ordinary investment income ¹⁾	Realised gains and losses	Impairments	Unrealised gains and losses	Net income from assets under own management ²⁾	Net exchange profit or loss
Held to maturity						
Fixed-income securities	65,107	–	–	–	65,107	553
Loans and receivables						
Fixed-income securities	52,900	177	–	–	53,077	4,433
Available for sale						
Fixed-income securities	564,564	87,010	96,941	–	554,633	51,686
Equity securities	41,424	(285,230)	356,052	–	(599,858)	–
Other invested assets	56,868	(625)	26,913	–	29,330	405
Short-term investments	42,333	742	–	–	43,075	(75,747)
At fair value through profit or loss						
Fixed-income securities	8,602	(2,159)	–	(73,263)	(66,820)	1,072
Other financial assets	2,436	85,123	–	26,202	113,761	–
Other	(249)	1,408	514	(72,657)	(72,012)	168
Total	833,985	(113,554)	480,420	(119,718)	120,293	(17,430)

¹⁾ Including income from associated companies, for reconciliation with the consolidated statement of income

²⁾ Excluding other investment expenses

Net gains and losses on investments

Figures in EUR thousand	2007					
	Ordinary investment income ¹⁾	Realised gains and losses	Impairments	Unrealised gains and losses	Net income from assets under own management ²⁾	Net exchange profit or loss
Held to maturity						
Fixed-income securities	74,991	(305)	–	–	74,686	28
Loans and receivables						
Fixed-income securities	46,015	934	–	–	46,949	(1,909)
Available for sale						
Fixed-income securities	572,600	(22,483)	26,603	–	523,514	2,980
Equity securities	38,169	160,366	34,242	–	164,293	–
Other invested assets	67,251	34,279	10,592	(32)	90,906	790
Short-term investments	52,496	–	–	–	52,496	(17,949)
At fair value through profit or loss						
Fixed-income securities	10,458	3,745	–	438	14,641	(671)
Other financial assets	1,412	(3)	–	(9,862)	(8,453)	–
Other	6,656	(2,222)	545	(9,315)	(5,426)	(250)
Total	870,048	174,311	71,982	(18,771)	953,606	(16,981)

¹⁾ Including income from associated companies, for reconciliation with the consolidated statement of income²⁾ Excluding other investment expenses

Valuation of the available-for-sale portfolio affecting shareholders' equity

Figures in EUR thousand	2008	2007
Changes in the other comprehensive income from fair value measurement and transactions	Other comprehensive income from investments	
Allocation to gains/losses from the fair-value measurement of the available-for-sale portfolio	347,041	103,639
Transfer of gains/losses from the fair-value measurement of the available-for-sale portfolio to the result for the period	(360,132)	(48,513)
Total	(13,091)	55,126

Rating structure of fixed-income securities

Figures in EUR thousand	2008								
	AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity	724,534	343,951	333,878	72,838	–	–	–	–	1,475,202
Fixed-income securities – loans and receivables	410,388	568,548	640,766	53,009	161	21	–	7,964	1,680,857
Fixed-income securities – available-for-sale	9,336,958	2,131,355	2,042,753	728,040	38,772	104,787	55,316	44,851	14,482,832
Fixed-income securities – at fair value through profit or loss	4,863	11,828	68,541	40,072	101,670	23,325	4,229	–	254,528
Total fixed-income securities	10,476,743	3,055,682	3,085,938	893,960	140,603	128,133	59,545	52,815	17,893,419
Derivatives	–	(5,028)	7,908	(7,899)	115	(1,803)	(18)	(25,911)	(32,636)
Total fixed-income securities incl. derivatives	10,476,743	3,050,654	3,093,846	886,061	140,718	126,330	59,527	26,904	17,860,783

Figures in EUR thousand	2007								
	AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity	708,730	319,476	379,793	80,817	–	–	–	–	1,488,816
Fixed-income securities – loans and receivables	316,530	570,013	599,189	43,687	161	20	–	8,289	1,537,889
Fixed-income securities – available-for-sale	6,753,511	2,953,584	1,849,507	493,561	27,020	244,497	7,417	147,958	12,477,055
Fixed-income securities – at fair value through profit or loss	1,445	26,143	32,559	37,821	26,649	30,715	–	3,408	158,740
Total fixed-income securities	7,780,216	3,869,216	2,861,048	655,886	53,830	275,232	7,417	159,655	15,662,500
Derivatives	–	(701)	8,908	(1,555)	(1,138)	(41)	(1)	(979)	4,493
Total fixed-income securities incl. derivatives	7,780,216	3,868,515	2,869,956	654,331	52,692	275,191	7,416	158,676	15,666,993

The maximum credit risk of the items shown here corresponds to their carrying amounts.

Investments were held in the following currencies:

Figures in EUR thousand	2008								
	AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
Fixed-income securities – held to maturity	10,054	27,570	819,602	29,821	–	577,247	10,908	–	1,475,202
Fixed-income securities – loans and receivables	–	139	1,530,599	16,189	–	127,702	–	6,228	1,680,857
Fixed-income securities – available-for-sale	679,117	325,065	5,746,278	1,119,426	92,903	6,009,523	163,126	347,394	14,482,832
Fixed-income securities – at fair value through profit or loss	–	–	66,518	–	–	164,860	23,150	–	254,528
Equity securities – available-for-sale	1,916	1,266	15,393	2,855	–	602	557	–	22,589
Other financial assets – at fair value through profit or loss	–	–	40,740	–	–	3,914	–	–	44,654
Other invested assets	–	–	439,864	29	–	497,870	852	–	938,615
Short-term investments, cash	63,181	20,335	159,208	56,893	23,747	730,012	52,060	132,508	1,237,944
Total investments and cash	754,268	374,375	8,818,202	1,225,213	116,650	8,111,730	250,653	486,130	20,137,221

Figures in EUR thousand	2007								
	AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
Fixed-income securities – held to maturity	12,136	32,717	841,003	39,073	–	544,911	18,976	–	1,488,816
Fixed-income securities – loans and receivables	–	7,095	1,415,113	21,155	–	67,034	–	27,492	1,537,889
Fixed-income securities – available-for-sale	706,327	386,111	4,404,086	1,184,578	61,008	5,257,713	168,690	308,542	12,477,055
Fixed-income securities – at fair value through profit or loss	–	–	39,821	–	–	118,919	–	–	158,740
Equity securities – available-for-sale	13,939	3,160	1,517,465	8,561	–	434,455	20,290	2,520	2,000,390
Other financial assets – at fair value through profit or loss	–	–	20,385	–	–	–	–	–	20,385
Other invested assets	–	–	372,331	1,182	–	489,065	3,180	–	865,758
Short-term investments, cash	43,198	24,881	245,128	69,007	25,407	725,038	59,836	73,748	1,266,243
Total investments and cash	775,600	453,964	8,855,332	1,323,556	86,415	7,637,135	270,972	412,302	19,815,276

The maximum credit risk of the items shown here corresponds to their carrying amounts.

Derivative financial instruments

Derivatives are financial instruments, the fair value of which is derived from an underlying instrument such as equities, bonds, indices or currencies. We use derivative financial instruments to a limited extent in order to hedge parts of our portfolio against interest rate and market price risks, optimise returns or realise intentions to buy/sell. In this context we take special care to limit the risks, select first-class counterparties and adhere strictly to the standards defined by investment guidelines.

The fair values of the derivative financial instruments were determined on the basis of the market information available at the balance sheet date and using the effective interest rate method. If the underlying transaction and the derivative are not carried as one unit, the derivative is recognised under other financial assets at fair value through profit or loss or under the other liabilities.

In the course of the year put options and short positions on call options were entered into on stock indices. All positions were liquidated by no later than November 2008. The transactions gave rise to realised gains of EUR 85.1 million.

Derivative financial instruments in connection with reinsurance

A small number of treaties in life and health reinsurance meet criteria which require application of the prescriptions in IFRS 4.7 to 4.9 governing embedded derivatives. These accounting regulations require that certain derivatives embedded in reinsurance contracts be separated from the underlying insurance contract ("host contract"), reported separately at fair value in accordance with IAS 39 and recognised under investments. Fluctuations in the fair value of the derivative components are to be recognised in income in subsequent periods.

Within the scope of the accounting of "modified coinsurance" and "coinsurance funds withheld" (Modco) reinsurance treaties, under which securities deposits are held by the ceding companies and payments rendered on the basis of the income from certain securities of the ceding company, the interest-rate risk elements are clearly and closely related to the underlying reinsurance arrangements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio.

Hannover Re calculates the fair value of the embedded derivatives in Modco treaties using the market information available on the valuation date on the basis of a "credit spread" method. Under this method the derivative is valued at zero on the date when the contract commences and its value then fluctuates over time according to changes in the credit spreads of the securities. The derivative had a negative value of EUR 89.1 million (EUR 13.0 million) as at the balance sheet date and was recognised under other liabilities. The charge to investment income from the derivative amounted to altogether EUR 72.1 million (EUR 20.0 million) before tax as at the balance sheet date. This development can be attributed principally to the sustained widening of the credit spreads in the year under review – especially in the fourth quarter.

The derivative components of another group of contracts in the area of life and health reinsurance were measured on the basis of stochastic considerations. The measurement produced a positive derivative value of EUR 11.1 million (EUR 12.7 million) on the balance sheet date. The derivative was recognised under other financial assets at fair value through profit or loss. The valuation resulted in a charge against investment income of EUR 1.5 million (EUR 0.7 million) as at 31 December 2008.

Pursuant to IAS 39.9 the "Eurus" transaction gives rise to a derivative, the fair value of which as at 31 December 2008 was EUR 3.9 million (-EUR 2.9 million) and which we recognised under other financial assets at fair value through profit or loss as at the balance sheet date. Measurement resulted in an improvement of EUR 6.9 million in investment income (previous year: charge to investment income of EUR 3.0 million) in the year under review. We would refer the reader to the explanatory remarks in Section 4 "Consolidated companies and consolidation principles" regarding the securitisation of reinsurance risks.

The "Merlin" transaction also gives rise to a derivative, the fair value of which as at the balance sheet date was EUR 29.6 million (EUR 5.8 million) and which we recognised under other financial assets at fair value through profit or loss. Measurement of this derivative resulted in an increase in investment income of EUR 23.8 million (EUR 5.8 million) in the year under review. We would refer the reader to the explanatory remarks in Section 4 "Consolidated companies and consolidation principles" regarding the securitisation of reinsurance risks.

All in all, application of the standards governing the carrying of derivatives in connection with the technical account led to recognition of assets totalling EUR 44.7 million (EUR 18.5 million) as well as recognition of liabilities from the derivatives resulting from technical items in an amount of EUR 91.2 million (EUR 15.9 million) as at the balance sheet date. Increases in investment income amounting to EUR 30.7 million (EUR 5.8 million) as well as charges to income of EUR 76.7 million (EUR 23.7 million) were brought to account from derivatives in connection with the technical account in the year under review.

Associated companies

Investments in associated companies

Figures in EUR thousand	2008	2007
Net book value at 31 December of the previous year	170,839	166,646
Currency translation at 1 January	(756)	(271)
Balance at 1 January of the year under review	170,083	166,375
Additions	356	–
Disposals	28,545	94
Adjustment recognised in income	(11,412)	3,819
Adjustment recognised outside income	(1,962)	743
Currency translation at 31 December	160	(4)
Net book value at 31 December of the year under review	128,680	170,839

Public price listings are not available for companies valued at equity. The net book value of associated companies includes goodwill in the amount of EUR 17.9 million (EUR 21.6 million). For further details of our major participating interests please see Section 4 "Consolidated companies and consolidation principles".

The recognised disposals of EUR 28.5 million include the sale of ITAS Assicurazioni S.p.A., Trento, Italy. In this regard and for further information on our major participating interests please see Section 5 "Major acquisitions, new formations and other corporate changes".

Real estate

Real estate is divided into real estate for own use and third-party use (investment property). The real estate in the portfolio which is used to generate income is shown under the investments. Real estate is valued at cost of acquisition less scheduled depreciation with useful lives of at most 50 years. Own-use real estate is recognised under other assets.

Income and expenses from rental agreements are included in the investment income.

Development of investment property

Figures in EUR thousand	2008	2007
Gross book value at 31 December of the previous year	41,370	42,215
Currency translation at 1 January	431	(957)
Gross book value after currency translation at 1 January of the year under review	41,801	41,258
Additions	7,028	166
Disposals	–	58
Reclassification	(3,571)	–
Currency translation at 31 December	–	4
Gross book value at 31 December of the year under review	45,258	41,370
Cumulative depreciation at 31 December of the previous year	24,408	24,236
Currency translation at 1 January	148	(302)
Cumulative depreciation after currency translation at 1 January of the year under review	24,556	23,934
Depreciation		
scheduled	514	545
Disposals	–	57
Reclassification	(1,444)	–
Currency translation at 31 December	14	(14)
Cumulative depreciation at 31 December of the year under review	23,640	24,408
Net book value at 31 December of the previous year	16,962	17,979
Net book value at 1 January of the year under review	17,245	17,324
Net book value at 31 December of the year under review	21,618	16,962

In addition, we held indirect real estate investments for the first time in the year under review in an amount of EUR 3.9 million.

The fair value of investment property amounted to EUR 23.9 million (EUR 21.3 million) as at the balance sheet date. The market value of the real estate was determined using the discounted cash flow method.

Other invested assets

The other invested assets consisted largely of participating interests in partnerships measured at fair value in an amount of EUR 622.6 million (EUR 528.2 million). The amortised cost of these participations amounted to EUR 504.6 million (EUR 385.2 million); in addition, unrealised gains of EUR 135.8 million (EUR 155.1 million) and unrealised losses of EUR 17.8 million (EUR 12.1 million) were recognised from these participations.

Short-term investments

This item comprises investments with a maturity of up to one year.

7.2 Technical assets and liabilities

Technical assets

The retrocessionaires' portions of the technical provisions are based on the contractual agreements of the underlying reinsurance treaties. For further details please refer to our comments on the technical provisions in this section as well as to the explanatory remarks in Section 6 "Management of technical and financial risks".

SFAS 60 "Accounting and Reporting by Insurance Enterprises" requires that acquisition costs be capitalised as assets and amortised via the statement of income in proportion to the earned premium.

In the case of reinsurance treaties for unit-linked life insurance policies classified as "universal life-type contracts" pursuant to SFAS 97, the capitalised acquisition costs are amortised on the basis of the estimated gross profit margins from the reinsurance treaties, making allowance for the period of the insurance contracts. A discount rate based on the interest for medium-term government bonds was applied to such contracts. In the case of annuity policies with a single premium payment, these values refer to the expected policy period or period of annuity payment.

In life and health reinsurance the deferred acquisition costs associated with life and annuity policies with regular premium payments are determined in light of the period of the contracts, the expected surrenders, the lapse expectancies and the anticipated interest income.

In non-life reinsurance acquisition costs directly connected with the acquisition or renewal of contracts are deferred for the unearned portion of the premium.

Development of deferred acquisition costs

Figures in EUR thousand	2008	2007
Net book value at 31 December of the previous year	1,807,143	1,980,102
Currency translation at 1 January	(100,923)	(94,434)
Balance at 1 January of the year under review	1,706,220	1,885,668
Changes in consolidated group	(77)	–
Additions	538,673	408,643
Amortisations	411,062	491,650
Portfolio entries/exits	12,551	(128)
Currency translation at 31 December	14,478	4,610
Net book value at 31 December of the year under review	1,860,783	1,807,143

For further explanatory remarks please see Section 3.2 "Summary of major accounting policies".

The age structure of the accounts receivable which were unadjusted but considered overdue as at the balance sheet date is presented below:

Age structure of overdue accounts receivable

Figures in EUR thousand	2008		2007	
	Three months to one year	More than one year	Three months to one year	More than one year
Accounts receivable	55,986	79,077	92,345	64,535

Within the scope of our management of receivables we expect to receive payment of accounts receivable within three months of the date of creation of the debit entry – a period for which we also make allowance in our risk analysis. Please see our comments in Section 6.5 "Credit risks".

The default risks associated with accounts receivable under reinsurance business are determined and recognised on the basis of case-by-case analysis.

The value adjustments on accounts receivable that we recognise in adjustment accounts changed as follows in the year under review:

Value adjustments on accounts receivable

Figures in EUR thousand	2008	2007
Changes in value adjustments		
Cumulative value adjustments at 31 December of the previous year	127,733	76,626
Currency translation	(2,011)	5,839
Cumulative value adjustments after currency translation	129,744	70,787
Value adjustments in the year under review	46,949	52,534
Write-ups	26,203	18,709
Allocation/reversal	(24,917)	23,121
Cumulative value adjustments at 31 December of the year under review	125,573	127,733
Gross book value of accounts receivable at 31 December of the year under review	2,927,335	2,653,604
Value adjustments	125,573	127,733
Net book value of accounts receivable at 31 December of the year under review	2,801,762	2,525,871

In addition, we took specific value adjustments on reinsurance recoverables on unpaid claims in the year under review. We would refer the reader to the corresponding remarks on the loss and loss adjustment expense reserve in this section.

With regard to the credit risks resulting from technical assets we would also refer the reader to our comments in Section 6 "Management of technical and financial risks".

Technical reserves

In order to show the net technical provisions remaining in the retention the following table compares the gross provisions with the corresponding retrocessionaires' shares shown as assets.

Technical provisions

Figures in EUR thousand	2008			2007		
	Gross	Retro	Net	Gross	Retro	Net
Loss and loss adjustment expense reserve	16,932,069	2,079,168	14,852,901	16,553,888	2,471,585	14,082,303
Benefit reserve	5,913,075	159,151	5,753,924	6,143,460	255,076	5,888,384
Unearned premium reserve	1,333,856	29,733	1,304,123	1,186,382	92,322	1,094,060
Other technical provisions	156,996	9,928	147,068	183,725	5,574	178,151
Total	24,335,996	2,277,980	22,058,016	24,067,455	2,824,557	21,242,898

The loss and loss adjustment expense reserves are in principle calculated on the basis of the information supplied by ceding companies. Additional IBNR reserves are established for losses that have been incurred but not as yet reported.

Technical provisions were discounted at interest rates of between 6.5% and 8.5% (6.5% and 8.2%) with respect to a certain group of contracts relating to the Hannover Re Advanced Solutions division. The interest rates are determined by the contractual agreements. The period from inception to expiry of such contracts is at least four years. The discounted amount totalled EUR 0.2 million (EUR 3.3 million). The discounted provisions as at year-end 2008 amounted to EUR 4.2 million (EUR 25.9 million).

The development of the loss and loss adjustment expense reserve is shown in the following table. Commencing with the gross reserve, the change in the reserve after deduction of the reinsurers' portions is shown in the year under review and the previous year.

Loss and loss adjustment expense reserve

Figures in EUR thousand	2008			2007		
	Gross	Retro	Net	Gross	Retro	Net
Net book value at 31 December of the previous year	16,553,888	2,471,585	14,082,303	17,596,325	3,048,496	14,547,829
Currency translation at 1 January	(84,534)	44,227	(128,761)	(1,189,614)	(265,602)	(924,012)
Reserve at 1 January of the year under review	16,469,354	2,515,812	13,953,542	16,406,711	2,782,894	13,623,817
Incurred claims and claims expenses (net) ¹⁾						
Year under review	4,039,386	451,563	3,587,823	3,704,393	329,803	3,374,590
Previous years	1,202,333	65,689	1,136,644	2,065,334	421,135	1,644,199
	5,241,719	517,252	4,724,467	5,769,727	750,938	5,018,789
Less:						
Claims and claims expenses paid (net)						
Year under review	(1,079,533)	(386,532)	(693,001)	(1,675,688)	(135,737)	(1,539,951)
Previous years	(3,817,633)	(550,663)	(3,266,970)	(3,988,628)	(971,697)	(3,016,931)
	(4,897,166)	(937,195)	(3,959,971)	(5,664,316)	(1,107,434)	(4,556,882)
Change in consolidated group	3,867	2,609	1,258	–	–	–
Specific value adjustment for retrocessions	–	20,212	(20,212)	–	(27,061)	27,061
Portfolio entries / exits	(9,337)	–	(9,337)	(4,094)	291	(4,385)
Currency translation at 31 December	123,632	902	122,730	45,860	17,835	28,025
Net book value at 31 December of the year under review	16,932,069	2,079,168	14,852,901	16,553,888	2,471,585	14,082,303

¹⁾ Including expenses recognised directly in shareholders' equity

In the year under review specific value adjustments on retrocessions, i.e. on the reinsurance recoverables on unpaid claims, were on balance established in an amount of EUR 20.2 million (previous year: reversal of EUR 27.1 million). Consequently, cumulative specific value adjustments of EUR 46.7 million (EUR 26.4 million) were recognised in these reinsurance recoverables as at the balance sheet date.

The total amount of the net reserve before specific value adjustments, to which the following remarks apply, was EUR 14,806.2 million (EUR 14,055.9 million) as at the balance sheet date.

The table below shows the net loss reserve (loss and loss adjustment expense reserve) for non-life reinsurance in the years 1998 to 2008 as well as the run-off of the reserve (so-called run-off triangle).

To some extent the loss and loss adjustment expense reserves are inevitably based upon estimations that entail an element of uncertainty. The difference between the previous year's and current estimates is reflected in the net run-off result. In addition, owing to the fact that the period of some reinsurance treaties is not the calendar year or because they are concluded on an underwriting-year basis, it is frequently impossible in reinsurance business to make an exact allocation of claims expenditures to the current financial year and the previous year. Consequently, the development of earlier years – and especially the immediately preceding year – may be distorted. In our assessment, therefore, informative analyses can only be performed after the elapse of at least two years.

The development of the euro relative to the most relevant foreign currencies is also a significant influencing factor in this context. In particular, despite the opposing effects of other major foreign currencies, the appreciation of +5.0% in the US dollar against the euro compared to the previous year led to a slight increase in the loss and loss adjustment expense reserve on a euro basis.

The run-off triangles show the run-off of the reserve established as at each balance sheet date, this reserve comprising the provisions constituted in each case for the current and preceding occurrence years. The run-off of the reserve for individual occurrence years is not shown in this regard, but rather the run-off of the reserve constituted annually in the balance sheet as at the balance sheet date.

Net loss reserve and its run-off

Figures in EUR million	1998 31.12.	1999 31.12.	2000 31.12.	2001 31.12.	2002 31.12.	2003 31.12.	2004 31.12.	2005 31.12.	2006 31.12.	2007 31.12.	2008 31.12.
Loss and loss adjustment expense reserve (from balance sheet)	5,913.1	7,012.5	8,482.0	12,182.7	12,863.4	13,462.2	13,120.7	14,295.9	13,279.8	12,718.2	13,354.1
Cumulative payments for the year in question and previous years											
One year later	1,448.3	1,583.3	2,108.2	2,242.2	2,118.1	3,622.7	4,495.8	3,051.1	2,664.8	2,476.2	
Two years later	2,230.6	2,497.7	3,111.9	3,775.1	5,024.4	7,322.2	6,611.0	5,072.2	4,389.8		
Three years later	2,711.7	3,226.2	4,174.2	6,032.1	7,764.8	8,780.2	7,590.1	6,204.5			
Four years later	3,186.5	3,897.6	5,745.1	8,588.5	8,909.0	9,518.8	8,356.3				
Five years later	3,561.1	5,119.7	7,581.3	9,399.8	9,467.1	10,101.6					
Six years later	4,341.1	6,146.0	8,114.1	9,786.1	9,896.7						
Seven years later	4,816.5	6,509.9	8,405.2	10,122.4							
Eight years later	5,122.7	6,785.1	8,610.9								
Nine years later	5,311.4	6,915.0									
Ten years later	5,409.6										
Loss and loss adjustment expense reserve (net) for the year in question and previous years plus payments made to date on the original reserve											
End of year	5,913.1	7,012.5	8,482.0	12,182.7	12,863.4	13,462.2	13,120.7	14,295.9	13,279.8	12,718.2	13,354.1
One year later	6,363.0	7,525.6	9,421.6	11,604.4	11,742.7	13,635.5	14,433.1	13,074.2	12,365.8	12,171.4	
Two years later	6,539.5	7,750.5	8,878.0	10,477.4	11,844.8	14,236.6	13,532.6	12,366.0	11,868.5		
Three years later	6,512.1	7,311.6	8,186.1	10,743.8	12,373.3	13,596.5	13,061.2	11,977.1			
Four years later	6,232.7	6,769.4	8,354.1	11,543.6	11,730.7	13,307.4	12,770.8				
Five years later	5,772.0	6,820.9	9,102.6	11,051.2	11,666.2	13,122.5					
Six years later	5,694.2	7,368.0	8,755.6	11,164.1	11,686.0						
Seven years later	6,036.4	7,142.1	8,864.3	11,219.1							
Eight years later	5,841.2	7,212.2	8,935.7								
Nine years later	5,860.7	7,267.8									
Ten years later	5,901.8										
Net run-off result of the loss reserve	(41.1)	(55.6)	(71.4)	(55.0)	(19.9)	184.9	290.4	388.9	497.9	546.7	
Of which currency exchange rate differences	(13.0)	(19.1)	(17.1)	27.8	30.8	10.4	(1.9)	14.6	33.1	24.5	
Net run-off result excluding currency exchange rate differences	(54.0)	(74.7)	(88.5)	(27.1)	10.9	195.3	288.5	403.5	530.9	571.3	
As percentage of original loss reserve	(0.9)	(1.0)	(1.0)	(0.2)	0.1	1.5	2.2	3.3	4.3	4.5	

Duration of the technical reserves

IFRS 4.38 in conjunction with 4.39(d) requires information which helps to clarify the amount and timing of cash flows expected from reinsurance contracts. In the following tables we have shown the future maturities of the technical reserves and broken them down by the expected remaining durations. As part of our duration analysis we have directly deducted the deposits put up as security for these reserves, since the cash inflows and outflows from these deposits are to be allocated directly to the ceding companies. For further explanation of the recognition and measurement of the reserves please see Section 3.2 "Summary of major accounting policies".

Maturities of the technical reserves

Figures in EUR thousand	2008					
	Loss and loss adjustment expense reserves			Benefit reserve		
	Gross	Retro	Net	Gross	Retro	Net
Due in one year	4,550,519	632,338	3,918,181	140,488	2,335	138,153
Due after one through five years	6,548,143	871,076	5,677,067	211,262	35,046	176,216
Due after five through ten years	2,346,469	243,109	2,103,360	308,077	2,154	305,923
Due after ten through twenty years	1,869,407	190,691	1,678,716	481,841	4,403	477,438
Due after twenty years	985,265	54,036	931,229	423,293	3,182	420,111
	16,299,803	1,991,250	14,308,553	1,564,961	47,120	1,517,841
Deposits	632,266	134,666	497,600	4,348,114	112,031	4,236,083
Total	16,932,069	2,125,916	14,806,153	5,913,075	159,151	5,753,924

Figures in EUR thousand	2007					
	Loss and loss adjustment expense reserves			Benefit reserve		
	Gross	Retro	Net	Gross	Retro	Net
Due in one year	4,273,520	784,908	3,488,612	96,918	1,149	95,769
Due after one through five years	6,102,419	965,745	5,136,674	204,984	6,561	198,423
Due after five through ten years	2,040,895	267,452	1,773,443	311,282	32,723	278,559
Due after ten through twenty years	1,884,577	261,773	1,622,804	602,423	10,077	592,346
Due after twenty years	1,496,619	62,866	1,433,753	375,428	5,750	369,678
	15,798,030	2,342,744	13,455,286	1,591,035	56,260	1,534,775
Deposits	755,858	155,280	600,578	4,552,425	198,816	4,353,609
Total	16,553,888	2,498,024	14,055,864	6,143,460	255,076	5,888,384

The average duration of the loss and loss adjustment expense reserves was 5.5 years (6.1 years), or 5.7 years (6.4 years) after allowance for the corresponding retrocession shares. The benefit reserve had an average duration of 14.2 years (13.2 years) – or 14.4 years (13.3 years) on a net basis.

The average duration of the reserves is determined using actuarial projections of the expected future payments. A payment pattern is calculated for each homogenous category of our portfolio – making allowance for the business sector, geographical considerations, treaty type and the type of reinsurance – and applied to the outstanding liabilities for each underwriting year and run-off status.

The payment patterns are determined with the aid of actuarial estimation methods and adjusted to reflect changes in payment behaviour and outside influences. The calculations can also be distorted by major losses, and these are therefore considered separately using reference samples or similar losses. The payment patterns used can be compared year for year by contrasting the projected payments with the actual amounts realised.

Liabilities in liability and motor reinsurance traditionally have long durations, sometimes in excess of 20 years, while liabilities in property business are settled within the first ten years.

The benefit reserve is established for life, annuity, personal accident and health reinsurance contracts. Based on the duration of these contracts, long-term reserves are constituted for life and annuity policies and predominantly short-term reserves are set aside for health and personal accident business.

The benefit reserve is calculated on the basis of the following parameters:

1. interest income;
2. lapse rates;
3. mortality and morbidity rates.

The values for the first two components differ according to the country concerned, product type, investment year etc. The mortality and morbidity rates used are chosen on the basis of national tables and the insurance industry standard. Empirical values for the reinsured portfolio, where available, are also taken into consideration. In this context insights into the gender, age and smoker structure are incorporated into the calculations, and allowance is also made for factors such as product type, sales channel and the frequency of premium payment by policyholders.

At the inception of every reinsurance contract, assumptions about the three parameters are made and locked in for the purpose of calculating the benefit reserve. At the same time, safety / fluctuation loadings are built into each of these components. In order to ensure at all times that the originally chosen assumptions continue to be adequate throughout the contract, checks are made on a regular – normally annual – basis in order to determine whether these assumptions need to be adjusted ('unlocked').

The benefit reserve is established in accordance with the principles set out in SFAS 60. The provisions are based on the Group companies' information regarding mortality, interest and lapse rates.

Development of the benefit reserve

Figures in EUR thousand	2008			2007		
	Gross	Retro	Net	Gross	Retro	Net
Net book value at 31 December of the previous year	6,143,460	255,076	5,888,384	6,109,154	447,537	5,661,617
Currency translation at 1 January	(483,382)	(3,106)	(480,276)	(324,136)	(3,763)	(320,373)
Reserve at 1 January of the year under review	5,660,078	251,970	5,408,108	5,785,018	443,774	5,341,244
Changes	454,040	32,698	421,342	436,704	38,770	397,934
Portfolio entries / exits	(147,315)	(125,628)	(21,687)	(58,727)	(227,707)	168,980
Currency translation at 31 December	(53,728)	111	(53,839)	(19,535)	239	(19,774)
Net book value at 31 December of the year under review	5,913,075	159,151	5,753,924	6,143,460	255,076	5,888,384

The unearned premium reserve derives from the deferral of ceded reinsurance premium. The unearned premium is determined by the period during which the risk is carried and established in accordance with the information supplied by ceding companies. In cases where no information was received, the unearned premium was estimated using suitable methods. Premium paid for periods subsequent to the date of the balance sheet was deferred from recognition within the statement of income.

Development of unearned premium reserve

Figures in EUR thousand	2008			2007		
	Gross	Retro	Net	Gross	Retro	Net
Net book value at 31 December of the previous year	1,186,382	92,322	1,094,060	1,581,034	339,096	1,241,938
Currency translation at 1 January	(16,191)	(499)	(15,692)	(131,539)	(32,980)	(98,559)
Reserve at 1 January of the year under review	1,170,191	91,823	1,078,368	1,449,495	306,116	1,143,379
Changes in consolidated group	1,866	1,328	538	–	–	–
Changes	113,480	(59,193)	172,673	(298,490)	(227,511)	(70,979)
Portfolio entries / exits	31,608	94	31,514	(664)	(108)	(556)
Currency translation at 31 December	16,711	-4,319	21,030	36,041	13,825	22,216
Net book value at 31 December of the year under review	1,333,856	29,733	1,304,123	1,186,382	92,322	1,094,060

The adequacy of the technical liabilities arising out of our reinsurance treaties is reviewed as at each balance sheet date. As part of the adequacy test for technical liabilities the anticipated future contractual payment obligations are compared with the anticipated future income. Hannover Re adopts the "loss recognition" method set out under US GAAP. Should the result of the test indicate that the anticipated future income will not be sufficient to fund future payments, the entire shortfall is recognised in income by first writing off capitalised acquisition costs corresponding to the shortfall. Any remaining difference is constituted as an additional provision.

7.3 Funds held/contract deposits and contracts without sufficient technical risk

IFRS 4 in conjunction with SFAS 113 "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts" requires insurance contracts that transfer a significant technical risk from the ceding company to the reinsurer to be differentiated from those under which the risk transfer is of merely subordinate importance. Hannover Re adopts the same approach in its recognition of funds held / contract deposits by separating funds held under insurance contracts with a significant risk transfer from contract deposits in respect of which the risk transfer is of subordinate importance.

Funds held

Funds held under insurance contracts that satisfy the requirements of both IFRS 4 and SFAS 113 in relation to the risk transfer from the ceding company to the reinsurer are recognised under this item.

The funds held by ceding companies totalling EUR 9,776.1 million (EUR 8,610.6 million) represent the cash and securities deposits furnished by our company to our cedants that do not trigger any cash flows and cannot be used by cedants without our consent. The durations of these deposits are matched to the corresponding provisions. In the event of default on such a deposit our reinsurance commitment is reduced to the same extent. The rise in funds held by ceding companies was attributable principally to increased new business in the area of non-traditional life reinsurance.

The funds held under reinsurance treaties totalling EUR 566.0 million (EUR 956.9 million) represent the cash and securities deposits furnished to our company by our retrocessionaires that do not trigger any cash flows and cannot be used without the consent of our retrocessionaires. The durations of these deposits are matched to the corresponding shares of the reinsurers in the technical provisions. If such a share no longer exists the corresponding funds held are reduced to the same extent.

Contract deposits

Hannover Re reports contract deposits under insurance contracts that satisfy the test of a significant risk transfer to the reinsurer as required by IFRS 4 but fail to meet the risk transfer required by US GAAP under the items "Contract deposits". Since the risk transfer under these transactions is of subordinate importance, these contracts were recognised using the "deposit accounting" method and hence eliminated from the technical account. The compensation elements for risk assumption booked to income under these contracts were netted under other income/expenses. The payment flows resulting from these contracts were reported in the cash flow statement under operating activities. The balances were shown as contract deposits on the assets and liabilities sides of the balance sheet, the fair values of which corresponded approximately to their book values.

The contract deposits on the assets side fell by EUR 327.3 million in the year under review from EUR 616.1 million to EUR 288.8 million. The decrease was attributable principally to the expiry of certain contracts in the area of non-traditional life reinsurance.

The contract deposits on the liabilities side increased by EUR 1,477.6 million in the year under review from EUR 3,668.8 million to EUR 5,146.4 million. The contract deposits item on the liabilities side encompasses balances deriving from non-traditional life insurance contracts that are to be carried as liabilities. The rise was due principally to growth in new business in the area of non-traditional life reinsurance.

7.4 Goodwill; present value of future profits on acquired life reinsurance portfolios

In accordance with IFRS 3 "Business Combinations" scheduled amortisation was not taken on goodwill. Goodwill was subject to an impairment test.

Development of goodwill

Figures in EUR thousand	2008	2007
Net book value at 31 December of the previous year	45,438	152,639
Currency translation at 1 January	(2,026)	(12,440)
Net book value at 1 January of the year under review	43,412	140,199
Corporate changes	(579)	–
Additions	–	6,785
Disposals	–	108,653
Currency translation at 31 December	–	7,107
Net book value at 31 December of the year under review	42,833	45,438

Goodwill

As at the balance sheet date this item principally included the goodwill from the acquisition of E+S Rückversicherung AG. For further information on the method used to test impairment the reader is referred to our explanatory remarks in Section 3.2 "Summary of major accounting policies".

Of the disposals recognised in the previous year, an amount of EUR 107.5 million was attributable to the sale of Praetorian Financial Group.

Development of the present value of future profits (PVFP) on acquired life reinsurance portfolios

Figures in EUR thousand	2008	2007
Net book value at 31 December of the previous year	2,911	5,102
Currency translation at 1 January	(683)	(324)
Net book value at 1 January of the year under review	2,228	4,778
Disposal	–	18
Amortisation	487	1,886
Currency translation at 31 December	82	37
Net book value at 31 December of the year under review	1,823	2,911

The PVFP, the period of amortisation of which is 15 years, is recognised under other assets. For further information please refer to our explanatory notes on intangible assets in Section 3.2 "Summary of major accounting policies".

7.5 Taxes and deferred taxes

Deferred tax assets and liabilities are booked in accordance with IAS 12 for tax reductions and additional tax charges expected in subsequent financial years, insofar as they result from different valuations of individual balance sheet items. In principle, such valuation differences may arise between the national tax balance sheet and the national commercial balance sheet, the uniform consolidated balance sheet and the national commercial balance sheet as well as from tax loss carry-forwards and tax credits. Deferred tax assets and liabilities were not constituted on temporary differences in conjunction with interests in subsidiaries and associated companies.

In July 2007 the German Federal Council approved the Business Tax Reform Act 2008. Among other things, this led to a reduction in tax rates for corporations domiciled in Germany effective 1 January 2008. Consequently, the tax expenditure for the previous year recognised non-recurring income from this revaluation in an amount of EUR 191.5 million for the parent company Hannover Re and E+S Rückversicherung AG.

Deferred taxes at the Group level were booked using the Group tax rate of 32%.

Breakdown of actual and deferred income taxes:

Income tax

Figures in EUR thousand	2008	2007
Actual tax for the year under review	181,395	219,727
Actual tax for other periods	30,298	54,991
Deferred taxes due to temporary differences	13,216	(46,377)
Deferred taxes from loss carry-forwards	(18,269)	12,364
Change in deferred taxes due to changes in tax rates	(1,030)	(193,253)
Recognised tax expenditure	205,610	47,452

Domestic/foreign breakdown of recognised tax expenditure/income

Figures in EUR thousand	2008	2007
Current taxes		
Germany	159,797	214,538
Outside Germany	51,895	60,180
Deferred taxes		
Germany	(4,124)	(282,152)
Outside Germany	(1,958)	54,886
Total	205,610	47,452

The following table presents a breakdown of the deferred tax assets and liabilities into the balance sheet items from which they are derived.

Deferred tax assets and deferred tax liabilities of all Group companies

Figures in EUR thousand	2008	2007
Deferred tax assets		
Tax loss carry-forwards	88,809	74,422
Loss and loss adjustment expense reserves	138,699	244,360
Benefit reserve	223,418	147,626
Other provisions	54,227	46,495
Accounts receivable	84,280	83,232
Funds held	513	–
Valuation differences relating to investments	50,077	35,670
Contract deposits	1,465	34,108
Other valuation differences	27,835	21,550
Value adjustments	(120,177)	(109,732)
Total	549,146	577,731
Deferred tax liabilities		
Loss and loss adjustment expense reserves	2,388	3,655
Benefit reserve	22,386	53,456
Other technical/non-technical provisions	10,778	15,054
Equalisation reserve	680,915	679,732
Funds held	3,675	13,924
Deferred acquisition costs	389,580	367,847
Accounts receivable / reinsurance payable	119,698	113,018
Valuation differences relating to investments	128,380	96,642
Other valuation differences	13,789	7,351
Total	1,371,589	1,350,679
Deferred tax liabilities	822,443	772,948

Value adjustments on deferred tax assets were recognised separately for the first time in the year under review. The figures for the previous year were adjusted accordingly.

The actual and deferred taxes recognised directly in shareholders' equity at the end of the financial year amounted to -EUR 53.5 million (EUR 2.5 million). They resulted from items that were charged or credited directly to equity.

Please refer to Section 3.2 "Summary of major accounting policies" regarding the recognition and measurement of deferred tax assets and liabilities.

The following table presents a reconciliation of the expected expense for income taxes with the actual provision for income taxes reported in the statement of income. The pre-tax result is multiplied by the Group tax rate in order to calculate the Group's expected expense for income taxes. The Group tax rate used is rounded to take account of the corporate income tax rate including the German reunification charge levied on corporate income tax as well as trade earnings tax.

Reconciliation of the expected expense for income taxes with the actual expense

Figures in EUR thousand	2008	2007
Profit before income taxes	70,626	850,402
Expected tax rate	32%	40%
Expected expense for income taxes	22,600	340,161
Changes in tax rates	(1,023)	(193,253)
Taxation differences affecting foreign subsidiaries	(44,909)	(73,906)
Non-deductible expenses	132,251	39,143
Tax-exempt income	45,712	(74,328)
Tax expense not attributable to the reporting period	31,793	56,073
Utilisation of previously adjusted loss carry-forwards	–	(61,309)
Other	19,186	14,871
Actual expense for income taxes	205,610	47,452

Availability of capitalised loss carry-forwards

Unused tax loss carry-forwards of EUR 292.0 million (EUR 230.3 million) existed as at the balance sheet date. Making allowance for local tax rates, EUR 249.6 million (EUR 210.2 million) thereof was not capitalised since realisation is not sufficiently certain.

In addition, available tax credits of EUR 20.3 million (EUR 17.2 million) were not capitalised.

Availability of loss carry-forwards and tax credits that have not been capitalised

Figures in EUR thousand	One to five years	Six to ten years	More than ten years	Unlimited	Total
Loss carry-forwards	–	–	138,667	110,941	249,608
Tax credits	–	–	–	20,300	20,300
Total	–	–	138,667	131,241	269,908

7.6 Staff and expenditures on personnel

Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group was 1,790 (1,922). The decrease in the workforce was attributable to the disposal of North American Risk Services, Inc., Wilmington/USA, a subsidiary of Hannover Finance, Inc., Wilmington/USA, in the first quarter of 2008.

As at the balance sheet date altogether 1,812 (1,825) staff were employed by the Hannover Re Group, with 963 (907) employed in Germany and 849 (918) working for the consolidated Group companies abroad.

Personnel information	2008					2007	
	31.03.	30.06.	30.09.	31.12.	Average	31.12.	Average
Number of employees (excluding board members)	1,744	1,781	1,790	1,812	1,790	1,825	1,922

The nationalities of the workforce as at the balance sheet date were as follows:

Nationality of employees	2008						
	German	USA	South African	UK	Irish	Other	Total
Number of employees	903	218	152	129	21	389	1,812

Expenditures on personnel

The expenditures on insurance business, claims expenses (claims settlement) and expenditures on the administration of investments include the following personnel expenditures:

Figures in EUR thousand	2008	2007
a) Wages and salaries		
aa) Expenditures on insurance business	101,065	98,396
ab) Expenditures on the administration of investments	10,115	8,015
	111,180	106,411
b) Social security contributions and expenditure on provisions and assistance		
ba) Social security contributions	15,261	13,397
bb) Expenditures for pension provision	12,644	11,686
bc) Expenditures for assistance	2,059	1,727
	29,964	26,810
Total	141,144	133,221

7.7 Provisions for pensions and other post-employment benefit obligations

Pension commitments are given in accordance with the relevant version of the pension plan as amended. The 1968 pension plan provides for retirement, disability, widows' and orphans' benefits. The pension entitlement is dependent on length of service; entitlements under the statutory pension insurance scheme are taken into account. The pension plan was closed to new participants with effect from 31 January 1981.

On 1 April 1993 (1 June 1993 in the case of managerial staff) the 1993 pension plan came into effect. This pension plan provides for retirement, disability and surviving dependants' benefits. The scheme is based upon annual determination of the pension contributions, which at 1% up to the assessment limit in the statutory pension insurance scheme and 2.5% above the assessment limit of the pensionable employment income are calculated in a range of 0.7% to 1% and 1.75% to 2.5% respectively depending upon the company's performance. The pension plan closed as at 31 March 1999.

From 1997 onwards it has been possible to obtain pension commitments through deferred compensation. Following the merger with Gerling-Konzern Lebensversicherungs-AG, Cologne, the employee-funded commitments included in the provisions for accrued pension rights are protected by an insurance contract with HDI-Gerling Lebensversicherung AG, Cologne, at unchanged conditions.

As at 1 July 2000 the 2000 pension plan came into force for the entire Group. Under this plan, new employees included in the group of beneficiaries are granted an indirect commitment from HDI Unterstützungskasse. The pension plan provides for retirement, disability and surviving dependants' benefits.

Effective 1 December 2002 Group employees have an opportunity to accumulate additional old-age provision at unchanged conditions by way of deferred compensation through membership of HDI-Gerling Pensionskasse AG. The benefits provided by HDI-Pensionskasse AG are guaranteed for its members and their surviving dependants and comprise traditional pension plans with bonus increases as well as unit-linked hybrid annuities.

In addition to these pension plans, managerial staff and members of the Executive Board, in particular, enjoy individual commitments as well as commitments given under the benefits plan of the Bochumer Verband.

Provisions for pensions are established in accordance with IAS 19 "Employee Benefits" (rev. 2004) using the projected unit credit method. The pension plans are defined benefit plans. The basis of the valuation is the estimated future increase in the rate of compensation of the pension beneficiaries. The benefit entitlements are discounted by applying the capital market rate for highest-rated securities. The commitments to employees in Germany predominantly comprise benefit obligations financed by the Group companies. The pension plans are unfunded. Amounts carried as liabilities are recognised under other liabilities. The provisions for pensions in Germany and abroad were calculated on the basis of uniform standards defined by Talanx AG and subject to local economic conditions.

Provisions for pensions are established in accordance with actuarial principles and are based upon the commitments made by the Hannover Re Group for retirement, disability and widows' benefits. The amount of the commitments is determined according to length of service and salary level.

The calculation of the provisions for pensions is based upon the following assumptions:

Measurement assumptions

in %	2008			2007		
	Germany	USA	Australia	Germany	USA	Australia
Discount rate	6.00	6.25	4.17	5.50	6.20	5.70
Projected long-term yield on plan assets	–	7.50	7.00	–	7.50	7.00
Rate of compensation increase	3.00	–	4.50	3.00	–	5.00
Indexation	2.25	3.00	3.00	1.75	3.00	3.50

The change in the projected benefit obligation of the pension commitments as well as their breakdown into plans that are unfunded or are wholly or partially funded was as follows:

Change in the projected benefit obligation

Figures in EUR thousand	2008	2007
Projected benefit obligation at the beginning of the year under review	79,135	77,400
Current service cost for the year under review	2,789	2,722
Interest cost	4,009	3,654
Deferred compensation	13	632
Actuarial gain/loss	(2,940)	(3,450)
Currency translation	(1,246)	(160)
Benefits paid during the year	(1,852)	(1,662)
Business combinations, divestitures and other activities	–	70
Plan curtailments	–	(71)
Projected benefit obligation at the end of the year under review	79,908	79,135

Funding of the defined benefit obligation

Figures in EUR thousand	2008	2007
Projected benefit obligation from unfunded plans	78,759	70,710
Projected benefit obligation from wholly or partially funded plans (before deduction of fair value of plan assets)	1,149	8,425
Projected benefit obligation at the end of the year under review	79,908	79,135
Fair value of plan assets	7,051	9,372
Funded status (present value of earned benefit entitlements less fund assets)	72,857	69,763

The fair value of the plan assets developed as follows:

Change in plan assets

Figures in EUR thousand	2008	2007
Fair value at the beginning of the year under review	9,372	7,302
Expected return on plan assets	544	577
Actuarial gain/loss	(1,830)	(281)
Currency translation	(1,265)	(190)
Employer contributions	287	1,843
Contributions paid by plan participants	13	132
Benefits paid during the year	(70)	(11)
Fair value of plan assets	7,051	9,372

The structure of the asset portfolio underlying the plan assets was as follows:

Portfolio structure of plan assets

As % of plan assets	2008	2007
Equities	7	7
Other	93	93
Total	100	100

The fair value of plan assets as at the balance sheet date included amounts totalling EUR 1.4 million (EUR 1.5 million) for own financial instruments.

The actual losses on plan assets amounted to –EUR 1.1 million in the year under review, compared with actual gains on plan assets of EUR 0.2 million in the previous year.

The following table presents a reconciliation of the funded status – calculated from the difference between the defined benefit obligations and the plan assets – with the provision for pensions recognised as at the balance sheet date:

Reconciliation of the net provision for pensions

Figures in EUR thousand	2008	2007
Defined benefit obligations at the end of the year under review	79,908	79,135
Fair value of plan assets at the end of the year under review	7,051	9,372
Funded status	72,857	69,763
Unrealised actuarial gain/loss	(650)	(2,662)
Net provisions for pensions at 31 December of the year under review	72,207	67,101

The recognised provision for pensions developed as follows in the year under review:

Change in the provisions for pensions

Figures in EUR thousand	2008	2007
Net provisions for pensions at 31 December of the previous year	67,101	64,559
Currency translation	(130)	24
Expense for the year under review	7,367	5,930
Deferred compensation	–	500
Reclassification	–	70
Amounts paid during the year	(348)	(2,021)
Benefits paid during the year	(1,783)	(1,651)
Other	–	(310)
Net provisions for pensions at 31 December of the year under review	72,207	67,101

The components of the net periodic pension cost for benefit plans were as follows:

Net periodic pension cost

Figures in EUR thousand	2008	2007
Current service cost for the year under review	2,789	2,731
Interest cost	4,054	3,669
Expected return on plan assets	607	598
Recognised actuarial gain/loss	(1,116)	(60)
Effect of plan curtailments or settlements	(15)	(68)
Total	7,367	5,930

In determining the actuarial gains and losses to be recognised in the statement of income the corridor method provided for as an option in IAS 19 continued to be applied even after the amendments to the standard.

The net periodic pension cost was recognised in the consolidated statement of income in amounts of EUR 5.8 million (EUR 3.8 million) under administrative expenses, EUR 0.6 million (EUR 1.4 million) under other expenses and EUR 1.0 million (EUR 0.7 million) under other investment expenses.

Actuarial gains of EUR 0.1 million (EUR 0.4 million) were recognised as at the balance sheet date in other comprehensive income.

The following amounts were recognised for the current and previous reporting periods under the accounting of defined benefit plans:

Amounts recognised

Figures in EUR thousand	2008	2007
Present value of defined benefit obligation	79,908	79,135
Fair value of plan assets	7,051	9,372
Surplus / (deficit) in the plan	(72,857)	(69,763)
Experience adjustments on plan liabilities	(649)	(3,410)
Experience adjustments on plan assets	–	(374)

In the current financial year Hannover Re expects payments of EUR 6.5 million (EUR 6.2 million) under the pension plans set out above.

Defined contribution plans

In addition to the defined benefit plans, some Group companies have defined contribution plans that are based on length of service and the employee's income or level of contributions. The expense recognised for these obligations in the year under review in accordance with IAS 19.46 was EUR 2.6 million (EUR 2.9 million), of which only a minimal amount was due to obligations to members of staff in key positions.

7.8 Debt and subordinated capital

On 31 March 1999 Hannover Finance, Inc., Wilmington/USA, issued subordinated debt in the form of a floating-rate loan in the amount of USD 400.0 million with a term of 30 years. The due date of the loan is 31 March 2029. It may be redeemed by the issuer no earlier than 31 March 2009. In order to hedge against the risk of interest rate changes associated with this loan, the company purchased interest rate swaps in 1999 in the same amount which expire on 31 March 2009. In this way, the interest rate is converted from a floating rate to a fixed rate for a period ending commensurate with the first opportunity to redeem the loan. In February 2004 and May 2005 Hannover Re bought back portions of the debt amounting to USD 380.0 million, equivalent to altogether 95% of the total volume. The interest rate swaps were closed out in the second quarter of 2006. Under a contract dated 1 June 2007 Hannover Finance, Inc. repurchased the subordinated debt in an amount of USD 380.0 million from Hannover Re. Effective 17 July 2007 the interests in the loan amounting to USD 380.0 million were cancelled and have not been traded on the capital market since that date. The remaining portions of the debt totalling USD 20.0 million are held by investors outside the Group and carry a coupon of LIBOR +80 basis points until 31 March 2009. Hannover Re intends to exercise the call option granted in the loan terms which provides for early repurchase of the debt at nominal value effective 31 March 2009.

In order to safeguard the sustained financial strength of the Hannover Re Group, Hannover Re issued additional subordinated debt. In February 2004 subordinated debt in the amount of EUR 750.0 million was placed through Hannover Finance (Luxembourg) S.A., a wholly owned subsidiary of Hannover Re, on the European capital markets. The bond was placed predominantly with institutional investors. The bond was priced at a spread of 163 basis points over the 10-year mid-swap rate and has a final maturity of 20 years. It may be redeemed by Hannover Re after 10 years at the earliest and at each coupon date thereafter. If the bond is not called at the end of the tenth year, the coupon will step up to a floating-rate yield of quarterly EURIBOR +263 basis points.

In May 2005 Hannover Re issued further subordinated debt in the amount of EUR 500.0 million through its subsidiary Hannover Finance (Luxembourg) S.A. As part of the transaction, holders of Hannover Re's EUR 350.0 million subordinated debt placed in 2001 were offered an opportunity to exchange their existing issue for holdings in the new bond, which has a term of 30 years and may be called in prior to maturity by the issuer after 10 years. Participation in the

exchange was nominally EUR 211.9 million, corresponding to EUR 240.5 million of the new bond issue. The cash component of the new bond in the amount of nominally EUR 259.5 million was placed predominantly with institutional investors in Europe. The remaining volume of the bond issued in 2001 after the exchange was unchanged at EUR 138.1 million.

Debt and subordinated capital

Figures in EUR thousand	2008			
	Cost or amortised cost	Fair value measurement	Accrued interest and rent	Fair value
Debt and subordinated capital				
Debt	43,087	–	43	43,130
Subordinated loans	1,376,883	(369,578)	57,914	1,065,219
Other long-term liabilities	57	–	–	57
Total	1,420,027	(369,578)	57,957	1,108,406

Figures in EUR thousand	2007			
	Cost or amortised cost	Fair value measurement	Accrued interest and rent	Fair value
Debt and subordinated capital				
Debt	41,555	–	183	41,738
Subordinated loans	1,373,294	(59,803)	58,098	1,371,589
Other long-term liabilities	28	–	–	28
Total	1,414,877	(59,803)	58,281	1,413,355

The carrying amount of this item corresponds to cost or amortised cost.

The aggregated fair value of the extended subordinated loans is based on quoted, active market prices. If such price information was not available, fair value was determined on the basis of the recognised effective interest rate method or estimated using other financial assets with similar rating, duration and return characteristics. Under the effective interest rate method the current market interest rate levels in the relevant fixed-interest-rate periods are always taken as a basis.

Net gains and losses from debt and subordinated capital

Figures in EUR thousand		2008	
	Ordinary income / expenses	Amortisation	Net result
Debt	(2,706)	–	(2,706)
Subordinated loans	(77,442)	(2,870)	(80,312)
Total	(80,148)	(2,870)	(83,018)

Figures in EUR thousand		2007	
	Ordinary income / expenses	Amortisation	Net result
Debt	(3,312)	–	(3,312)
Subordinated loans	(77,600)	(2,841)	(80,441)
Total	(80,912)	(2,841)	(83,753)

The ordinary expenses include interest expenses of EUR 77.4 million (EUR 77.6 million) resulting predominantly from the subordinated debt with coupons of between 5.0% and 6.25% placed through Hannover Finance (Luxembourg) S.A. in the years from 2001 to 2005. In addition, interest expenditures from the remaining portions of the floating-rate loan issued by Hannover Finance, Inc., Wilmington/USA are recognised here.

Other financial facilities

In order to protect against possible future major losses Hannover Re took out a new credit line of EUR 500.0 million in 2004 in the form of a syndicated loan. The facility has a term of five years and ends in August 2009. It has not been used to date.

In addition, facilities exist with various financial institutions for letters of credit, including two syndicated guarantee facilities each in the amount of USD 2.0 billion from 2005 and 2006. 50% of the first of these lines matures in January 2010 and the other 50% in January 2012, while the second line matures in January 2013. For further information on the letters of credit provided please see our explanatory remarks in Section 9.2 "Contingent liabilities and commitments".

Maturities of financial liabilities

Figures in EUR thousand	2008						
	Less than three months	Three months to one year	One to five years	Five to ten years	Ten to twenty years	More than twenty years	No maturity
Other liabilities ¹⁾	60,094	58,166	426	–	–	–	5,061
Debt	106	15,058	19,838	8,085	–	–	–
Subordinated loans	–	–	–	–	746,043	152,072	478,768
Other long-term liabilities	2	5	50	–	–	–	–
Total	60,202	73,229	20,314	8,085	746,043	152,072	483,829

¹⁾ excluding derivatives

Figures in EUR thousand	2007						
	Less than three months	Three months to one year	One to five years	Five to ten years	Ten to twenty years	More than twenty years	No maturity
Other liabilities ¹⁾	74,766	84,644	14	–	–	–	6,345
Debt	–	11,427	22,215	7,913	–	–	–
Subordinated loans	–	–	–	–	745,907	151,229	476,158
Other long-term liabilities	–	28	–	–	–	–	–
Total	74,766	96,099	22,229	7,913	745,907	151,229	482,503

¹⁾ excluding derivatives

7.9 Shareholders' equity and minority interests

Shareholders' equity is shown as a separate component of the financial statement in accordance with IAS 1 "Presentation of Financial Statements" and subject to IAS 32 "Financial Instruments: Disclosure and Presentation" in conjunction with IAS 39 "Financial Instruments: Recognition and Measurement". The change in shareholders' equity comprises not only the net income deriving from the statement of income but also the changes in the value of asset and liability items not recognised in the statement of income.

The common shares (share capital of the parent company) amount to EUR 120,597,134.00. They are divided into 120,597,134 voting and dividend-bearing registered no-par shares. The shares are paid in full. Each share carries an equal voting right and an equal dividend entitlement.

Minority interests are established in accordance with the shares held by companies outside the Group in the shareholders' equity of the subsidiaries.

Authorised capital of up to EUR 60,299 thousand is available with a time limit of 31 May 2009.

New individual registered shares may be issued on one or more occasions for contributions in cash or kind. Of the total amount, up to EUR 1,000 thousand may be used to issue employee shares.

In addition, conditional capital of up to EUR 60,299 thousand is available. It can be used to grant shares to holders of convertible bonds and bonds with warrants as well as to holders of participating bonds with conversion rights and warrants and has a time limit of 11 May 2011.

Management of capital

The preservation and consistent enhancement of its capital is a key strategic objective for Hannover Re. As part of its approach to capital management Hannover Re considers the policyholders' surplus over and above the shareholders' equity recognised in the balance sheet. The policyholders' surplus is defined as the sum total of

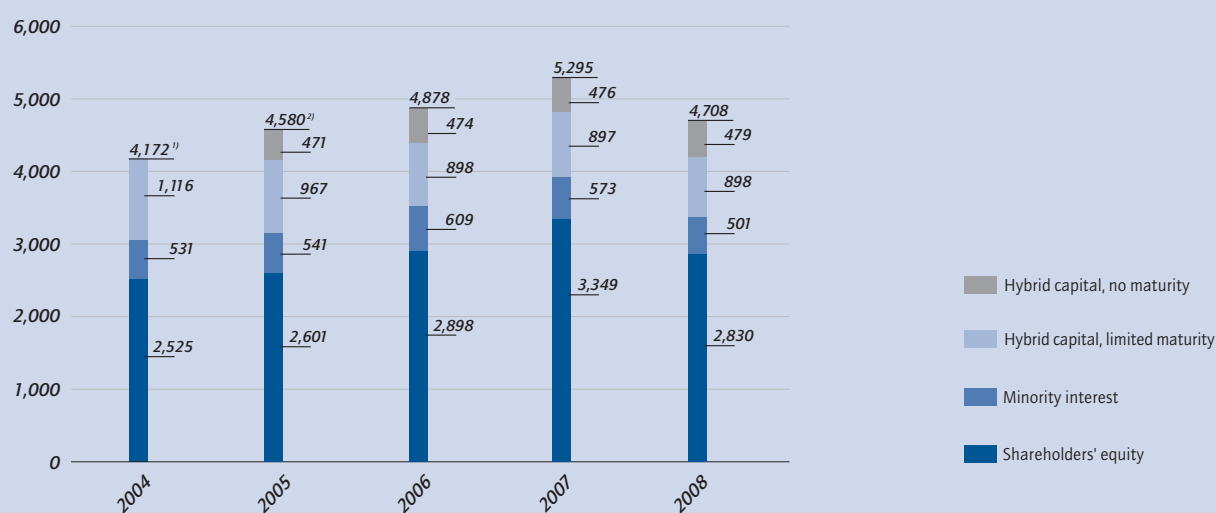
- shareholders' equity excluding minority interests, composed of the common shares, additional paid-in capital, other comprehensive income and retained earnings,
- minority interests and
- hybrid capital used as an equity substitute, which encompasses our subordinated debt.

The policyholders' surplus totalled EUR 4,708.4 million (EUR 5,295.1 million) as at the balance sheet date.

The chart below illustrates the development of the policyholders' surplus over the last five reporting years:

Development of policyholders' surplus

in EUR million



¹⁾ Hybrid capital: +EUR 750 million
-USD 380 million repurchase
-EUR 118 million repayment

²⁾ Hybrid capital: +EUR 500 million new issue
-EUR 212 million exchange

Hannover Re uses "Intrinsic Value Creation" (IVC) as its central value-based management tool. For more information on this concept as well as the objectives and principles in accordance with which we conduct our enterprise management and capital management the reader is referred to our remarks on value-based management on page 52 et seq. of this report.

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

7.10 Treasury shares

IAS 1 requires separate disclosure of treasury shares in shareholders' equity. By a resolution of the Annual General Meeting of Hannover Rückversicherung AG adopted on 6 May 2008, the company was authorised until 31 October 2009 to acquire treasury shares of up to 10% of the share capital existing on the date of the resolution. As part of this year's employee share option plan Hannover Re acquired altogether 13,984 treasury shares in the course of the fourth quarter of 2008 and delivered them to eligible employees at preferential conditions. These shares are blocked until 30 November 2012. The company was no longer in possession of treasury shares as at the balance sheet date.

7.11 Earnings per share

Basic and fully diluted earnings per share

	2008			2007		
	Result (in EUR thousand)	No. of shares	Per share (in EUR)	Result (in EUR thousand)	No. of shares	Per share (in EUR)
Group net income	(126,987)	–	–	721,663	–	–
Weighted average of issued shares	–	120,594,783	–	–	120,597,134	–
Earnings per share	(126,987)	120,594,783	(1.05)	721,663	120,597,134	5.98
from continuing operations	(126,987)	120,594,783	(1.05)	686,578	120,597,134	5.69
from discontinued operations	–	120,594,783	–	35,085	120,597,134	0.29

Due to the reduction in the interest held in E+S Rück in the third quarter of the 2007 financial year – which was recognised retrospectively in equity – the Group net income for the comparable period of the previous year decreased by altogether EUR 12.0 million. As a result, both the earnings per share and the earnings per share from continuing operations for the previous period had to be reduced by EUR 0.10 per share. For further details please see our comments in Section 3.1 "Change in accounting policies".

Neither in the year under review nor in the previous reporting period were there any dilutive effects. On account of this year's employee share option plan Hannover Re acquired treasury shares in the course of the fourth quarter of 2008 and sold them to the eligible employees. The weighted average of shares in circulation during the reporting period was therefore insignificantly lower than in the previous year. For further details please see our comments in Section 7.10 "Treasury shares".

There were no other extraordinary components of income which should have been recognised or disclosed separately in the calculation of the earnings per share.

The earnings per share could potentially be diluted in future through the issue of shares or subscription rights from the authorised or conditional capital.

Dividend per share

Dividends and bonus dividends of EUR 277.4 million (EUR 193.0 million) were paid in the year under review for 2007.

On the occasion of the Annual General Meeting to be held on 5 May 2009 it will be proposed that a dividend should not be distributed for the 2008 financial year. The dividend proposal does not form part of this consolidated financial statement.

7.12 Other assets and liabilities

Other assets

Figures in EUR thousand	2008	2007
Own-use real estate	42,019	40,758
Other receivables	3,547	2,589
Present value of future profits on acquired life reinsurance portfolios	1,823	2,911
Fixtures, fittings and equipment	26,302	25,781
Other assets	1,034	4,684
Other intangible assets	61,310	56,390
Tax refund claims	26,823	23,304
Receivables from affiliated companies	153	861
Insurance for pension commitments	45,459	43,556
Other	51,795	43,444
Total	260,265	244,278

The portfolio of own-use real estate was measured at cost of purchase less scheduled straight-line depreciation over useful lives of 10 to 50 years. The fair values were calculated using the discounted cash flow method.

Effective 1 July 2003 Hannover Re took out insurance for pension commitments. The commitments involve deferred annuities with regular premium payment under a group insurance policy. In accordance with IAS 19 they were carried as a separate asset at fair value as at the balance sheet date in an amount of EUR 45.5 million (EUR 43.6 million).

Development of fixtures, fittings and equipment

Figures in EUR thousand	2008	2007
Gross book value at 31 December of the previous year	95,352	83,344
Currency translation at 1 January	(6,244)	(3,182)
Gross book value after currency translation	89,108	80,162
Change in consolidated group	233	–
Additions	11,774	16,399
Disposals	11,981	908
Reclassification	(130)	–
Currency translation at 31 December	106	(301)
Gross book value at 31 December of the year under review	89,110	95,352
Cumulative depreciation at 31 December of the previous year	69,571	59,612
Currency translation at 1 January	(4,986)	(2,167)
Cumulative depreciation after currency translation	64,585	57,445
Disposals	11,118	347
Depreciation		
scheduled	9,497	12,953
Currency translation at 31 December	(156)	(480)
Cumulative depreciation at 31 December of the year under review	62,808	69,571
Net book value at 31 December of the previous year	25,781	23,732
Net book value at 31 December of the year under review	26,302	25,781

With regard to the measurement of fixtures, fittings and equipment, the reader is referred to our explanatory notes on the other assets in Section 3.2 "Summary of major accounting policies".

Development of other intangible assets

Figures in EUR thousand	2008	2007
Gross book value at 31 December of the previous year	155,429	141,242
Currency translation at 1 January	(739)	(1,765)
Gross book value after currency translation	154,690	139,477
Change in consolidated group	497	–
Additions	14,382	16,390
Disposals	1,543	455
Currency translation at 31 December	(2,067)	17
Gross book value at 31 December of the year under review	165,959	155,429
Cumulative depreciation at 31 December of the previous year	99,039	96,212
Currency translation at 1 January	(233)	(98)
Cumulative depreciation after currency translation	98,806	96,114
Disposals	44	–
Write-ups	–	40
Depreciation		
scheduled	5,893	2,965
Currency translation at 31 December	6	–
Cumulative depreciation at 31 December of the year under review	104,649	99,039
Net book value at 31 December of the previous year	56,390	45,030
Net book value at 31 December of the year under review	61,310	56,390

As at the balance sheet date the item included EUR 7.9 million (EUR 0.1 million) for self-provided software and EUR 39.9 million (EUR 11.7 million) for purchased software. Scheduled depreciation is taken over useful lives of three to ten years.

The additions can be broken down into EUR 4.9 million (EUR 13.4 million) for purchased software and EUR 9.1 million (EUR 2.8 million) for advance payments on self-provided software.

The age structure of the other receivables which were unadjusted but considered overdue as at the balance sheet date is presented below:

Age structure of overdue other receivables

Figures in EUR thousand	2008			2007		
	Less than three months	Three months to one year	More than one year	Less than three months	Three months to one year	More than one year
Other receivables	–	–	–	198	1,818	6,571
Accrued interest	–	–	–	8	–	–
Total	–	–	–	206	1,818	6,571

The overdue other receivables of Hannover Finance, Inc., recognised here in the previous year were settled in the year under review.

Value adjustments were taken on other receivables in an amount of EUR 3.8 million (EUR 0.2 million) in the year under review on the basis of specific impairment analyses.

Credit risks may result from other financial assets that were not overdue or adjusted as at the balance sheet date. In this regard, the reader is referred in general to our comments in Section 6 "Management of technical and financial risks".

Other liabilities

Figures in EUR thousand	2008	2007
Liabilities from derivatives	91,680	15,892
Interest	60,052	63,283
Deferred income	15,977	18,682
Costs of the annual financial statements	5,670	3,033
Liabilities to trustees	–	8,494
Liabilities due to affiliated companies	5,849	552
Provisions arising out of employment relationships	28,582	29,521
Direct minority interests in partnerships	33,919	28,011
Other	77,454	109,569
Total	319,183	277,037

The liabilities from derivatives of EUR 91.7 million (EUR 15.9 million) consist principally of the embedded derivatives recognised separately from the underlying insurance contract at fair value pursuant to IAS 39. Please see our remarks on derivative financial instruments in Section 7.1 "Investments including income and expenses".

The other liabilities include sundry non-technical provisions of EUR 57.6 million (EUR 67.4 million), which developed as shown in the following table.

Development of sundry non-technical provisions

Figures in EUR thousand	Balance at 31.12.2007	Currency translation at 1 January	Balance at 1 January of the year under review
Provisions for			
Audits and costs of publishing the annual financial statements	3,033	(186)	2,847
Consultancy fees	1,965	(7)	1,958
Suppliers' invoices	5,664	(212)	5,452
Partial retirement arrangements and early retirement obligations	5,193	(16)	5,177
Holiday entitlements and overtime	2,781	(128)	2,653
Anniversary bonuses	1,435	–	1,435
Management bonuses	20,112	(411)	19,701
Other	27,181	(422)	26,759
Total	67,364	(1,382)	65,982

Changes in consolidated group	Additions	Utilisation	Release	Currency translation at 31 December	Balance at 31.12.2008
29	5,117	2,275	55	7	5,670
–	1,262	1,130	227	(16)	1,847
31	7,730	4,025	562	(223)	8,403
–	1,471	577	134	(26)	5,911
73	3,300	2,282	8	(30)	3,706
–	326	–	–	–	1,761
–	13,843	16,168	140	(32)	17,204
201	4,338	6,148	11,977	(98)	13,075
334	37,387	32,605	13,103	(418)	57,577

7.13 Technical statement of income

Technical result

Figures in EUR thousand	2008	2007
Gross written premium	8,120,919	8,258,901
Ceded written premium	886,621	1,036,950
Change in unearned premium	(113,480)	298,490
Change in ceded unearned premium	(59,193)	(227,511)
Net premium earned	7,061,625	7,292,930
Other technical income	7,294	1,130
Total net technical income	7,068,919	7,294,060
Claims and claims expenses paid	3,959,971	4,556,882
Change in loss and loss adjustment expense reserve	742,156	474,189
Claims and claims expenses	4,702,127	5,031,071
Change in benefit reserve	420,918	398,232
Premium refund	(424)	298
Net change in benefit reserve	421,342	397,934
Commissions	1,788,833	1,671,783
Change in deferred acquisition costs	124,164	(83,007)
Change in provision for contingent commissions	(28,728)	4,220
Other acquisition costs	11,676	12,571
Other technical expenses	12,166	20,081
Administrative expenses	216,047	204,358
Net technical result	69,620	(130,965)

With regard to the claims and claims expenses as well as the change in the benefit reserve the reader is also referred to Section 7.2 "Technical assets and liabilities". The change in the benefit reserve relates exclusively to the life and health reinsurance segment.

The administrative expenses amounted to altogether 3.1% (2.8%) of net premium earned.

Other technical income

Figures in EUR thousand	2008	2007
Other technical income (gross)	8,168	1,816
Reinsurance recoverables	874	686
Other technical income (net)	7,294	1,130

Commissions and brokerage, change in deferred acquisition costs

Figures in EUR thousand	2008	2007
Commissions paid (gross)	2,048,951	1,857,719
Reinsurance recoverables	260,118	185,936
Change in deferred acquisition costs (gross)	199,213	(164,087)
Reinsurance recoverables	75,049	(81,080)
Change in provision for contingent commissions (gross)	(31,429)	(65)
Reinsurance recoverables	(2,701)	(4,285)
Commissions and brokerage, change in deferred acquisition costs (net)	1,635,941	1,759,010

Other technical expenses

Figures in EUR thousand	2008	2007
Other technical expenses (gross)	12,209	20,034
Reinsurance recoverables	43	(47)
Other technical expenses (net)	12,166	20,081

7.14 Other income/expenses

Figures in EUR thousand	2008	2007
Other income		
Exchange gains	52,381	80,058
Income from contracts recognised in accordance with the deposit accounting method	25,654	75,383
Other interest income	3,513	2,154
Income from services	7,128	7,849
Reversals of impairments on receivables	32,960	47,686
Sundry income	42,955	27,509
	164,591	240,639
Other expenses		
Exchange losses	155,420	58,932
Other interest expenses	17,346	70,781
Depreciation	9,781	14,372
Expenses for services	6,366	7,591
Expenses for the company as a whole	43,362	37,044
Separate value adjustments	78,589	54,700
Sundry expenses	53,738	59,998
	364,602	303,418
Total	(200,011)	(62,779)

Of the separate value adjustments, an amount of EUR 47.8 million (EUR 52.5 million) was attributable to accounts receivable, EUR 27.0 million (EUR 2.0 million) to reinsurance recoverables on unpaid claims and EUR 3.8 million (EUR 0.2 million) to other receivables.

8. Related party disclosures

8.1 Transactions with related parties

IAS 24 defines related parties inter alia as parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself. In the year under review the following significant business relations existed with related parties.

Since 10 January 2008 HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover, has held a majority interest in Hannover Re solely through Talanx AG, Hannover, into which both HDI Verwaltungs-Service GmbH, Hannover, and Zweite HDI Beteiligungsgesellschaft mbH, Hannover, were merged on the same date.

The Hannover Re Group provides reinsurance protection for the HDI Group. To this extent, numerous underwriting business relations exist with related parties in Germany and abroad which are not included in Hannover Re's consolidation. This includes business both assumed and ceded at usual market conditions.

Protection Reinsurance Intermediaries AG grants Hannover Re and E+S Rück a preferential position as reinsurers when it comes to placing reinsurance cessions of the Talanx Group's primary insurers (Group cedants). Under these arrangements, Hannover Re and E+S Rück are given the opportunity to write any desired share of placed reinsurance cessions provided this does not jeopardise overall placement in the interest of the Talanx Group. In addition, Hannover Re and E+S Rück are able to participate in the protection covers on the retention of Group cedants and share in the protection afforded by them. Under certain conditions Hannover Re and E+S Rück are required to assume from Protection Re portions of the Group cedants' reinsurance cessions not placed on the global market. This agreement entered into force on 1 January 2003 and may be terminated at four months' notice effective 30 June of any year.

Major reinsurance relationships with related parties in the year under review are listed in the following table.

Business assumed and ceded in Germany and abroad

Figures in EUR thousand	2008	
	Premium	Underwriting result
Related parties		
Business assumed		
ASPECTA Assurance International AG	20,386	3,140
ASPECTA Assurance International Luxembourg S.A.	35,003	3,833
ASPECTA Lebensversicherung AG	118,717	12,891
CiV Lebensversicherung AG	43,571	(6,120)
CiV Versicherung AG	14,768	8,175
HDI Asekuracja Towarzystwo Ubezpieczen S.A.	22,071	15,171
HDI Assicurazioni S.p. A.	16,787	5,635
HDI Direkt Versicherung AG	565	(18,186)
HDI-Gerling Firmen und Privat Versicherung AG	12,824	6,241
HDI-Gerling Industrie Versicherung AG	166,279	(4,710)
HDI-Gerling Lebensversicherung AG	23,074	(1,446)
HDI-Gerling Verzekeringen N.V.	30,870	(1,548)
HDI HANNOVER International España, Cia. de Seguros y Reaseguros S.A.	22,740	679
HDI Hannover Versicherung AG	10,236	2,035
HDI Sigorta A.S.	24,955	(6,287)
Magyar Posta Biztosító Részvénytársaság	7,459	(1,410)
Postbank Lebensversicherung AG	48,428	(2,432)
Other companies	19,658	7,388
	638,391	23,049
Business ceded		
HDI-Gerling Industrie Versicherung AG	(1,226)	(1,084)
Other companies	–	7
Total	637,165	21,972

With effect from the 1997 financial year onwards all new business and renewals written on the German market have been the responsibility of E+S Rück, while Hannover Re has handled foreign markets. Internal retrocession arrangements ensure that the percentage breakdown of the business applicable to the previously existing underwriting partnership is largely preserved between these companies. Every reinsurance treaty subject to internal retrocession is allocated to a pool. The assuming company participates in this pool with a fixed percentage share. Some individual retrocessions exist alongside the pools.

Since the 2005 financial year Hannover Re had held participation certificates of HDI Haftpflichtverband der Deutschen Industrie V.a.G. in an amount of EUR 18.5 million with a coupon of 7.25%; they became due on 1 October 2008. The participation certificates were recognised under the portfolio of fixed-income securities held to maturity. The term of the participation certificates was limited to the end of the 2007 financial year. Repayment was made on the due date.

In the 2007 financial year Hannover Re (Bermuda) Ltd. extended a loan due on 31 May 2012 with a coupon of 4.98% to Talanx AG, the volume of which as at the balance sheet date was EUR 51.5 million (EUR 51.5 million). The carrying amount includes accrued interest of EUR 1.5 million (EUR 1.5 million). This instrument was recognised under other invested assets.

The Group companies E+S Rück, Hannover Finance (Luxembourg) S.A., Hannover Reinsurance (Ireland) Ltd. and Hannover Re (Bermuda) Ltd. invested in an amount of altogether EUR 153.9 million in a bearer debenture of Talanx AG with a term until 8 July 2013 and a coupon of 5.43%. The carrying amount of the instrument, which is recognised under fixed-income securities held to maturity, was EUR 154.9 million and included accrued interest of EUR 3.9 million (EUR 3.9 million) as at the balance sheet date.

As at 31 December 2008 Hannover Reinsurance (Ireland) Ltd. recognised loan receivables due from Aspecta Lebensversicherung AG and Aspecta Assurance International Luxembourg S.A. in an amount of altogether EUR 255.9 million (EUR 249.8 million). The loans result from a group of reinsurance contracts for which Talanx AG had furnished guarantees, which in 2007 were transferred to Hannover Reinsurance (Ireland) Ltd. In accordance with IAS 39 the contracts in question were classified as financial instruments with the character of loans and receivables measured at amortised cost, and the corresponding changes in income are recognised in ordinary investment income.

Under articles of partnership dated 7 December 2007 HAPEP II Komplementär GmbH, Hannover – as general partner – and AmpegaGerling Asset Management GmbH, Cologne – as limited partner with the power to conduct business – established Hannover Re Euro PE Holdings GmbH & Co. KG, Cologne. Additional limited partners are Hannover Re and E+S Rück. Please see our remarks in Section 5.1 "Acquisitions and new formations".

As part of long-term lease arrangements companies belonging to the Hannover Re Group rented out business premises in 2008 to HDI Direkt Versicherung AG and Protection Reinsurance Intermediaries AG, both based in Hannover. IT and management services were also performed for the latter under service contracts.

Within the contractually agreed framework AmpegaGerling Asset Management GmbH performs investment and asset management services for Hannover Re and some of its subsidiaries. Assets in special funds are managed by AmpegaGerling Investment GmbH.

Companies belonging to the Talanx Group granted the Hannover Re Group insurance protection inter alia in the areas of public liability, fire, group accident and business travel collision insurance.

Talanx AG took out directors' and officers' (D&O) insurance for Praetorian Financial Group, Inc., New York, on behalf of the Hannover Re Group. The insurance premiums were billed to Hannover Re, which the latter on-debited to Hannover Finance, Inc.

In addition, divisions of Talanx AG also performed services for us in the areas of taxes and general administration.

All transactions were effected at usual market conditions. We gave an account of these transactions with regard to Hannover Re and E+S Rück in the corresponding dependent company reports pursuant to § 312 Stock Corporation Act (AktG).

8.2 Remuneration and shareholdings of the management boards of the parent company

With regard to this information please see in general the remuneration report included as part of our Corporate Governance report, in particular page 187 et seq.

The remuneration report is based on the recommendation of the German Corporate Governance Code and contains information which also forms part of the notes to the 2008 consolidated financial statement as required by IAS 24 "Related Party Disclosures". In addition, we took into account the more specific provisions of DRS 17 "Reporting on the Remuneration of Members of Governing Bodies". Under German commercial law, too, this information includes data specified as mandatory for the notes (§ 314 HGB) and the management report (§ 315 HGB). These details are discussed as a whole in the remuneration report. Consequently, we have not provided any further explanation in the notes or management report.

8.3 Share-based payment

With effect from 1 January 2000 the Executive Board of Hannover Re, with the consent of the Supervisory Board, introduced a virtual stock option plan that provides for the granting of stock appreciation rights to certain managerial staff. The content of the stock option plan is based solely on the Conditions for the Granting of Stock Appreciation Rights. All the members of the Group's management are eligible for the award of stock appreciation rights. Exercise of the stock appreciation rights does not give rise to any entitlement to the delivery of Hannover Re stock, but merely to payment of a cash amount linked to the performance of the Hannover Re share. Recognition of transactions involving stock appreciation rights with cash settlement is governed by the requirements of IFRS 2 "Share-based Payment".

Stock appreciation rights were first granted for the 2000 financial year and are awarded separately for each subsequent financial year (allocation year), provided the performance criteria defined in the Conditions for the Granting of Stock Appreciation Rights are satisfied.

The internal performance criterion is achievement of the target performance defined by the Supervisory Board, which is expressed in terms of the diluted earnings per share calculated in accordance with IAS 33 "Earnings Per Share" (EPS). If the target EPS is surpassed or undershot, the provisional basic number of stock appreciation rights initially granted is increased or reduced accordingly to produce the EPS basic number. The external performance criterion is the development of the share price in the allocation year. The benchmark used in this regard is the (weighted) ABN Amro Rothschild Global Reinsurance Index. This index encompasses the performance of listed reinsurers worldwide. Depending upon the outperformance or underperformance of this index, the EPS basic number is increased – albeit by at most 400% of the EPS basic number – or reduced – although by no more than 50% of the EPS basic number.

The maximum period of the stock appreciation rights is ten years, commencing at the end of the year in which they are awarded. Stock appreciation rights which are not exercised by the end of the 10-year period lapse. Stock appreciation rights may only be exercised after a waiting period and then only within four exercise periods each year. For 40% of the stock appreciation rights (first tranche of each allocation year) the waiting period is two years; for each additional 20% of the stock appreciation rights (tranches two to four of each allocation year) the waiting period is extended by one year. Each exercise period lasts for ten trading days, in each case commencing on the sixth trading day after the date of publication of the quarterly report of Hannover Rückversicherung AG.

Upon exercise of a stock appreciation right the amount paid out to the entitled party is the difference between the basic price and the current market price of the Hannover Re share at the time of exercise. In this context, the basic price corresponds to the arithmetical mean of the closing prices of the Hannover Re share on all trading days of the first full calendar month of the allocation year in question. The current market price of the Hannover Re share at the time when stock appreciation rights are exercised is determined by the arithmetical mean of the closing prices of the Hannover Re share on the last twenty trading days prior to the first day of the relevant exercise period.

The amount paid out is limited to a maximum calculated as a quotient of the total volume of compensation to be granted in the allocation year and the total number of stock appreciation rights awarded in the year in question.

In the event of cancellation of the employment relationship or termination of the employment relationship as a consequence of a termination agreement or a set time limit, a holder of stock appreciation rights is entitled to exercise all such rights in the first exercise period thereafter. Stock appreciation rights not exercised in this period and those in respect of which the waiting period has not yet expired shall lapse. Retirement, disability or death of the member of management shall not be deemed to be termination of the employment relationship for the purpose of exercising stock appreciation rights.

The allocations for the years 2000, 2002 to 2004 as well as 2006 and 2007 gave rise to the following commitments in the 2008 financial year. No allocations were made for 2001 or 2005:

Stock appreciation rights of Hannover Re

	Allocation year					
	2007	2006	2004	2003	2002	2000
Award date	28.03.2008	13.03.2007	24.03.2005	25.03.2004	11.04.2003	21.06.2001
Period	10 years	10 years	10 years	10 years	10 years	10 years
Waiting period	2 years	2 years	2 years	2 years	2 years	2 years
Basic price (in EUR)	34.97	30.89	27.49	24.00	23.74	25.50
Participants in year of issue	110	106	109	110	113	95
Number of rights granted	926,565	817,788	211,171	904,234	710,429	1,138,005
Fair Value at 31.12.2008 (in EUR)	2.45	2.86	4.48	3.62	3.43	1.73
Maximum value (in EUR)	10.79	10.32	24.62	8.99	8.79	5.49
Number of rights existing at 31.12.2008	926,565	805,931	161,146	135,159	10,607	8,028
Provisions at 31.12.2008 (in EUR million)	0.79	1.63	0.69	0.50	0.04	0.01
Amounts paid out in the 2008 financial year (in EUR million)	–	–	0.01	1.06	0.82	0.00
Expense in the 2008 financial year (in EUR million)	0.79	(0.06)	(0.77)	(0.13)	0.04	(0.03)*

* Although the maximum amount was reached some participants did not exercise all stock appreciation rights

In the 2008 financial year the waiting period expired for 100% of the stock appreciation rights awarded in 2000 and 2002, 80% of those awarded in 2003 and 60% of those awarded in 2004. 93,747 stock appreciation rights from the 2002 allocation year, 121,117 stock appreciation rights from the 2003 allocation year and 1,699 stock appreciation rights from the 2004 allocation year were exercised. The total amount paid out stood at EUR 1.89 million.

The stock appreciation rights of Hannover Re have developed as follows:

Development of the stock appreciation rights of Hannover Re

Number of options	Allocation year					
	2007	2006	2004	2003	2002	2000
Granted in 2001	–	–	–	–	–	1,138,005
Exercised in 2001	–	–	–	–	–	–
Lapsed in 2001	–	–	–	–	–	–
Number of options at 31.12.2001	–	–	–	–	–	1,138,005
Granted in 2002	–	–	–	–	–	–
Exercised in 2002	–	–	–	–	–	–
Lapsed in 2002	–	–	–	–	–	40,770
Number of options at 31.12.2002	–	–	–	–	–	1,097,235
Granted in 2003	–	–	–	–	710,429	–
Exercised in 2003	–	–	–	–	–	–
Lapsed in 2003	–	–	–	–	23,765	110,400
Number of options at 31.12.2003	–	–	–	–	686,664	986,835
Granted in 2004	–	–	–	904,234	–	–
Exercised in 2004	–	–	–	–	–	80,137
Lapsed in 2004	–	–	–	59,961	59,836	57,516
Number of options at 31.12.2004	–	–	–	844,273	626,828	849,182
Granted in 2005	–	–	211,171	–	–	–
Exercised in 2005	–	–	–	–	193,572	647,081
Lapsed in 2005	–	–	6,397	59,834	23,421	25,974
Number of options at 31.12.2005	–	–	204,774	784,439	409,835	176,127
Granted in 2006	–	–	–	–	–	–
Exercised in 2006	–	–	–	278,257	160,824	153,879
Lapsed in 2006	–	–	14,511	53,578	22,896	10,467
Number of options at 31.12.2006	–	–	190,263	452,604	226,115	11,781
Granted in 2007	–	817,788	–	–	–	–
Exercised in 2007	–	–	12,956	155,840	110,426	3,753
Lapsed in 2007	–	8,754	13,019	38,326	10,391	–
Number of options at 31.12.2007	–	809,034	164,288	258,438	105,298	8,028
Granted in 2008	926,565	–	–	–	–	–
Exercised in 2008	–	–	1,699	121,117	93,747	–
Lapsed in 2008	–	3,103	1,443	2,162	944	–
Number of options at 31.12.2008	926,565	805,931	161,146	135,159	10,607	8,028
Exercisable at 31.12.2008	–	–	93,991	10,574	10,607	8,028

The existing stock appreciation rights are valued on the basis of the Black/Scholes option pricing model.

The calculations were based on the price of the Hannover Re share of EUR 21.91 as at 19 December 2008, expected volatility of 34.54% (historical volatility on a five-year basis), a dividend yield of 0.00% and risk-free interest rates of 1.96% for the 2000 allocation year, 2.37% for the 2002 allocation year, 2.56% for the 2003 allocation year, 2.74% for the 2004 allocation year, 3.06% for the 2006 allocation year and 3.20% for the 2007 allocation year.

The average fair value of each stock appreciation right was EUR 1.73 for the 2000 allocation year, EUR 3.43 for the 2002 allocation year, EUR 3.62 for the 2003 allocation year, EUR 4.48 for the 2004 allocation year, EUR 2.86 for the 2006 allocation year and EUR 2.45 for the 2007 allocation year.

On this basis the aggregate provisions for the 2008 financial year amounted to EUR 3.7 million (EUR 5.7 million).

8.4 Mortgages and loans

Employees who are not members of the Executive Board or Supervisory Board were granted mortgages and mortgage loans to finance residential property. These loans are all secured by a first charge on property. Bad debt losses did not exist and are not anticipated.

9. Other notes

9.1 Lawsuits

In the context of the acquisition of Lion Insurance Company, Trenton/USA, by Hannover Finance, Inc., Wilmington/USA – a subsidiary of Hannover Re –, a legal dispute exists with the former owners of Lion Insurance Company regarding the release of a trust account in amount of around USD 13 million that serves as security for liabilities of the former owners in connection with a particular business segment.

With the exception of the aforementioned proceedings, no significant court cases were pending during the year under review or as at the balance sheet date – with the exception of proceedings within the scope of ordinary insurance and reinsurance business activities.

9.2 Contingent liabilities and commitments

Hannover Re has secured by subordinated guarantee a subordinated debt in the amount of USD 400.0 million issued in the 1999 financial year by Hannover Finance, Inc., Wilmington/USA. In February 2004 and May 2005 Hannover Re bought back portions of the subordinated debt in an amount of altogether USD 380.0 million, leaving USD 20.0 million still secured by the guarantee. For further details please see Section 7.8 "Debt and subordinated capital".

Hannover Re has placed three subordinated debts on the European capital markets through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured by subordinated guarantee both the debt issued in 2001, the volume of which now stands at EUR 138.1 million, and the debts from financial years 2004 and 2005 in amounts of EUR 750.0 million and EUR 500.0 million respectively. For further details please see Section 7.8 "Debt and subordinated capital".

The guarantees given by Hannover Re for the subordinated debts attach if the issuer in question fails to render payments due under the bonds. The guarantees cover the relevant bond volumes as well as interest due until the repayment dates. Given the fact that interest on the bonds is partly dependent on the capital market rates applicable at the interest payment dates (floating rates), the maximum undiscounted amounts that can be called cannot be estimated with sufficient accuracy. Hannover Re does not have any rights of recourse outside the Group with respect to the guarantee payments.

In July 2004 Hannover Re and the other shareholders sold the participation that they held through Willy Vogel Beteiligungsgesellschaft mbH in Willy Vogel AG. In order to secure the guarantees assumed under the purchase agreement, Hannover Re and the other shareholders jointly gave the purchaser a directly enforceable guarantee limited to a total amount of EUR 7.1 million. Furthermore, in the event of a call being made on the guarantee Hannover Re and the other shareholders agreed that settlement would be based upon the ratio of participatory interests.

As security for technical liabilities to our US clients, we have established a master trust in the United States. As at the balance sheet date this master trust amounted to EUR 2,352.8 million (EUR 2,088.3 million). The securities held in the master trust are shown as available-for-sale investments. In addition, we extended further collateral to our cedants in an amount of EUR 269.3 million (31 December 2007: EUR 328.7 million) through so-called "single trust funds".

As part of our business activities we hold collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the Group's major companies was EUR 1,388.8 million (31 December 2007: EUR 1,235.1 million) as at the balance sheet date.

As security for our technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount of the letters of credit as at the balance sheet date was EUR 2,470.9 million (EUR 2,150.0 million).

For liabilities in connection with participating interests in real estate companies and real estate transactions Hannover Re Real Estate Holdings has furnished the usual collateral under such transactions to various banks, the amount of which totalled EUR 85.5 million as at the balance sheet date.

Outstanding capital commitments with respect to special investments exist on the part of the Group in an amount of EUR 291.1 million (EUR 235.2 million). These primarily involve as yet unfulfilled payment obligations from participations entered into in private equity funds and venture capital firms.

Within the scope of a novation agreement regarding a life insurance contract we assumed contingent reinsurance commitments with respect to due date and amount. Hannover Re decided to exercise its right of novation early and assume the contract as at 31 December 2008. The payment of EUR 28.1 million due as a consequence of exercise of the right of novation encompasses both the repurchase of the estimated reinsurance commitment amounting to EUR 10.3 million and EUR 17.8 million in expected discounted repayments plus interest for the years 2009 to 2011.

By way of declarations dated 11 and 20 November 2008 E+S Rück participated in a counter-guarantee given by the insurance industry in a maximum amount of EUR 8.5 billion for the guarantee put up by the Federal Republic of Germany as part of a rescue package for Hypo Real Estate Holding AG, Munich, and its subsidiaries ("HRE Group"). In this connection the Federal Republic of Germany guarantees repayment of capital and interest to the German Bundesbank, which is to extend a loan to the HRE Group, as well as to the holders of newly issued debentures, through which further funds are to be made available to the HRE Group. The insurance industry assumes a portion of this guarantee amount put up by the federal government through the aforementioned counter-guarantee. The participating insurers are liable severally, but not jointly. E+S Rück's interest in this counter-guarantee is limited to a nominal amount of EUR 11.1 million (rounded).

9.3 Long-term commitments

Following the termination of the German Aviation Pool with effect from 31 December 2003, our participation consists of the run-off of the remaining contractual relationships.

Several Group companies are members of the association for the reinsurance of pharmaceutical risks and the association for the insurance of German nuclear reactors. In the event of one of the other pool members failing to meet its liabilities, an obligation exists to take over such other member's share within the framework of the quota participation.

9.4 Rents and leasing

Leased property

Future leasing commitments

Figures in EUR thousand	Payments
2009	3,362
2010	3,294
2011	2,773
2012	2,016
2013	1,468
Subsequent years	6,157

Operating leasing contracts produced expenditures of EUR 2.7 million (EUR 3.5 million) in the year under review.

Rented property

Altogether, non-cancellable contracts will produce the rental income shown below in subsequent years.

Rental income

Figures in EUR thousand	Payments to be received
2009	1,447
2010	1,375
2011	588
2012	588
2013	588
Subsequent years	–

Rental income totalled EUR 1.5 million (EUR 1.7 million) in the year under review.

The rental income resulted principally from the renting out of a property by Hannover Real Estate Holdings. This non-cancellable transaction has a remaining term of two years with an option to renew for a further five years.

9.5 Currency translation

Items in the annual financial statements of Group subsidiaries were measured in the currencies of the economic environment in which the subsidiary in question primarily operates. These currencies are referred to as functional currencies. The euro is the reporting currency in which the consolidated financial statement is prepared.

Foreign currency items in the individual companies' statements of income are converted into the respective functional currency at the average rates of exchange. The individual companies' statements of income prepared in the national currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statement. The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange on the balance sheet date. In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" differences from the currency translation of financial statements of foreign Group companies must be recognised in the consolidated financial statement as a separate item in shareholders' equity. Currency translation differences resulting from long-term loans or lendings without specified maturity between Group companies are similarly recognised outside the statement of income in a separate item of shareholders' equity.

Transactions in foreign currencies reported in Group companies' individual financial statements are converted into the reporting currency at the transaction rate. In accordance with IAS 21 the recognition of exchange differences on translation is guided by the nature of the underlying balance sheet item.

Exchange differences from the translation of monetary assets and liabilities are recognised directly in the statement of income.

Currency translation differences from the translation of non-monetary assets measured at fair value via the statement of income are recognised with the latter as profit or loss from fair value measurement changes.

Exchange differences from non-monetary items – such as equity securities – classified as available for sale are initially recognised outside income in a separate item of shareholders' equity and only booked to income when such non-monetary items are settled.

Key exchange rates

1 EUR corresponds to:	Mean rate of exchange on the balance sheet date		Average rate of exchange	
	31.12.2008	31.12.2007	2008	2007
AUD	2.0257	1.6775	1.7437	1.6385
BHD	0.5312	0.5530	0.5563	0.5176
CAD	1.7160	1.4440	1.5561	1.4700
CNY	9.6090	10.7400	10.2693	10.4308
GBP	0.9600	0.7346	0.7985	0.6861
HKD	10.8323	11.4760	11.4733	10.7171
KRW	1,775.0000	1,377.0000	1,602.6923	1,274.6923
MYR	4.8700	4.8652	4.9064	4.7131
SEK	10.9150	9.4350	9.6662	9.2458
USD	1.3977	1.4716	1.4739	1.3743
ZAR	13.1698	10.0300	11.9514	9.6499

9.6 Fee paid to the auditor

Total fees of EUR 6.6 million (EUR 6.5 million) were incurred for accountants' services throughout the Hannover Re Group worldwide in the year under review. They were principally comprised of auditing and tax consultancy fees.

Of this total amount, EUR 2.2 million (EUR 1.5 million) was attributable to the fee paid to the appointed auditor of the consolidated financial statement as defined by § 318 German Commercial Code (HGB). The amount includes a fee of EUR 2.0 million (EUR 1.2 million) for the auditing of the financial statement, EUR 0.1 million (EUR 0.2 million) for tax consultancy services and EUR 0.1 million (EUR 0.1 million) for consultancy and other services performed for the parent or subsidiary companies.

9.7 Events after the balance sheet date

As notified in a press release dated 23 February 2009, the acquisition announced on 23 January 2009 of a significant US individual life reinsurance portfolio under a reinsurance and asset purchase transaction with Scottish Re Group Limited, Hamilton, Bermuda, has been completed. Hannover Re will assume all technical liabilities associated with the business and will in turn receive assets to fund those liabilities from Scottish Re. In addition to assuming the business, Hannover Re will acquire the policy administration systems of Scottish Re as well as other assets supporting the US mortality reinsurance business. The acquisition includes all operating assets required to administer the business. Hannover Re will also employ part of Scottish Re's staff, thus ensuring operational continuity and a transfer of know-how. In 2009 this business is estimated to generate a premium volume of around USD 1.2 billion. The acquisition of the portfolio will be accretive to the Hannover Re's Group net income from 2009. The transaction has been approved by the competent regulatory authorities.

Winter storm "Klaus", which moved across southern France and northern Spain at the end of January, caused insured damage of around EUR 1.0 billion. In this connection Hannover Re anticipates a net burden of losses in the order of EUR 70 million.

Responsibility statement

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

Hannover, 4 March 2009

Executive Board



Zeller



Arrago



Dr. Becke



Gräber



Dr. König



Dr. Pickel



Wallin

We have audited the consolidated financial statements prepared by the Hannover Rückversicherung AG, Hannover, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Para 1 HGB and supplementary provisions of the articles of incorporation are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hannover, 5 March 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft

(formerly KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft)

Husch
Wirtschaftsprüfer

Dr. Dahl
Wirtschaftsprüfer