

somewhat
different

Interim Report | **1 / 2009**

hannover **re**[®]

KEY FIGURES

of the Hannover Re Group

Figures in EUR million	2009		2008	
	1.1.–31.3.	+/- previous Year	1.1.–31.3.	31.12.
Results				
Gross written premium	2,661.9	+17.0%	2,275.5	
Net premium earned	2,091.3	+24.6%	1,678.7	
Net underwriting result	(1.7)	-94,0%	(28.6)	
Net investment income	198.2	-24,5%	262.6	
Operating result (EBIT)	305.8	+24.5%	245.6	
Group net income (loss)	216.1	+42.7%	151.5	
Balance sheet (as at the end of the quarter)				
Policyholders' surplus	4,784.4	+1.6%		4,708.4
Total shareholders' equity	2,937.1	+3.8%		2,830.1
Minority interests	483.8	-3.5%		501.4
Hybrid capital	1,363.5	-1.0%		1,376.9
Investments (excl. funds held by ceding companies)	20,950.4	+4.0%		20,137.2
Total assets	40,966.7	+7.8%		38,001.7
Share				
Earnings per share (diluted) in EUR	1.79	+42.7%	1.26	
Book value per share in EUR	24.35	+3.8%	26.04	23.47
Dividend	–		–	–
Dividend per share in EUR	–		–	–
Share price at the end of the period in EUR	24.00	+6.7%	33.02	22.50
Market capitalisation at the end of the period	2,894.3	+6.7%	3,982.1	2,713.4
Ratios				
Combined ratio (non-life reinsurance) ¹⁾	95.0%		99.5%	
Large losses as percentage of net premium earned (non-life reinsurance) ²⁾	8.4%		6.8%	
Retention	91.7%		88.7%	
Return on investment (excl. funds held by ceding companies)	2.7%		4.4%	
EBIT margin ³⁾	14.6%		14.6%	
Return on equity (annualised) ⁴⁾	21.6%		18.7%	

¹⁾ Including funds held

²⁾ Natural catastrophes and other major losses in excess of EUR 5 million gross for the Hannover Re Group's share

³⁾ Operating profit (EBIT)/net premium earned

⁴⁾ After tax, ING one-off effect not annualised



Wilhelm Zeller
Chairman of the
Executive Board

Dear Shareholders,
Ladies and Gentlemen,

Your company has made a promising start to 2009. We are very well positioned in our core business – both in non-life reinsurance and life/health reinsurance – to make the most of the opportunities that are now opening up as a consequence of the financial market crisis. A further positive factor is that we can look to the future with similar composure when it comes to the development of our investment portfolio: having scaled back our equity exposure to virtually zero in the autumn of last year, the potential risks of the financial market crisis for our company have been substantially reduced. The present result for the first quarter is promising, and it puts in place a good platform for achieving our ambitious profit target for the full financial year – namely a return on equity of at least 18 percent after tax. A non-recurring effect from the acquisition of the US ING life reinsurance portfolio in an amount of roughly EUR 80 million is included here.

The treaty renewals in *non-life reinsurance* as at 1 January 2009 passed off well for our company. They testified to a significantly improved situation on the reinsurance markets – triggered by the financial market crisis, which has led to a shortage of capacity in the global insurance industry and hence stimulated demand for reinsurance. Scarcely any further rate reductions were observed; on the contrary, increases sometimes running into double-digit percentages were recorded. This was especially true of worldwide credit and surety business, although it also applied to catastrophe covers and particularly those programmes that had incurred losses in 2008. Nevertheless, we are still not satisfied with the rate situation in US catastrophe business and have therefore reduced our involvement in this area accordingly.

The burden of major claims and catastrophe losses for the first quarter was well above that of the comparable period of the previous year, although it remained within the expected bounds of 10 percent of net premium in non-life reinsurance.

The development of our second business group, *life and health reinsurance*, was shaped by the acquisition of the US ING life portfolio as at 1 January 2009. We thus took a crucial step towards attaining our global objectives in life reinsurance business. The acquisition also served to improve still further the diversification of our revenue streams, since life reinsurance business – which is notable for its greater stability – will account for an even larger share of the total portfolio going forward. In the context of this transaction a portion of future earnings had to be capitalised as embedded value due to the applicable accounting standards. This gave rise to the aforementioned non-recurring profit contribution. Yet even without this effect we can be satisfied with the development of our life and health reinsurance: the principal drivers of our busi-

ness continue to be the developed insurance markets of the United Kingdom, United States, Germany and Australia. Over the long term we also see considerable potential in the so-called BRIC markets (Brazil, Russia, India and China). While we already serve the Chinese insurance market through our branch in Shanghai, we also plan to open a representative office in Beijing in the course of the current financial year.

The development of our *investments* in the first three months of the year was satisfactory overall, although conditions on the international capital markets are still far from favourable. We have so far been proven correct in not carrying any exposures to listed equities in our portfolio. Yet our company too was compelled to take write-downs on private equity investments. As far as fixed-income securities are concerned, our focus remains on high quality and broad diversification. As expected, our net investment income contracted in the first quarter – principally because the comparable period of the previous year had been influenced by unusually high profit-taking.

I am particularly pleased to report to you, our valued shareholders, that as February progressed our share price put the low point of January 2009 behind it and finally began to move in a direction more befitting the potential inherent in your company. The Hannover Re share thus posted substantial gains, at times even bucking the market trend. Ultimately, this resulted in a market capitalisation that enabled us to join the German bellwether Dax index as one of two newly promoted candidates. Whilst we of course welcomed this development – since it opens up new opportunities for our share price – we are at the same time well aware that a mid-sized stock such as our own is unlikely to remain in the Dax over the long term. If and when we forfeit our place in this index, it will be because the economy is recovering and the market capitalisations of larger undertakings are returning to more normal levels. We should have no reason to shed tears over such a scenario.

I would like to thank you – also on behalf of my colleagues on the Executive Board – most sincerely for your trust in Hannover Re. Going forward, as in the past, our overriding goal will be to lead your company responsibly and securely into a profitable future.

Yours sincerely,



Wilhelm Zeller
Chairman of the Executive Board

BOARDS AND OFFICERS of Hannover Re

Supervisory Board (Aufsichtsrat)

Wolf-Dieter Baumgartl ¹⁾²⁾³⁾ Berg	Chairman
Dr. Klaus Sturany ¹⁾ Dortmund	Deputy Chairman
Herbert K. Haas ¹⁾²⁾³⁾ Burgwedel	
Uwe Kramp ⁴⁾ Hannover	
Karl Heinz Midunsky ³⁾ Gauting	
Ass. jur. Otto Müller ⁴⁾ Hannover	
Dr. Immo Querner Ehlershausen	
Dr. Erhard Schipporeit ²⁾ Hannover	
Gert Waechter ⁴⁾ Burgwedel	

Executive Board (Vorstand)

Wilhelm Zeller Burgwedel	Chairman
André Arrago Hannover	
Dr. Wolf Becke Hannover	
Jürgen Gräber Ronnenberg	
Dr. Elke König Hannover (until 31 March 2009)	
Dr. Michael Pickel Isernhagen	
Ulrich Wallin Hannover	
Roland Vogel Wennigsen (from 1 April 2009)	Deputy Chairman

¹⁾ Member of the Standing Committee
²⁾ Member of the Balance Sheet Committee
³⁾ Member of the Nomination Committee
⁴⁾ Staff representative

INTERIM MANAGEMENT REPORT

Business development

We are satisfied with the development of our two business groups – non-life reinsurance and life/health reinsurance – in the first quarter of 2009. The most significant event for our company was the acquisition of the ING life reinsurance portfolio in the United States, since this enabled us to chart a course for further profitable growth.

In both non-life and life/health reinsurance we are very well placed to profit accordingly from the business opportunities available on the worldwide reinsurance markets.

Gross written premium in total business increased sharply by 17.0% to EUR 2.7 billion (EUR 2.3 billion) as at 31 March 2009. Of this growth, an amount of EUR 193.0 million was attributable to the acquisition of the ING life reinsurance portfolio. The effect of exchange rate movements was only marginal. The level of retained premium climbed as planned to 91.7% (88.7%). Net premium consequently increased by an even more substantial 24.6% to EUR 2.1 billion (EUR 1.7 billion).

Following a below-average incidence of catastrophe losses in the comparable quarter of the previous year, the strains incurred in the first quarter of 2009 rose – although they remained within the expected bounds.

In view of the protracted difficult state of international capital markets, we are broadly satisfied with our investment income. The volume of assets under own management grew slightly owing to a positive inflow of cash from the technical account. Ordinary investment income fell somewhat short of the corresponding quarter of the previous year (EUR 211.3 million) at EUR 199.3 million. Interest on deposits climbed by 6.0% to EUR 57.9 million (EUR 54.6

million). While write-downs on equities decreased to EUR 2.6 million (EUR 65.1 million) and those taken on fixed-income securities retreated to EUR 13.8 million (EUR 20.5 million), we were compelled to take write-downs of EUR 33.6 million (Q1/2008: –) in the first quarter of 2009 on private equity investments. Having realised very high gains on disposals of EUR 133.8 million in the corresponding quarter of the previous year due to tactical shortening of durations in the USD portfolio, a normalised level of EUR 45.9 million was recorded in the first quarter of 2009. Realised losses contracted to EUR 8.1 million, after EUR 26.1 million in the comparable period. The unrealised losses in our holdings of assets measured at fair value through profit or loss amounted to EUR 33.7 million (EUR 11.9 million). Overall, net investment income fell to EUR 198.2 million (EUR 262.6 million).

The operating profit (EBIT) climbed by 24.5% to EUR 305.8 million (EUR 245.6 million). Group net income as at 31 March 2009 increased by 42.7% to EUR 216.1 million (EUR 151.5 million) owing to the non-recurring amount of EUR 80.2 million resulting from the acquisition of the ING life reinsurance portfolio. Earnings per share came in at EUR 1.79 (EUR 1.26) and the annualised return on equity stood at 21.6% (18.7%).

Shareholders' equity improved by EUR 107.0 million on the level of 31 December 2008 and totalled EUR 2.9 billion. The book value per share consequently also increased by the same percentage to EUR 24.35 (EUR 23.47). The policyholders' surplus, comprised of shareholders' equity, minority interests and hybrid capital, totalled EUR 4.8 billion (EUR 4.7 billion).

Non-life reinsurance

The situation on the international reinsurance markets is very favourable since the "soft" market has come to an end sooner than expected. This was clearly reflected in the treaty renewals as at 1 January 2009, the time of year when around two-thirds of our treaties are renegotiated. This turnaround was triggered by the financial market crisis,

which has led to a capital shortage throughout the global insurance industry and hence stimulated demand for reinsurance. The resulting rate increases reached double digits in some areas, and scarcely any further price declines were observed. Since the rate rises in worldwide credit and surety business – which saw increases of up to 50% – were com-

mensurate with the risks, we expanded our business in this line particularly vigorously. In catastrophe business, too, and especially in regions that had suffered losses, price increases sometimes running into double-digit percentages were obtained. Despite this, we still consider the rate improvements in US catastrophe business to be insufficient.

The development of business in our domestic market was pleasing: we were again able to boost our already large market share in Germany thanks to new client relationships

and increased treaty shares under existing accounts, thereby further extending our position as one of the leading reinsurers in the German market.

We are thoroughly satisfied with the development of our business in the countries of Central and Eastern Europe. A sharp surge in demand enabled us not only to acquire new clients but also to enlarge our shares of existing business, especially in Russia and other successor states of the former Soviet Union.

Key figures for non-life reinsurance

Figures in EUR million	2009		2008
	1.1.–31.3.	+/- previous year	1.1.–31.3.
Gross written premium	1,656.0	+9.9%	1,506.9
Net premium earned	1,180.9	+18.5%	996.9
Underwriting result	53.6		(3.3)
Net investment income	117.8	-33.3%	176.7
Operating profit (EBIT)	187.6	+3.4%	181.5
Group net income (loss)	126.1	+11.1%	113.5
Earnings per share in EUR	1.05	+11.1%	0.94
Combined ratio ¹⁾	95.0%		99.5%
Retention	92.4%		88.6%

¹⁾ Including expenses on funds held and contract deposits

Structured reinsurance products also developed highly satisfactorily. The depletion of capital resources at primary insurers prompted considerably stronger demand. We are continuing to diversify our business in this area in favour of regions outside the United States. Particularly appreciable growth was generated in Asia, although demand on the US market also rose again.

In facultative reinsurance business, which is concerned with the underwriting of individual risks, around 40% of our portfolio was renewed as at 1 January 2009. We observed stable rates here in virtually all markets. Although a tendency towards market hardening has been discernible since the onset of the financial market crisis, the rate increases are still relatively slight.

All in all, developments in our non-life reinsurance business group were highly gratifying. The gross premium volume as at 31 March 2009 increased by 9.9% relative to the same period of the previous year to reach EUR 1.7 billion (EUR 1.5 billion). Movements in exchange rates had an expansionary effect in non-life reinsurance; at constant exchange rates, especially against the US dollar, growth would have come in at 6.7%. The level of retained premium rose to 92.4% (88.6%) thanks to considerably reduced retrocessions. Net premium earned consequently climbed by 18.5% to EUR 1.2 billion (EUR 1.0 billion).

The burden of catastrophe losses in the first quarter was significantly higher than in the corresponding quarter of the previous year: the largest individual loss was winter storm "Klaus", which caused particularly widespread devastation

in South-Western France and Northern Spain. This event produced a net strain of EUR 63.3 million for our account. The destructive bushfires that raged across parts of Australia resulted in a charge of EUR 12.5 million. Further smaller losses derived from the collapse of the Cologne City Archive as well as a satellite failure and a plane crash.

All in all, the total net burden of catastrophe losses and major claims came in at EUR 98.8 million (EUR 68.1 million). This is equivalent to 8.4% of net premium in non-

life reinsurance and is hence well within the expected level of 10%. The combined ratio stood at 95.0% (99.5%).

The net underwriting result improved on the comparable quarter of the previous year from -EUR 3.3 million to EUR 53.6 million. The operating profit (EBIT) in non-life reinsurance moved a modest 3.4% higher to EUR 187.6 million (EUR 181.5 million) despite the decline in investment income. Group net income increased by 11.1% to EUR 126.1 million (EUR 113.5 million), producing earnings of EUR 1.05 (EUR 0.94) a share.

Life and health reinsurance

Our product range in life and health reinsurance encompasses, as before, five subsegments: financial solutions, bancassurance, new markets, conventional risk-oriented reinsurance and multinational insurance clients. This positioning ensures that we enjoy a promising portfolio and vigorous organic growth going forward.

In January we set our course for further profitable growth with our acquisition of the US ING life reinsurance portfolio. This transaction serves to strengthen our risk-oriented reinsurance segment in the United States, where we had hitherto been underrepresented. In addition to assuming the portfolio we also acquired infrastructure and top-quality know-how relating to premium calculation, underwriting and reinsurance administration, thereby appreciably boosting both our market presence and our income from the US term life insurance sector. What is more, the transaction improves the diversification of our revenue streams because life reinsurance business – which is notable for its greater stability – will account for an even larger share of the total portfolio going forward.

In many countries the international financial market crisis has brought about a considerable shift in life in-

surers' demand for reinsurance solutions and hence created – to the benefit of globally operating reinsurers with a first-class rating – a continuously growing imbalance in the dynamics of supply and demand. Owing to the visible weakening of their solvency position, primary insurers are finding themselves compelled to adopt a significantly more cautious risk strategy and financial policy for the immediate future. This development is generating a wave of demand for both risk- and financially oriented reinsurance solutions – especially because direct access to the capital markets is still highly problematic. This state of affairs is particularly evident in the United States, where the insurance industry suffered marked erosion of its capital base in the course of 2008. We therefore anticipate an appreciable increase in cession ratios.

A special focus of our strategy continues to be on the BRIC markets (Brazil, Russia, India and China). Yet Korea – the largest life reinsurance market in Asia – also offers our company good growth prospects. While we are represented by our own branches in China and Korea, we cooperate with local reinsurers in Brazil and India.

Key figures for life and health reinsurance

Figures in EUR million	2009		2008
	1.1.–31.3.	+/- previous year	1.1.–31.3.
Gross written premium	1,005.9	+30.6%	770.1
Net premium earned	910.4	+33.5%	681.8
Net investment income	75.8	-0.5%	76.2
Operating profit (EBIT)	117.5	+145.3%	47.9
Group net income (loss)	98.0	+155.9%	38.3
Earnings per share in EUR	0.81	+155.9%	0.32
Retention	90.6 %		88.6 %
EBIT margin ¹⁾	12.9 %		7.0 %

¹⁾ Operating result (EBIT)/net premium earned

The main drivers of our business nevertheless continue to be the developed insurance markets of the United Kingdom, United States, Germany and Australia.

Gross written premium increased by 30.6% as at 31 March 2009 to EUR 1.0 billion (EUR 770.1 million) on account of the acquisition of the ING life reinsurance portfolio; at constant exchange rates growth would have been as high as 36.7%. This effect, which is the opposite of that seen in non-life reinsurance, can be attributed above all to movements in the pound sterling. The level of retained premium rose from 88.6% to 90.6%. Net premium earned surged by 33.5% to EUR 910.4 million (EUR 681.8 million).

The operating profit (EBIT) climbed sharply to EUR 117.5 million (EUR 47.9 million). The EBIT margin of 12.9% consequently surpassed the target range of 6.5% to 7.5%. Group net income increased to EUR 98.0 million (EUR 38.3 million). This includes the non-recurring effect from our life transaction in an amount of EUR 80.2 million. The earnings

per share came in at EUR 0.81 (EUR 0.32), hence putting in place a very solid platform for achieving our annual target.

As in previous years, we are also reporting on the Market Consistent Embedded Value (MCEV) in the context of our interim report on the first quarter. This consists of a valuation of the life and health reinsurance portfolio as well as the allocated capital and hence provides a basis for assessing long-term profitability. As far as its economic assumptions are concerned, the MCEV had already been calculated on an entirely market-consistent basis for the 2007 financial year. The MCEV for 2008 was established using the latest MCEV principles published by the CFO Forum in June 2008.

Bearing in mind the present state of the capital markets, the MCEV developed favourably as at 31 December 2008. It remained almost unchanged at EUR 1.7 billion (EUR 1.7 billion). The value of new business was again boosted substantially and now stands at EUR 150.5 million (EUR 106.4 million).

Investments

International stock markets remained under pressure despite rallying somewhat from the lows recorded in early March. The partial restoration of confidence has not yet been reinforced by hard facts on the ground. While government bonds in Europe saw sharp declines in yields, especially in the shorter duration range, yields on US Treasury securities increased slightly in the first quarter of 2009.

The protracted turmoil on international capital markets only marginally affected our result in the first quarter. Our

portfolio of assets under own management increased again relative to the volume as at 31 December 2008 (EUR 20.1 billion) to reach EUR 21.0 billion, driven principally by the acquisition of the ING life reinsurance portfolio. Ordinary income excluding interest on deposits fell slightly short of the corresponding quarter of the previous year at EUR 199.3 million (EUR 211.3 million), a testament to the fact that we are correct in pursuing an investment policy geared to generating stable ordinary income.

Net investment income

Figures in EUR million	2009		2008
	31.3.	+/- previous year	31.3.
Ordinary investment income ¹⁾	199.3	-5.7%	211.3
Results from participation in associated companies	0.1	-87.5%	0.7
Realised gains/losses	37.8	-64.9%	107.7
Impairments on investments	(50.3)	-41.4%	(85.7)
Unrealised gains/losses ²⁾	(33.7)	+183.7%	(11.9)
Investment expenses	(13.0)	-7.9%	(14.1)
Net investment income from assets under own management	140.3	-32.5%	208.0
Net investment income from funds withheld	57.9	+6.0%	54.6
Net investment income	198.2	-24.5%	262.6

¹⁾ Excluding expenses on funds held and contract deposits

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

Movements on bond markets led to unrealised losses of EUR 103.9 million in our available-for-sale portfolio of fixed-income securities in the first quarter, contrasting with unrealised gains of EUR 101.7 million as at year-end 2008. This change derived from price declines on virtually all fixed-income securities of the available-for-sale portfolio and can be attributed principally to the – in some cases marked – rise in risk premiums as well as the increase in yields in the US dollar portfolio. Realised gains on disposals, which at EUR 133.8 million had been very high in the comparable quarter of the previous year due to tactical shortening of durations in the US dollar portfolio, returned to a normal level of EUR 45.9 million in the first quarter. This contrasted with realised losses of EUR 8.1 million (EUR 26.1 million).

Along with impairments taken on structured products, the volume of write-downs totalling altogether EUR 50.3 million (EUR 85.7 million) was attributable chiefly to private equity investments. Unrealised losses on our asset holdings measured at fair value through profit or loss amounted to EUR 33.7 million (EUR 11.9 million).

Net investment income contracted by 24.5% to EUR 198.2 million (EUR 262.6 million), first and foremost owing to reduced profit-taking and changes in the fair value of assets measured at fair value through profit or loss. This figure includes income from interest on deposits, which at EUR 57.9 million was somewhat higher than in the comparable period of the previous year (EUR 54.6 million).

Risk report

Overall assessment of the risk situation

As an internationally operating reinsurer we are exposed to a diverse spectrum of potential risks. These risks can have a considerable impact on our assets, financial position and net income. Our effective controlling tools nevertheless ensure that we are able to identify our risks in a timely manner and maximise our opportunities.

Notwithstanding the various tools employed by our company, the financial market crisis adversely impacted Hannover Re's investment income last year. Despite the risk minimisation measures already implemented – such as the substantial reduction of the equity allocation and further tightening of issuer limits – Hannover Re cannot entirely

decouple itself from current global market developments. In view of the capital depletion suffered by the insurance industry – in common with numerous other sectors –, Hannover Re expects to see rising demand for reinsurance and hence market hardening to the benefit of reinsurers. Although the recession continues to spread, its effect on our company is likely to be limited since the primary impact is on the profitability of enterprises and less on the fixed assets to be insured. As far as our burden of catastrophe losses and major claims in the first quarter of 2009 is concerned, particularly notable events were the collapse of the Cologne City Archive, a bushfire in Australia, winter storm "Klaus" and a satellite failure.

Outlook

Based on our strategic orientation and the available market opportunities in non-life and life/health reinsurance, we anticipate a good result for 2009. At constant exchange rates the net premium volume is expected to grow by approximately 25%.

The outcome of our treaty renewals in *non-life reinsurance* as at 1 January 2009 was gratifying. The capital lost by primary insurers in the wake of the financial market crisis had generated stronger demand for reinsurance – hence pushing prices up virtually across the board. Further price increases should be attainable in the mid-year treaty renewals.

As anticipated, the treaty renewals as at 1 April in Japan and South Korea also passed off satisfactorily for our company in view of the repercussions of the financial market crisis. While the previous year had still witnessed declining rates, these markets now saw the expected price increases – although in Japan they were still insufficient in some areas. We responded by scaling back our proportional property business here in accordance with our strategy and hence reduced peak exposures. In casualty business, on the other

hand, we enlarged our premium volume on the back of adequate rates.

We were especially pleased with the recent round of treaty renewals in Korea. After the appreciable pressure on prices in the previous year, it was now possible to achieve rate increases – inter alia in non-proportional property business. On this basis we enlarged our treaty shares. In casualty business it was even possible to push through price increases running into double-digit percentages. Not only that, we also expanded our accident portfolio – as a consequence of which our total premium volume from the Korean market has risen.

Our net premium for the full financial year in non-life reinsurance is expected to grow by approximately 20%. Provided the burden of catastrophe losses and major claims remains within the expected bounds of around 10% of net premium, we are looking forward to a very healthy profit contribution.

The general environment in *life and health reinsurance* is also favourable. Here, too, the financial and economic crisis

has brought about a heightened awareness among the middle classes of the need for individual provision, hence delivering lasting growth stimuli worldwide.

We are very well positioned to share disproportionately strongly in the potential growth opportunities that are opening up around the world.

Net premium in life and health reinsurance is likely to increase by approximately 35% in the current financial year on account of the acquisition of the US ING life reinsurance portfolio as at 1 January. The EBIT margin for life and health reinsurance should certainly come in within the target corridor of 6.5% to 7.5%. In view of the developments described above, the life and health reinsurance business group is expected to deliver a very healthy profit contribution to total business.

On the *investments* side the anticipated positive cash flow which Hannover Re generates from its technical account and asset holdings should – subject to stable exchange

rates – result in further growth in the investment portfolio. In the area of fixed-income securities we continue to stress high quality and the diversification of the portfolio. Following Hannover Re's move to reduce its equity exposure to almost zero, further volatility on stock markets can only have limited effects on investment income.

In light of its strategic orientation and the available market opportunities in non-life and life/health reinsurance, Hannover Re is looking to post a good result for the full 2009 financial year. Assuming that the burden of catastrophe losses and major claims does not significantly exceed the expected level of 10% of net premium in non-life reinsurance, and as long as there are no further adverse movements on capital markets, we anticipate – allowing for the non-recurring effect from the acquisition of the ING life reinsurance portfolio – a *return on equity* of at least 18% and *earnings per share* of at least EUR 5 for the 2009 financial year. It remains our goal to pay a dividend in the range of 35% to 40%.

QUARTERLY FINANCIAL REPORT

of the Hannover Re Group

CONSOLIDATED BALANCE SHEET

as at 31 March 2009

Figures in EUR thousand	2009	2008
Assets	31.3.	31.12.
Fixed-income securities – held to maturity	1,505,517	1,475,202
Fixed-income securities – loans and receivables	1,694,753	1,680,857
Fixed-income securities – available for sale	15,174,738	14,482,832
Fixed-income securities – at fair value through profit or loss	243,017	254,528
Equity securities – available for sale	17,647	22,589
Other financial assets – at fair value through profit or loss	46,201	44,654
Real estate	22,677	25,514
Investments in associated companies	128,284	128,680
Other invested assets	759,018	784,421
Short-term investments	940,518	807,719
Cash	418,061	430,225
Total investments and cash under own management	20,950,431	20,137,221
Funds held	10,888,839	9,776,147
Contract deposits	354,963	288,782
Total investments	32,194,233	30,202,150
Reinsurance recoverables on unpaid claims	2,116,577	2,079,168
Reinsurance recoverables on benefit reserve	196,610	159,151
Prepaid reinsurance premium	80,666	29,733
Reinsurance recoverables on other technical reserves	7,210	9,928
Deferred acquisition costs	1,957,609	1,860,783
Accounts receivable	3,359,608	2,801,762
Goodwill	43,089	42,833
Deferred tax assets	599,048	549,146
Other assets	405,560	260,265
Accrued interest and rent	6,523	6,824
	40,966,733	38,001,743

Figures in EUR thousand	2009	2008
Liabilities	31.3.	31.12.
Loss and loss adjustment expense reserve	17,780,656	16,932,069
Benefit reserve	7,209,321	5,913,075
Unearned premium reserve	1,768,589	1,333,856
Provisions for contingent commissions	153,345	156,996
Funds held	662,589	565,952
Contract deposits	5,291,347	5,146,424
Reinsurance payable	1,193,249	1,236,912
Provisions for pensions	73,538	72,207
Taxes	198,240	201,960
Provision for deferred taxes	1,421,667	1,371,589
Other liabilities	384,770	319,183
Long-term debt and subordinated capital	1,408,494	1,420,027
Total liabilities	37,545,805	34,670,250
Shareholders' equity		
Common shares	120,597	120,597
Nominal value 120,597		
Authorised capital 60,299		
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	(74,962)	113,864
Cumulative foreign currency translation adjustment	(177,018)	(247,565)
Other changes in cumulative other comprehensive income	4,590	(4,577)
Total other comprehensive income	(247,390)	(138,278)
Retained earnings	2,339,324	2,123,178
Shareholders' equity before minorities	2,937,093	2,830,059
Minority interests	483,835	501,434
Total shareholders' equity	3,420,928	3,331,493
	40,966,733	38,001,743

CONSOLIDATED STATEMENT OF INCOME

for the period 1 January to 31 March 2009

Figures in EUR thousand	2009	2008
	1.1.–31.3.	1.1.–31.3.
Gross written premium	2,661,865	2,275,471
Ceded written premium	220,941	257,360
Change in gross unearned premium	(399,961)	(357,756)
Change in ceded unearned premium	50,374	18,310
Net premium earned	2,091,337	1,678,665
Ordinary investment income	199,310	211,299
Profit/loss from investments in associated companies	87	695
Income/expense on funds withheld and contract deposits	57,883	54,602
Realised gains on investments	45,927	133,776
Realised losses on investments	8,128	26,074
Unrealised gains and losses on investments	(33,692)	(11,875)
Total depreciation, impairments and appreciation of investments	50,258	85,743
Other investment expenses	12,965	14,070
Net investment income	198,164	262,610
Other technical income	518	137
Total revenues	2,290,019	1,941,412
Claims and claims expenses	1,477,884	1,163,730
Change in benefit reserve	165,362	84,042
Commission and brokerage, change in deferred acquisition costs	381,647	396,733
Other acquisition costs	3,286	4,660
Other technical expenses	7,514	2,863
Administrative expenses	57,892	55,374
Total technical expenses	2,093,585	1,707,402
Other income and expenses	109,393	11,636
Operating profit/loss (EBIT)	305,827	245,646
Interest on hybrid capital	19,035	19,303
Net income before taxes	286,792	226,343
Taxes	67,808	67,948
Net income	218,984	158,395
thereof		
Minority interest in profit and loss	2,836	6,934
Group net income	216,148	151,461
Earnings per share		
Earnings per share in EUR	1.79	1.26

Consolidated statement of recognised income and expense

Figures in EUR thousand	2009	2008
	1.1.–31.3.	1.1.–31.3.
Net income	218,984	158,395
Unrealised gains and losses on investments		
Gains (losses) recognised in equity	(239,341)	(223,457)
Transferred to the consolidated statement of income	(16,841)	(7,751)
Tax income (expense)	57,685	(6,682)
	(198,497)	(237,890)
Currency translation		
Gains (losses) recognised in equity	82,684	(149,949)
Transferred to the consolidated statement of income	(298)	(674)
Tax income (expense)	(9,501)	9,730
	72,885	(140,893)
Changes from the measurement of associated companies		
Gains (losses) recognised in equity	(518)	(566)
	(518)	(566)
Other changes		
Gains (losses) recognised in equity	11,746	(289)
Tax income (expense)	(2,630)	68
	9,116	(221)
Total tax income (expense)	45,554	3,116
Income and expense recognised directly in equity after tax	(117,014)	(379,570)
Changes in the consolidated group	–	193
Total recognised income and expense	101,970	(220,982)
thereof		
Attributable to minority interests	(5,064)	(27,022)
Attributable to the Group	107,034	(193,960)

CONSOLIDATED STATEMENT

of changes in shareholders' equity 2009

Figures in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)			Retained earnings	Minority interests	Shareholders' equity
			Currency translation	Unrealised gains/ losses	Other			
Balance as at 1.1.2008	120,597	724,562	(213,117)	181,395	6,482	2,529,170	572,744	3,921,833
Changes in ownership interest with no change of control status			166	(1,164)		(13,721)	28,082	13,363
Capital repayments							(16)	(16)
Total income and expense recognised after tax			(137,259)	(207,905)	(257)	151,461	(27,022)	(220,982)
Dividends paid							(40,946)	(40,946)
Balance as at 31.3.2008	120,597	724,562	(350,210)	(27,674)	6,225	2,666,910	532,842	3,673,252
Balance as at 1.1.2009	120,597	724,562	(247,565)	113,864	(4,577)	2,123,178	501,434	3,331,493
Total income and expense recognised after tax			70,547	(188,826)	9,167	216,146	(5,064)	101,970
Dividends paid							(12,535)	(12,535)
Balance as at 31.3.2009	120,597	724,562	(177,018)	(74,962)	4,590	2,339,324	483,835	3,420,928

CONSOLIDATED CASH FLOW STATEMENT

as at 31 March 2009

Figures in EUR thousand	2009	2008
	1.1.–31.3.	1.1.–31.3.
I. Cash flow from operating activities		
Net income	218,984	158,395
Appreciation/depreciation	40,053	82,594
Net realised gains and losses on investments	(37,799)	(107,702)
Amortisation of investments	8,032	(3,599)
Changes in funds held	(91,077)	(1,848,155)
Net changes in contract deposits	(58,186)	1,688,517
Changes in prepaid reinsurance premium (net)	349,641	339,416
Changes in tax assets/provisions for taxes	21,210	8,299
Changes in benefit reserve (net)	177,394	93,904
Changes in claims reserves (net)	446,553	236,413
Changes in deferred acquisition costs	(58,241)	(106,795)
Changes in other technical provisions	(5,199)	(1,872)
Changes in clearing balances	(558,242)	(244,820)
Changes in other assets and liabilities (net)	(28,893)	(64,822)
Cash flow from operating activities	424,230	229,773
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	–	1,727
Fixed-income securities – loans and receivables		
Maturities, sales	44,557	46,286
Purchases	(37,751)	(169)
Fixed-income securities – available for sale		
Maturities, sales	2,995,691	3,488,444
Purchases	(3,413,282)	(2,465,666)

Figures in EUR thousand	2009	2008
	1.1.–31.3.	1.1.–31.3.
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	8,820	4,465
Purchases	(8,403)	(4,554)
Equity securities – available for sale		
Sales	1,865	361,599
Purchases	(154)	(432,816)
Other financial instruments – at fair value through profit or loss		
Sales	242	14,806
Purchases	–	(37,615)
Other invested assets		
Sales	2,493	5,279
Purchases	(27,225)	(44,899)
Affiliated companies and participating interests		
Sales	460	–
Purchases	(641)	–
Real estate		
Sales	83	–
Purchases	(849)	–
Short-term investments		
Changes	(77,503)	(1,174,208)
Other changes (net)	95,888	(8,214)
Cash flow from investing activities	(415,709)	(245,535)

Figures in EUR thousand	2009	2008
	1.1.–31.3.	1.1.–31.3.
III. Cash flow from financing activities		
Contribution from capital measures	(3,189)	(72)
Structural change without loss of control	–	14,399
Dividends paid	(12,535)	(40,946)
Repayment of long-term debts	(15,420)	(130)
Cash flow from financing activities	(31,144)	(26,749)
IV. Exchange rate differences on cash	10,459	(10,303)
Change in cash and cash equivalents (I.+II.+III.+IV.)	(12,164)	(52,814)
Cash and cash equivalents at the beginning of the period	430,225	335,422
Change in cash and cash equivalents according to cash flow statement	(12,164)	(52,814)
Cash and cash equivalents at the end of the period	418,061	282,608
Income taxes	(32,655)	(33,642)
Interest paid	(60,682)	(54,178)

SEGMENTAL REPORT

as at 31 March 2009

Hannover Re's segmental report is based on IFRS 8 "Operating Segments" and on the principles set out in German Accounting Standard No. 3 "Segment Reporting" (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	
	2009	2008
	31.3.	31.12.
Assets		
Held to maturity	1,294,241	1,262,866
Loans and receivables	1,432,632	1,418,271
Available for sale	11,435,278	11,244,214
At fair value through profit or loss	133,938	145,226
Other invested assets	842,068	871,345
Short-term investments	525,860	654,969
Cash	285,699	324,659
Total investments and cash under own management	15,949,716	15,921,550
Funds held by ceding companies	915,521	789,996
Contract deposits	–	–
Total investments	16,865,237	16,711,546
Reinsurance recoverables on unpaid claims	2,007,186	1,975,496
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	75,861	23,582
Reinsurance recoverables on other reserves	5,905	9,813
Deferred acquisition costs	370,250	302,229
Accounts receivable	2,231,545	1,976,575
Other assets in the segment	1,629,524	1,187,502
Total	23,185,508	22,186,743

Life and health reinsurance		Consolidation		Total	
2009	2008	2009	2008	2009	2008
31.3.	31.12.	31.3.	31.12.	31.3.	31.12.
41,353	43,058	169,923	169,278	1,505,517	1,475,202
104,771	105,019	157,350	157,567	1,694,753	1,680,857
3,226,493	2,646,643	530,614	614,564	15,192,385	14,505,421
58,004	55,409	97,276	98,547	289,218	299,182
67,911	67,270	–	–	909,979	938,615
348,576	148,189	66,082	4,561	940,518	807,719
130,332	97,315	2,030	8,251	418,061	430,225
3,977,440	3,162,903	1,023,275	1,052,768	20,950,431	20,137,221
9,975,912	8,988,523	(2,594)	(2,372)	10,888,839	9,776,147
354,963	288,782	–	–	354,963	288,782
14,308,315	12,440,208	1,020,681	1,050,396	32,194,233	30,202,150
109,391	103,672	–	–	2,116,577	2,079,168
196,610	159,151	–	–	196,610	159,151
4,805	6,151	–	–	80,666	29,733
1,305	115	–	–	7,210	9,928
1,587,359	1,558,554	–	–	1,957,609	1,860,783
1,128,082	825,477	(19)	(290)	3,359,608	2,801,762
436,009	336,508	(1,011,313)	(664,942)	1,054,220	859,068
17,761,876	15,429,836	9,349	385,164	40,966,733	38,001,743

SEGMENTAL REPORT

as at 31 March 2009

Segmentation of technical and other liabilities

Figures in EUR thousand	Non-life reinsurance	
	2009	2008
	31.3.	31.12.
Liabilities		
Loss and loss adjustment expense reserve	15,970,576	15,376,337
Benefit reserve	–	–
Unearned premium reserve	1,683,438	1,250,648
Provisions for contingent commissions	110,596	122,923
Funds held under reinsurance contracts	192,576	170,294
Contract deposits	91,341	91,329
Reinsurance payable	826,769	953,518
Long-term liabilities	44,986	43,144
Other liabilities in the segment	1,285,639	1,222,087
Total	20,205,921	19,230,280

Life and health reinsurance		Consolidation		Total	
2009	2008	2009	2008	2009	2008
31.3.	31.12.	31.3.	31.12.	31.3.	31.12.
1,810,080	1,555,732	–	–	17,780,656	16,932,069
7,209,321	5,913,075	–	–	7,209,321	5,913,075
85,151	83,208	–	–	1,768,589	1,333,856
42,749	34,073	–	–	153,345	156,996
472,512	398,039	(2,499)	(2,381)	662,589	565,952
5,200,006	5,055,095	–	–	5,291,347	5,146,424
367,037	284,223	(557)	(829)	1,193,249	1,236,912
–	–	1,363,508	1,376,883	1,408,494	1,420,027
1,810,791	1,378,233	(1,018,215)	(635,381)	2,078,215	1,964,939
16,997,647	14,701,678	342,237	738,292	37,545,805	34,670,250

SEGMENTAL REPORT

as at 31 March 2009

Segmental statement of income

Figures in EUR thousand	Non-life reinsurance	
	2009	2008
	1.1.–31.3.	1.1.–31.3.
Gross written premium	1,655,987	1,506,912
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	1,655,987	1,506,912
Net premium earned	1,180,899	996,909
Net investment income	117,816	176,698
thereof		
Deposit interest and expenses	5,203	7,790
Claims and claims expenses	868,988	748,939
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	219,187	211,533
Administrative expenses	39,096	39,716
Other income and expenses	16,153	8,045
Operating profit/loss (EBIT)	187,597	181,464
Interest on hybrid capital	–	–
Net income before taxes	187,597	181,464
Taxes	58,629	61,855
Net income	128,968	119,609
thereof		
Minority interest in profit or loss	2,877	6,068
Group net income	126,091	113,541

Life and health reinsurance		Consolidation		Total	
2009	2008	2009	2008	2009	2008
1.1.–31.3.	1.1.–31.3.	1.1.–31.3.	1.1.–31.3.	1.1.–31.3.	1.1.–31.3.
1,005,879	770,082	(1)	(1,523)	2,661,865	2,275,471
1	1,523	(1)	(1,523)	–	–
1,005,878	768,559	–	–	2,661,865	2,275,471
910,438	681,756	–	–	2,091,337	1,678,665
75,798	76,215	4,550	9,697	198,164	262,610
52,678	46,802	2	10	57,883	54,602
609,043	415,194	(147)	(403)	1,477,884	1,163,730
165,362	84,042	–	–	165,362	84,042
174,082	194,281	(1,340)	(1,695)	391,929	404,119
19,267	15,949	(471)	(291)	57,892	55,374
98,995	(614)	(5,755)	4,205	109,393	11,636
117,477	47,891	753	16,291	305,827	245,646
–	–	19,035	19,303	19,035	19,303
117,477	47,891	(18,282)	(3,012)	286,792	226,343
19,485	8,709	(10,306)	(2,616)	67,808	67,948
97,992	39,182	(7,976)	(396)	218,984	158,395
(41)	866	–	–	2,836	6,934
98,033	38,316	(7,976)	(396)	216,148	151,461

The regional breakdown shown below is based on the geographical origin of the investments and gross written premium.

Investments¹⁾

Figures in EUR thousand	2009	2008
	31.3.	31.12.
Investments		
Germany	6,521,192	6,172,406
United Kingdom	1,206,295	1,134,915
France	1,229,190	1,628,884
Other	3,260,174	3,167,276
Europe	12,216,851	12,103,481
USA	6,456,478	5,812,077
Other	669,976	695,394
North America	7,126,454	6,507,471
Asia	429,654	426,485
Australia	716,964	664,541
Australasia	1,146,618	1,091,026
Africa	284,794	230,475
Other	175,714	204,768
Total	20,950,431	20,137,221

Gross written premium¹⁾

Figures in EUR thousand	2009	2008
	1.1.–31.3.	1.1.–31.3.
Gross written premium		
Germany	435,031	480,234
United Kingdom	438,477	386,223
France	143,170	122,249
Other	335,549	340,362
Europe	1,352,227	1,329,068
USA	734,533	475,729
Other	88,012	100,427
North America	822,545	576,156
Asia	183,661	124,862
Australia	79,586	111,524
Australasia	263,247	236,386
Africa	77,744	57,451
Other	146,102	76,410
Total	2,661,865	2,275,471

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

1. General reporting principles

The parent company Hannover Rückversicherung AG ("Hannover Re") and its subsidiaries (collectively referred to as the "Hannover Re Group") belong to Talanx AG, which in turn is wholly owned by HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI). Hannover Re is obliged to prepare a consolidated financial statement and group management report in accordance with § 290 German Commercial Code (HGB). Furthermore, HDI is required by §§ 341 i et seq. German Commercial Code (HGB) to prepare consolidated annual accounts that include the annual financial statements of Hannover Re and its subsidiaries.

The consolidated financial statement of Hannover Re was drawn up in full compliance with the International Financial Reporting Standards (IFRS) that are to be used within the European Union. This also applies to all figures provided in this report for previous periods. Since 2002 the standards adopted by the International Accounting Standards Board (IASB) have been referred to as IFRS; the standards dating from earlier years still bear the name "International Accounting Standards (IAS)". Standards are cited in our Notes accordingly; unless the Notes make explicit reference to a particular standard, both terms are used synonymously.

In accordance with IAS 34.41 we draw on estimates and assumptions to a greater extent when preparing the consolidated quarterly financial report than is the case with the annual financial reporting. This can have implications for items in the balance sheet and the statement of income as well as for other financial obligations. Although the estimates are always based on realistic premises, they are of course subject to uncertainties that may be reflected accordingly in the result. Losses from natural disasters and other catastrophic losses impact the result of the reporting period in which they occur. Furthermore, belatedly reported claims for major loss events can also lead to substantial fluctuations in individual quarterly results. Gains and losses on the disposal of investments are accounted for in the quarter in which the investments are sold.

2. Accounting principles including major accounting policies

The quarterly accounts of the consolidated companies included in the consolidated financial statement were drawn up as at 31 March 2009.

All standards adopted by the IASB as at 31 March 2009 with binding effect for the reporting period have been observed in the consolidated financial statement.

New accounting standards or accounting standards applied for the first time

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

IFRS 8 "Operating Segments", which was published in November 2006, replaces the previous IAS 14 "Segment Reporting". IFRS 8 requires adoption of the management approach to reporting on the economic position of segments. Under this approach, the segmentation and the disclosures for the segments are based on the information used internally by management for evaluating segment performance and deciding on the allocation of resources. IFRS 8 was applied for the first time in the first quarter of 2009. Hannover Re concluded that it should retain the previously used system of segmentation, since it is regularly used by management to assess the various areas of business and facilitates a transparent presentation of Group net income.

Standards that have not yet entered into force or not yet been applied and changes in standards

In March 2009 the IASB published "Improving Disclosures about Financial Instruments – Amendments to IFRS 7". The amendments principally involve new disclosures concerning fair value measurements. The disclosures concerning fair value measurement are clarified through the adoption of a breakdown for each class of financial instruments – based on a three-level fair value hierarchy taken from US GAAP – and an extended scope of disclosure duties. The amendments must be applied to financial years beginning on or after 1 January 2009, although the provision of comparative disclosures for the previous reporting period is not required in the first year of application. Hannover Re is currently reviewing the implications of these amendments, which had not been ratified by the European Union as at the balance sheet date.

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

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

In January 2008 the IASB published the revised versions of IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements". The new provisions primarily cover the balance sheet recognition of minority interests, measurement issues in connection with successive acquisition, changes in a participating interest with or without a loss of control 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. Since the amendments are to be applied prospectively to financial years beginning on or after 1 July 2009, implications for Hannover Re can only arise in connection with future acquisitions. As at the balance sheet date neither of these revised versions had been ratified by the European Union.

In January 2008 the IASB also published final amendments to IFRS 2 (rev. 2008) "Share-based Payment – Vesting Conditions and Cancellations" in order to clarify exercise conditions and premature termination of certain share-based payment schemes. The amended standard is applicable to financial years beginning on or after 1 January 2009. The new rules have no implications for Hannover Re.

We would also refer to the relevant information in the consolidated financial statement as at 31 December 2008.

3. Consolidated companies and consolidation principles

Consolidated companies

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

In addition to the materialisation of the reinsurance contracts, HLRUS acquired the infrastructure and operating assets needed to administer the life reinsurance business in North America for a purchase price of EUR 12.9 million. The infrastructure mainly encompasses the IT systems for administration and quotation of the business. A portion of the workforce was consequently also taken over from the seller.

In accordance with the requirements of IFRS 3 "Business Combinations" Hannover Re recognises this acquisition as a business combination since the reinsurance contracts and the systems needed for their administration in conjunction with the assumed workforce are to be considered a separate and independent business for the purposes of IFRS 3.

The acquired business was included in the consolidated financial statement for the first time as at 1 January 2009, since the significant part of the economic risks and benefits was apportionable to Hannover Re from this date onwards when the reinsurance transactions acquired contractual force. For the purpose of first-time consolidation, assumptions and estimations based on forecasts of future cash flows were in some cases used to establish the fair values of the acquired assets and liabilities within the framework of appropriate measurements methods. The acquired business was therefore included in the consolidated financial statement on a provisional basis, using the best available information as at the balance sheet date. Fresh insights in future reporting periods may, however, necessitate adjustments. The incidental costs of the entire reinsurance and asset purchase transaction, the final amount of which has not yet been definitively determined, totalled approximately EUR 10.0 million.

In connection with the acquisition of the life reinsurance portfolio, an intangible asset of EUR 90.1 million was carried in accordance with IFRS 4 in conjunction with the standards of US GAAP relevant to the recognition of items of the technical account; this amount represents the present value of future cash flows from the assumed reinsurance contracts (known as the "present value of future profits/PVFP" or "value of business acquired/VOBA"). The PVFP is initially recognised at fair value on the basis of generally accepted actuarial measurement methods, while in the subsequent periods scheduled amortisation is taken on the PVFP over the period of the underlying reinsurance contracts in proportion to the future premium income. In addition, the intangible asset is regularly tested for impairment.

The assets and liabilities of the acquired business at the time of initial consolidation are shown below:

Assets and liabilities of the acquired business

Figures in EUR thousand	1.1.2009
Assets	
Fixed-income securities – available for sale	130,348
Cash	104,292
Funds held by ceding companies	753,714
Reinsurance recoverables on benefit reserve	26,897
Deferred tax assets	8,691
PVFP	90,052
Other assets	14,309
	1,128,303
Liabilities	
Benefit reserve	1,011,989
Provision for deferred taxes	11,257
Other liabilities	24,831
	1,048,077
Net assets	80,226

Since the net fair value of the recognised, identifiable assets, liabilities and contingent liabilities exceeds the acquisition costs of the transaction, the capital consolidation gave rise to negative goodwill of EUR 80.2 million after tax, which was recognised immediately in the statement of income as required by IFRS 3.56. As at 31 March 2009 this non-recurring effect of the transaction was recognised in the consolidated statement of income under other operating income.

The gross written premium of the acquired business amounted to EUR 193.0 million from the date of initial consolidation until the balance sheet date. A net loss of -EUR 11.9 million was booked for the same period from the acquired business. This figure does not include the other operating income from the reversal of the negative goodwill.

Capital consolidation

The capital consolidation complies with the standards 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 capital consolidation is based on the revaluation method. Under the "purchase accounting" method the purchase 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 regular impairment tests. Immaterial and negative goodwill are recognised in the statement of income in the year of their occurrence.

Companies over which Hannover Re is able to exercise a controlling influence ("associated companies") are normally consolidated "at equity" with the proportion of the shareholders' equity attributable to the Group. A controlling 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.

Where minority interests in shareholders' equity exist, such interests are reported separately within Group shareholders' equity in accordance with IAS 1 "Presentation of Financial Statements".

The minority interest in the result is a component of net income and is shown separately as a "thereof" note following net income. As at 31 March 2009 it amounted to EUR 2.8 million (EUR 6.9 million).

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

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 with a volume of USD 150 million was placed with institutional investors from Europe and North America by Eurus Ltd., a special purpose entity domiciled in the Cayman Islands. Hannover Re does not exercise a controlling influence over the special purpose entity. Under IFRS this transaction is to be recognised as a financial instrument. Pursuant to IAS 39.9 the contract gives rise to a derivative, the fair value of which as at 31 March 2009 was EUR 0.4 million (EUR 3.9 million) and which we recognised under other financial assets at fair value through profit or loss as at the balance sheet date. The transaction was terminated effective 8 April 2009 as per the contractual agreement and the catastrophe bond was repaid to the investors.

With effect from 1 January 2009 Hannover Re again used the capital market to obtain underwriting capacity for catastrophe risks. The "K5" transaction, which ended as per the contractual agreement on 31 December 2008, was replaced by the successor transaction "K6". The volume of "K6" was equivalent to EUR 129.1 million as at the balance sheet date. This securitisation, which was again placed with institutional investors in North America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. As with the "K3" to "K5" transactions, Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is being used for the securitisation. The planned term of the transaction runs until 31 December 2011. In addition, Hannover Re uses the special purpose entity Kaith Re Ltd. for various retrocessions of its traditional covers to institutional investors. In accordance with SIC-12 Kaith Re Ltd. is included in the consolidated financial statement.

The "Kepler" transaction launched in 2007, for which the special purpose entity Kepler Re – a separate cell within Kaith Re Ltd. – was used, was terminated as per the contractual agreement effective 31 December 2008. Hannover Re did not and 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 2007 the Hannover Re Group transferred risks from reinsurance recoverables to the capital market. By means of this securitisation, which has a term of five years, the default risk associated with reinsurance recoverables is reduced. The portfolio of recoverables underlying the transaction has a nominal value of EUR 1.0 billion and is comprised of exposures to retrocessionaires. The securities serving as collateral are issued through the special purpose entity Merlin CDO I B.V. A payment to Hannover Re is triggered by the insolvency of one or more retrocessionaires as soon as Hannover Re's contractually defined cumulative deductible of EUR 60.0 million over the term of the contract is exceeded. As at the

balance sheet date Hannover Re had purchased securitisations issued by Merlin with a nominal value of altogether EUR 22.5 million (31 December 2008: 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. Pursuant to IAS 39.9 the transaction gives rise to a derivative, the fair value of which as at 31 March 2009 was EUR 35.6 million (EUR 29.6 million) and which we recognised under other financial assets at fair value through profit or loss as at the balance sheet date.

4. Management of technical and financial risks

4.1 Technical risks

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. Furthermore, we constitute an IBNR (incurred but not reported) reserve for losses that have already occurred but have not yet been reported to us.

Another technical risk is the risk of losses exceeding premiums. This refers to the risk that the originally calculated premiums may not suffice to make indemnification payments and meet long-term benefit commitments in the required amount. The combined ratio in non-life reinsurance is tracked over time in order to monitor the risk of losses exceeding premiums:

Combined and catastrophe loss ratio (non-life reinsurance) over the past ten years

Figures in %	Q1 2009 ²⁾	2008 ²⁾	2007 ²⁾	2006 ²⁾	2005	2004	2003 ¹⁾	2002 ¹⁾	2001 ¹⁾	2000 ¹⁾	1999 ¹⁾
Combined ratio	95.0	95.4	99.7	100.8	112.8	97.2	96.0	96.3	116.5	107.8	111.1
thereof catastrophe losses ³⁾	8.4	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

In life and health reinsurance, as in non-life reinsurance, we similarly calculate the reserves in accordance with actuarial principles using secure biometric actuarial bases and with the aid of portfolio information provided by our clients. In this area biometric risks are of primary importance for our company. This term refers to all risks directly connected with the life of an insured person, such as miscalculation of mortality, life expectancy and the probability of disability. We systematically reduce these potential risks with a broad range of risk management measures. A key tool of our value-based management and risk management in the area of life and health reinsurance is the European Embedded Value (EEV). 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 market-consistent basis. In future, this Market Consistent Embedded Value (MCEV) is to be established on the basis of the principles of the CFO Forum published in June 2008. The MCEV is published on our Internet website at the same time as the quarterly financial report for the first quarter of 2009.

Bad debt risks are of relevance to our company because the business that we accept is not always fully retained, but instead portions are retroceded as necessary. Hannover Re counters the risk of default on reinsurance recoverables by carefully selecting our 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. 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. In terms of the Hannover Re Group's major companies, EUR 273.3 million (8.1%) of our accounts receivable from reinsurance business in an amount of EUR 3,359.6 million were older than 90 days as at the balance sheet date. The average default rate over the past three years was 0.3%.

4.2 Market risks

Risks in the investment sector encompass primarily market risks (share price, interest rate, real estate and currency risks as well as the credit spread risk). Credit risks are also relevant. The "value at risk" (VaR) is a vital tool used for managing market price risks. For further explanatory remarks please see our comments on market risks in the Group Annual Report 2008.

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.

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, conversely, rising market yields to decreases in the fair value of fixed-income securities portfolios. Our strategy in this regard is focused on matching cash flows on the assets and liabilities sides as closely as possible. The quantitative basis for this strategy is provided by our dynamic financial analysis 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 the risk-carrying capacity of the Hannover Re Group. Share price risks derive from unfavourable changes in the value of equities and equity or index derivatives held in the portfolio 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 as at the balance sheet date

Portfolio	Scenario		Portfolio change based on fair value in EUR million
Fixed-income securities	Yield increase	+50 basis points	(361.8)
	Yield increase	+100 basis points	(708.6)
	Yield decrease	-50 basis points	372.7
	Yield decrease	-100 basis points	760.1
	Fair value as at 31.3.2009		18,721.5

Scenarios for changes in the fair value of our securities as at the balance sheet date

Portfolio	Scenario		Portfolio change based on fair value in EUR million
Equity securities	Share prices	-10%	(1.8)
	Share prices	-20%	(3.5)
	Share prices	+10%	1.8
	Share prices	+20%	3.5
	Fair value as at 31.3.2009		17.6

Credit risks 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	87.3	5,008.8	56.2	2,736.1	3.3	164.0	82.3	2,536.6
AA	3.3	189.3	37.4	1,822.3	19.6	965.6	12.9	398.1
A	5.2	296.8	5.2	252.1	56.2	2,771.5	1.2	36.0
BBB	2.1	120.1	0.9	42.6	13.3	655.2	0.5	15.3
< BBB	2.1	122.4	0.3	13.2	7.6	374.7	3.1	97.3
Total	100.0	5,737.4	100.0	4,866.3	100.0	4,931.0	100.0	3,083.3

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

The liquidity risk refers to the risk that it may not be possible to sell holdings or close open positions due to the illiquidity of the markets – or to do so only with delays or price markdowns – as well as the risk that the traded volumes influence the markets in question. Regular liquidity planning and a liquid asset structure 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. The spread of investments across the various liquidity classes is specified in the monthly investment reports and controlled by limits.

Weighting of major asset classes¹⁾

Figures in %	Parameter as per investment guidelines	31.3.2009
Bonds (direct holdings and investment funds)	at least 50.0	89.0
Listed equities (direct holdings and investment funds)	at most 17.5	0.1
Real estate	at most 5.0	0.7

¹⁾ Calculated on a fair value basis

The protracted turmoil on international capital markets only minimally affected our result in the first quarter of 2009. The state of non-life reinsurance markets improved markedly in the reporting period as a consequence of the effects of the financial market crisis. Treaty renewals were highly satisfactory owing to the prevailing capital shortage throughout the worldwide insurance industry. Life and health reinsurance business also developed favourably for our company against the backdrop of the financial market crisis.

For further explanatory remarks please see the risk report on page 9 of the present quarterly financial report as well as our comments in the Group Annual Report 2008.

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

5.1 Investments including income and expenses

Investments are classified and measured in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". Hannover Re Group classifies investments according to the following categories: held to maturity, loans and receivables, financial assets at fair value through profit or loss, held for trading and available for sale. The allocation and measurement of investments are determined by the investment intent.

Fixed-income securities classified as held to maturity as well as loans and receivables originated by the entity that are not listed on an active market or sold at short notice are measured at purchase cost – i.e. fair value as at purchase date including directly allocable transaction costs – plus amortised cost. The amortised cost derives from the difference between the nominal value and purchase cost and is spread over the time to maturity of the fixed-income securities.

Fixed-income securities classified as available for sale are measured at fair value. The difference between the fair value and amortised cost is recognised outside the statement of income until realisation.

Financial assets at fair value through profit or loss and securities held for trading are measured at fair value. The difference between the fair value and amortised cost is recognised in the statement of income.

Securities whose fair value falls significantly or permanently below purchase cost are written down to current value and recognised in the statement of income.

The investments also include investments in associated companies, real estate used by third parties, short-term investments, cash and funds held. The other investments primarily consist of shares in private equity limited partnerships.

For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2008.

Maturities of the fixed-income and variable-yield securities

Figures in EUR thousand	2009		2008	
	31.3.	31.3.	31.12.	31.12.
	Cost or amortised cost	Fair value	Cost or amortised cost	Fair value
Held to maturity				
due in one year	22,043	18,701	12,087	9,803
due after one through two years	122,554	127,670	29,736	30,260
due after two through three years	184,176	192,511	197,804	206,450
due after three through four years	228,165	232,556	255,693	267,561
due after four through five years	374,684	394,504	297,477	304,497
due after five through ten years	564,418	599,626	673,498	728,460
due after ten years	9,477	9,531	8,907	8,978
Total	1,505,517	1,575,099	1,475,202	1,556,009
Loans and receivables				
due in one year	168,494	170,268	71,859	72,140
due after one through two years	51,843	52,749	136,024	136,654
due after two through three years	75,545	76,638	82,013	83,086
due after three through four years	28,741	29,387	9,898	9,873
due after four through five years	165,279	169,220	198,037	203,531
due after five through ten years	1,014,831	1,042,107	970,241	996,374
due after ten years	190,020	188,260	212,785	209,757
Total	1,694,753	1,728,629	1,680,857	1,711,415
Available for sale				
due in one year ¹⁾	3,764,937	3,715,496	3,496,170	3,473,225
due after one through two years	2,175,212	2,212,273	1,947,238	1,966,672
due after two through three years	1,913,358	1,942,845	1,725,197	1,751,528
due after three through four years	1,513,502	1,530,250	1,217,321	1,239,933
due after four through five years	1,756,580	1,769,951	1,867,138	1,933,328
due after five through ten years	3,845,975	3,817,453	4,021,163	4,059,484
due after ten years	1,667,106	1,545,049	1,344,802	1,296,606
Total	16,636,670	16,533,317	15,619,029	15,720,776
Financial assets at fair value through profit or loss				
due in one year	80,873	78,991	68,553	65,907
due after one through two years	12,046	11,485	4,788	4,991
due after two through three years	53,064	52,563	71,132	70,476
due after three through four years	18,074	19,810	641	626
due after four through five years	35,010	34,835	56,687	58,560
due after five through ten years	18,105	17,927	34,675	34,529
due after ten years	30,601	27,406	23,373	19,439
Total	247,773	243,017	259,849	254,528

¹⁾ 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.

Floating-rate bonds (also known as "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

31.3.2009

Figures in EUR thousand	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	42,205	3,848	–	449	46,502
US treasury notes	359,097	56,923	–	4,818	420,838
Other foreign government debt securities	14,445	790	–	90	15,325
Debt securities issued by semi-governmental entities	443,969	24,558	1,360	6,499	473,666
Corporate securities	385,806	3,994	18,757	10,158	381,201
Asset-backed securities	235,082	2,413	2,827	2,899	237,567
Total	1,480,604	92,526	22,944	24,913	1,575,099

31.12.2008

Figures in EUR thousand	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

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

31.3.2009					
Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	29,432	1,348	–	683	31,463
Debt securities issued by semi-governmental entities	301,519	7,431	358	5,223	313,815
Corporate securities	545,918	13,357	2,003	10,992	568,264
Asset-backed securities	533,113	16,170	2,069	10,797	558,011
Other	207,061	–	–	50,015	257,076
Total	1,617,043	38,306	4,430	77,710	1,728,629

31.12.2008					
Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	29,410	1,228	–	407	31,045
Debt securities issued by semi-governmental entities	300,795	7,069	1,045	4,174	310,993
Corporate securities	545,536	12,509	3,005	9,410	564,450
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

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

31.3.2009					
Figures in EUR thousand	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	2,569,239	53,439	8,021	51,000	2,665,657
US treasury notes	1,982,917	97,929	88	10,540	2,091,298
Other foreign government debt securities	491,945	17,767	1,029	4,391	513,074
Debt securities of semi-governmental entities	3,927,289	123,016	9,551	62,911	4,103,665
Corporate securities	3,597,325	69,030	289,235	57,021	3,434,141
Asset-backed securities	2,320,926	37,735	161,040	38,600	2,236,221
From investment funds	164,504	7,192	41,014	–	130,682
	15,054,145	406,108	509,978	224,463	15,174,738
Equity securities					
Shares	15,427	955	429	–	15,953
From investment funds	1,982	–	288	–	1,694
	17,409	955	717	–	17,647
Short-term investments	938,929	517	–	1,072	940,518
Total	16,010,483	407,580	510,695	225,535	16,132,903

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

31.12.2008					
Figures in EUR thousand	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

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

31.3.2009			
Figures in EUR thousand	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	2,679	–	2,679
Debt securities of semi-governmental entities	5,415	16	5,431
Corporate securities	167,121	2,603	169,724
Asset-backed securities	65,181	2	65,183
	240,396	2,621	243,017
Other financial assets			
Derivatives	46,201	–	46,201
	46,201	–	46,201
Total	286,597	2,621	289,218

31.12.2008			
Figures in EUR thousand	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

Derivative financial instruments

Hannover Re's portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange contracts that were taken out chiefly to hedge cash flows from reinsurance contracts. The resulting liabilities were recognised under other liabilities. On balance, the changes in the fair value of these instruments produced a charge to investment income of EUR 4.7 million.

Certain reinsurance treaties meet criteria which require application of the prescriptions in IFRS 4.7 to 4.9 governing embedded derivatives. These accounting regulations require that derivatives embedded in reinsurance contracts be separated from the underlying insurance contract ("host contract") according to the conditions specified in IFRS 4 and IAS 39 and recognised separately at fair value in accordance with IAS 39. Fluctuations in the fair value of the derivative components are to be recognised in income in subsequent periods.

On this basis Hannover Re reported as financial assets at fair value through profit or loss technical derivatives in an amount of EUR 45.9 million as at 31 March 2009 (31 December 2008: EUR 44.7 million) that were separated from the underlying transaction and measured at fair value.

In addition, liabilities from derivatives in connection with the technical account totalling EUR 100.5 million (31 December 2008: EUR 91.2 million) were recognised under other liabilities. Of this amount, fair values of EUR 98.4 million as at the balance sheet date (31 December 2008: EUR 89.1 million) were attributable to derivatives embedded in "modified coinsurance" and "coinsurance funds withheld" (ModCo) reinsurance treaties. The charge to investment income from the ModCo derivatives amounted to EUR 5.1 million before taxes as at 31 March 2009 (31 March 2008: EUR 7.7 million). Within the scope of the accounting of 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.

Investment income

Figures in EUR thousand	2009	2008
	31.3.	31.3.
Real estate	308	386
Dividends	237	5,803
Interest income on investments	196,662	187,874
Other income	2,103	17,236
Ordinary investment income	199,310	211,299
Profit or loss on shares in associated companies	87	695
Realised gains on investments	45,927	133,776
Realised losses on investments	8,128	26,074
Unrealised gains and losses on investments	(33,692)	(11,875)
Depreciation on real estate	200	122
Impairments/depreciation on equity securities	2,596	65,137
Impairments on fixed-income securities	13,824	20,484
Impairments on participating interests and other financial assets	33,638	–
Other investment expenses	12,965	14,070
Net income from assets under own management	140,281	208,008
Interest income on funds withheld and contract deposits	74,435	88,592
Interest expense on funds withheld and contract deposits	16,552	33,990
Total investment income	198,164	262,610

Of the impairments totalling EUR 50.1 million, an amount of EUR 33.6 million was attributable to private equity investments. Impairments of EUR 13.8 million taken on fixed-income securities related predominantly to structured products. An impairment of EUR 2.6 million was recognised on equities whose fair value had fallen significantly, i.e. by at least 20%, or for a prolonged period, i.e. at least nine months, 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.

Interest income on investments

Figures in EUR thousand	2009	2008
	31.3.	31.3.
Fixed-income securities – held to maturity	12,904	14,495
Fixed-income securities – loans and receivables	15,021	13,293
Fixed-income securities – available for sale	151,367	134,017
Financial assets – at fair value through profit or loss	3,132	1,380
Other	14,238	24,689
Total	196,662	187,874

5.2 Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group was 1,885 (31 December 2008: 1,790) staff.

As at the balance sheet date altogether 1,957 (1,812) staff were employed by the Hannover Re Group, with 968 (963) employed in Germany and 989 (849) working for the consolidated Group companies abroad. The number of employees working abroad for the Hannover Re Group increased by altogether 129 as at the balance sheet date as a consequence of the acquisition of the ING life reinsurance portfolio. Please see our explanatory remarks in Section 3 "Consolidated companies and consolidation principles".

5.3 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-value 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 rights or participating bonds with conversion rights and warrants and has a time limit of 11 May 2011.

5.4 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. The company did not hold treasury shares at any time during the reporting period.

5.5 Earnings per share

Basic and fully diluted earnings per share

	2009			2008		
	1.1.–31.3.			1.1.–31.3.		
	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	216,148	–	–	151,461	–	–
Weighted average of issued shares	–	120,597,134	–	–	120,597,134	–
Earnings per share	216,148	120,597,134	1.79	151,461	120,597,134	1.26

Neither in the year under review nor in the previous reporting period were there any dilutive effects or 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.

6. 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 period under review the following significant business relations existed with related parties.

HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI) holds the majority interest in Hannover Re in an unchanged amount of 50.22% through Talanx AG.

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 that are not included in Hannover Re's consolidation. This includes business both assumed and ceded at usual market conditions. Protection Reinsurance Intermediaries AG grants Hannover Re and E+S Rück a preferential position as reinsurers of ceding companies within the Talanx Group. In addition, Hannover Re and E+S Rück are able to participate in the protection covers on the retention of Group cedants and share in the protection afforded by them.

The major reinsurance relationships with related parties in the period under review are listed in the following table.

Business assumed and ceded in Germany and abroad

Figures in EUR thousand	2009	
	Premium	Underwriting result
Related parties		
Business assumed		
ASPECTA Assurance International AG	4,835	800
ASPECTA Assurance International Luxembourg S.A.	8,100	3,902
ASPECTA Lebensversicherung AG	30,779	37,142
CiV Lebensversicherung AG	12,344	(733)
CiV Versicherung AG	3,639	1,189
HDI Asekuracja Towarzystwo Ubezpieczen S.A.	1,624	1,837
HDI Assicurazioni S.p.A.	4,064	1,388
HDI Direkt Versicherung AG	228	3,647
HDI-Gerling Firmen und Privat Versicherung AG	4,669	(293)
HDI-Gerling Industrie Versicherung AG	73,943	36,615
HDI-Gerling Lebensversicherung AG	3,865	251
HDI-Gerling Verzekeringen N.V.	13,258	11,100
HDI HANNOVER International España, Cia. de Seguros y Reaseguros S.A.	3,691	1,775
HDI Hannover Versicherung AG	4,965	457
HDI Sigorta A.S.	6,749	687
Magyar Posta Biztosító Részvénytársaság	250	48
Postbank Lebensversicherung AG	10,472	(552)
Other companies	3,778	507
	191,253	99,767
Business ceded		
HDI-Gerling Industrie Versicherung AG	647	271
Total	191,900	100,038

The underwriting result of ASPECTA Lebensversicherung AG and ASPECTA Assurance International Luxembourg AG in the first quarter of 2009 derived largely from a non-recurring effect connected with the assumption by Hannover Re of business written by these companies in past underwriting years with a third-party reinsurer outside the Group.

The underwriting result booked by HDI-Gerling Industrie Versicherung AG and HDI-Gerling Verzekeringen N.V. in the reporting period derived largely from the release of loss reserves constituted at these companies.

With effect from the 1997 financial year onwards all new business and renewals written on the German market have been the responsibility of E+S Rück, while Hannover Re has handled foreign markets. Internal retrocession arrangements ensure that the percentage breakdown of the business applicable to the previously existing underwriting partnership is largely preserved between these companies.

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

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. In addition, Talanx AG billed Hannover Re and E+S Rück pro rata for the directors' and officers' (D&O) insurance of the Talanx Group. Divisions of Talanx AG also performed services for us in the areas of taxes and general administration. All transactions were effected at usual market conditions.

7. Other notes

7.1 Contingent liabilities and commitments

In the 2007 financial year Hannover Re had already bought back and cancelled USD 380.0 million of a subordinated debt in an amount of USD 400.0 million issued in the 1999 financial year by Hannover Finance, Inc., Wilmington/USA. Effective 31 March 2009 Hannover Re exercised the call option allowed under the bond conditions –which provides for early repurchase of the bond at nominal value – in the amount of USD 20.0 million still outstanding at that date and has now fully repurchased and cancelled the debt. The guarantee given by Hannover Re to secure the debt has thus also been terminated in full. For further details please see the information on debt and subordinated capital in the consolidated financial statement as at 31 December 2008.

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 we would refer to the relevant information in the consolidated financial statement as at 31 December 2008.

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 for a period until 8 July 2009 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 USA. As at the balance sheet date this master trust amounted to EUR 2,468.8 million (31 December 2008: EUR 2,352.8 million). In addition, we extended further collateral to our cedants in an amount of EUR 275.3 million (31 December 2008: EUR 269.3 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 1,455.1 million (31 December 2008: EUR 1,388.8 million) as at the balance sheet date.

The securities held in the blocked custody accounts and trust accounts are recognised predominantly as available-for-sale investments.

As security for our technical liabilities, various financial institutions have furnished guarantees for our company in the form of letters of credit. The total amount as at the balance sheet date was EUR 2,607.5 million (31 December 2008: EUR 2,470.9 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 86.1 million as at the balance sheet date (31 December 2008: EUR 85.5 million).

Outstanding capital commitments with respect to special investments exist on the part of the Group in the amount of EUR 306.1 million (31 December 2008: EUR 291.1 million). These primarily involve as yet unfulfilled payment obligations from participations entered into in private equity funds and venture capital firms.

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). As published in the Federal Gazette, the federal guarantees were extended by one year on 17 March 2009. The counter-guarantee given by the insurance industry therefore now runs until 15 January 2010.

Key exchange rates

1 EUR corresponds to:	Mean rate of exchange on the balance sheet date		Average rate of exchange	
	2009	2008	2009	2008
	31.3	31.12.	1.1.–31.3	1.1.–31.12
AUD	1.9205	2.0257	1.9823	1.6741
BHD	0.4992	0.5312	0.4981	0.5700
CAD	1.6675	1.7160	1.6409	1.5094
CNY	9.0520	9.6090	9.0275	10.8233
GBP	0.9299	0.9600	0.9192	0.7603
HKD	10.3294	10.8323	10.2283	11.7989
KRW	1,832.0000	1,775.0000	1,830.2500	1,443.2500
MYR	4.8263	4.8700	4.7564	4.8940
SEK	10.9700	10.9150	10.9850	9.4168
USD	1.3328	1.3977	1.3194	1.5148
ZAR	12.6688	13.1698	12.8631	11.4037

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