Annual Report | 2008

e+s rück

CALENDAR OF EVENTS
in 2009

5 February 2009	Round Table “Personal Accident Insurance”
28/29 April 2009	Reinsurance Seminar I: Basic Reinsurance Know-how
30 April 2009	Expert conference “Motor Liability International: The Settlement of Bodily Injury Claims in France, Switzerland and the United States”
3 June 2009	Hannover Forum “Learning from the Financial Crisis: Opportunity or Risk?”
3 June 2009	Examination Concert held by E+S Rückversicherung AG
18/19 June 2009	Reinsurance Seminar II: Specialist Reinsurance Topics
15 September 2009	Round Table “General Liability Insurance”
17/18 September 2009	Reinsurance Seminar III: Workshop: “Development of a Reinsurance Programme”
21 October 2009	Expert conference “Assertion of Collective Claims by Way of Class Actions – Consumer Benefits versus Individual Justice?”
26 October 2009	Press conference, Baden-Baden
26 October 2009	Cocktail reception, Baden-Baden
5/6 November 2009	Reinsurance Seminar IV: Reinsurance of Natural Hazards

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KEY FIGURES
of E+S Rückversicherung AG

Figures in EUR million	2008	+/- previous year	2007	2006	2005	2004
Gross written premium	2,365.1	-0.2 %	2,370.7	2,437.7	2,213.7	2,149.5
Net premium earned	1,797.5	+1.0 %	1,780.4	1,841.3	1,370.5	1,327.9
Underwriting result[1]	37.2	+416.7 %	7.2	35.5	-56.3	40.3
Change in the equalisation reserve and similar provisions	-29.9	+118.2 %	-13.7	84.3	86.1	86.1
Investment result	210.7	-42.3 %	365.3	276.5	277.9	229.1
Pre-tax profit	148.3	-47.0 %	280.0	100.2	31.8	87.5
Profit or loss for the financial year	52.0	-71.1 %	180.0	70.4	22.0	44.0
Investments	7,874.0	-1.4 %	7,983.2	7,737.2	7,231.4	6,179.9
Capital and reserves	507.3	+3.5 %	490.3	420.3	420.3	420.3
Equalisation reserve and similar provisions	711.4	-4.0 %	741.3	755.0	670.6	584.6
Net technical provisions	6,167.6	+2.2 %	6,032.7	5,875.5	5,556.5	4,998.3
Total capital, reserves and technical provisions	7,386.3	+1.7 %	7,264.3	7,050.8	6,647.4	6,003.2
Number of employees	255	+8	247	235	229	227
Retention	76.2 %		75.3%	75.1 %	62.4 %	61.7 %
Loss ratio [1] [2]	78.0 %		80.8 %	74.8 %	76.7 %	71.3 %
Expense ratio [2]	22.4 %		24.5 %	21.3 %	26.1 %	20.9 %
Combined ratio [1] [2]	100.4 %		105.3 %	96.1 %	102.8 %	92.2 %

[1] *from the 2006 financial year onwards the option of including special allocations to the provisions for outstanding claims in the non-technical account rather than the technical account will no longer be exercised. The figures for the previous year have been adjusted accordingly for the sake of improved comparability.*
[2] *excluding life reinsurance*

Wilhelm Zeller
Chairman of the
Executive Board

Dear clients and shareholders,

Last year I was proud to report here on what had hitherto been the best business result achieved by E+S Rück in the company's history; in 2008 we were unfortunately unable to build on this outstanding performance. In the year just-ended the global financial system was shaken to a previously unimaginable degree, and doubts as to its stability prompted share prices around the world to plummet. This turmoil also left its mark on the result generated by our company.

In addition to the international financial market crisis, E+S Rück also had to absorb a number of catastrophe losses in the year under review. The underwriting result was, for example, adversely impacted by the hailstorm events "Hilal" and "Naruporn" towards the middle of the year. Not only that, our international portfolio was affected by hurricanes "Gustav" and -– most significantly – "Ike". The very good diversification of our portfolio nevertheless largely cushioned the strains from these exceptional losses.

German property and casualty insurance was again the scene of fierce competition in the 2008 financial year, especially in motor business, although market conditions on the reinsurance side were largely adequate. In this environment E+S Rück was able to act on attractive business opportunities in the year under review.

The development of life and health reinsurance was especially gratifying in the year under review: we boosted our business volume in Germany in a number of lines – such as deferred annuities and disability covers – and we systematically refined our products. In the international arena E+S Rück profited in particular from the writing of several sizeable transactions in the Anglo-American markets and from targeted expansion in key threshold markets such as China, India and Brazil.

The upheavals on international capital markets adversely impacted the investment result booked by E+S Rück in the year under review. Despite our prudent and diversified investment strategy, we were compelled to take write-downs – principally in the third quarter and most notably on equities - and we also realised losses on the sale of equity holdings in the fourth quarter.

We are pleased that we are once again able to pay our shareholders a dividend, although it cannot match up to the one paid in the record 2007 business year on account of the financial market crisis and the burden of catastrophe losses and major claims.

We would like to thank our clients, shareholders and employees for their trusting cooperation. Going forward, as in the past, we shall do everything in our power to equip E+S Rück to handle the opportunities and risks in the years ahead. Backed by your confidence and the dedication of our highly motivated staff we are superbly placed to enjoy a successful future.

Yours sincerely,

Wilhelm Zeller
Chairman of the Executive Board

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of E+S Rückversicherung AG

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*Staff representative

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Life and Health markets worldwide

Dr. Michael Pickel

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Ulrich Wallin

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André Arrago

Non-Life Treaty
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European Romance and
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Northern and Eastern
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Australasia

Jürgen Gräber

Coordination of entire
Non-Life Reinsurance;
Quotations Non-Life
Reinsurance; Non-Life
Treaty Reinsurance –
North America and
English-speaking Africa;
Structured Products
worldwide

A jointly developed online rating tool for efficient underwriting

Not avoiding risks, but rather correctly documenting and assessing them – this maxim captures in a nutshell the complex task of an insurance expert. After all, the first prerequisite for competitive prices is reliable rating bases which also comprehensively map all decision-making steps in the underwriting process.

E+S Rück, as the dedicated reinsurer serving the German market, has for years worked to optimise such underwriting and claims assessment processes. In addition to the daily assessment of extensive risks, we support our clients with the development of new, scientifically based evaluation tools and solidly grounded rating guidelines. In close cooperation with our ceding companies, for example, we have designed a unique underwriting system based on state-of-the-art software and Internet technology.

WebHUMan is an online rating manual compiled in light of medical insights and highly respected studies that not only assists with risk assessment but also guides the entire rating process. As a Web-based software system, it draws on the World Health Organization's (WHO) internationally recognised classification of diseases (ICD) to facilitate the underwriting of medical risks. In this way, it is possible to quickly and accurately underwrite and rate more than 10,000 diseases and health problems.

From a conceptual standpoint, WebHUMan encompasses the entire spectrum of underwriting criteria in life, disability, critical illness/dread disease, accidental death riders and strict "any occupation" disability covers. Along with medical, job-specific and leisure-time-related risks, the system also documents and evaluates special life circumstances.

So what advantages can such an online rating manual offer our clients? Experience shows that with the aid of WebHUMan they are able to decide on almost 80% of all insurance proposals directly upon initial scrutiny. The system assists users with recommendations to request further documentation or highlights circumstances that merit special attention. As a result, only a small number of proposals need to be submitted to the company physician or the reinsurer. On the basis of the stored data all decisions relating to underwriting are easily documented.

Adjustments for specific markets and regions and the inclusion of additional languages can also be easily accommodated. Since WebHUMan integrates seamlessly into the existing software landscapes and workflows at our cedants, no special installation or maintenance routines are required. Thanks to its unique user interface, the system is quickly and intuitively mastered.

In addition to standardised workflows – which can nevertheless be flexibly adjusted to the user's individual experience level – WebHUMan offers a considerable time saving: insurance experts are able to focus even more intensively on their analytical tasks, especially with regard to more complex risks. This tool thus represents a considerable efficiency enhancement and, ultimately, a key competitive edge for our business partners. With this in mind, an international team of experts continuously updates the online manual on the basis of the latest medical and actuarial insights. Last but not least, the usual lively dialogue with our clients helps to perfect the system's functionality and ensures that it meets the needs of users.

Yet WebHUMan is in no way intended to replace personal support and advice from staff at E+S Rück. Going forward, as in the past, our seasoned team stands ready at all times to assist our business partners, inter alia with the assessment and rating of exceptional or complex individual risks. On the basis of such long-term partnerships, we shall in future continue to pursue our goal of safeguarding lasting business success by working closely with our clients. For more than 85 years consistent, reliable decisions have set E+S Rück apart from the market. Our clients constantly reaffirm that we are on the right track by entrusting their risks to us – and, after all, there are undoubtedly enough risks in this world.

MANAGEMENT REPORT
of E+S Rückversicherung AG

Economic climate

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

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

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

The economic climate around the world took a sharply darker turn as a consequence of the financial market crisis. The recession in the United States began to spill over to other countries; this was especially true of economic regions in which the financial sector and building industry contributed a large share of economic output. Yet the downturn was considerable even in countries whose economic expansion is crucially driven by exports. Only in threshold markets was it possible to boost output, although here too it flagged towards year-end.

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

The German insurance industry

The impact of the financial market crisis on the German insurance industry was nowhere near comparable with the toll it took on the banking sector. Rather, against the backdrop of wide-ranging uncertainties it again emerged as an important factor in economic and social stability. Insurers thus play a major part in ensuring the security of German society by assuming a diverse range of individual risks of life for citizens and private households.

The economic state of private households in Germany is of special significance to the insurance industry. Since 2002 disposable incomes have failed to keep pace with inflation; the incomes of private households have thus fallen slightly or remained flat. This at least partially explains the fact that premium growth has also lagged behind the general price trend. A further factor is the intensity of competition that is typically found in developed markets.

In the year under review the premium volume booked by the German insurance industry increased by 1.5% to EUR 165.3 billion (EUR 162.1 billion). This growth was booked predominantly in life and health insurance. The trend towards annuity insurance was sustained here, especially due to the continuing large share of new business stemming from Riester contracts.

Given the competitive climate, property and casualty insurance achieved only a minimal premium gain of 0.4% in 2008 to reach altogether EUR 54.7 billion. The underwriting profit generated by this segment was also only marginally higher than in the previous year. The combined ratio improved fractionally to 95.0% (95.7%). While premium growth suffered under the recent cooling of the economy, the claims situation was adversely affected by hurricane "Emma" and a series of local and regional hailstorms and severe rainfall events ("Hilal" and "Naruporn"). Property insurers' balance sheets were, however, impacted to a lesser extent in the year under review than was the case in 2007, which was notable for the losses caused by winter storm "Kyrill". The minimal rise in premium volume in non-life business was crucially influenced by motor insurance, which recorded a sharp decline in premiums for the fourth consecutive year. The combined ratio in this line climbed from 98.1% to 103%; the aforementioned hail damage was principally responsible for this deterioration.

In industrial property insurance declining premium income (-5%) continued to contrast with rising sums insured, causing insurers' exposure to grow disproportionately. Here, too, considerable strains were again incurred; this is also evident from the worsening of the combined ratio to 97.0% (91.3%).

After premium income had been flat in the previous year, marine insurers suffered erosion of 1% in 2008. Despite a major claim associated with hail damage to new vehicles awaiting shipment, the combined ratio climbed only moderately to 93.0% (91.2%).

A research report published by the Federal Ministry of Transport forecasts a considerable rise in the number of shipments and the distances that will be covered over the coming 15 years. With roads, railway lines and inland waterways increasingly being transformed into moving warehouses, mobile risks are also multiplying in marine insurance. As yet, however, there is no statistical evidence as to whether this constitutes an increase relative to stationary transportation risks in warehouses.

In credit insurance premiums were sluggish. The claims experience in this line is highly volatile on account of major losses. In 2008, for example, an increase of around 10 percentage points in the claims expenditure was incurred. With a combined ratio of 82.0% credit insurers nevertheless achieved another satisfactory result in the year under review.

Against the backdrop of the considerable economic uncertainties – triggered by the financial market crisis – the Solvency II Directive Proposal of the European Commission is taking on increasing significance: it is intended to provide Europe with risk-based regulatory legislation from 2012 onwards in order to secure the financial market and strengthen the continent's own role as a global location for the insurance business.

2008 brought a multitude of new laws and regulations for the German insurance industry. On 1 January 2008, for example, the Ninth Amendment of the Insurance Supervision Act (VAG) designed to strengthen the German insurance industry in the European competitive environment entered into force. Key points of this reform are new provisions governing risk management at insurance enterprises: inter alia, it imposes more exacting requirements on the decision-making processes at companies.

In addition, the revised Insurance Contract Act (VVG) was implemented on 1 January 2008. This structures the contractual relations between insurers and policyholders more transparently and thus provides for improved consumer protection.

Last but not least, the directive adopted by the European Union on finite reinsurance was implemented into national law and incorporated into the Insurance Supervision Act. Contracts with a limited risk transfer are explicitly recognised under these provisions and their treatment is governed by binding rules.

Business development

E+S Rück, as the dedicated reinsurer serving the German market, has been a sought-after partner for many decades thanks to its excellent financial strength as well as its pronounced client orientation and the continuity of its business relationships. In Germany, the second-largest non-life reinsurance market, we continue to rank second among reinsurers.

Under an internal retrocession arrangement E+S Rück also exchanges business with the internationally operating Hannover Re so as to achieve broader risk spreading and geographical diversification of its portfolio. Our business result consequently reflects the effects of international – as well as domestic – developments.

Fierce competition continued to be the hallmark of the German property/casualty insurance market in the 2008 financial year – both in industrial lines and private customer insurance; in the latter case this was especially true of motor business, an important line for our company. Compared to the original market, however, the climate on the reinsurance side was more favourable, i.e. rates and conditions continued to be broadly adequate. Although softening tendencies made themselves felt here too, we were able to act on attractive business opportunities in the year under review.

In non-life reinsurance we pressed ahead in the year under review with our strategy of consistently expanding client relationships and concentrating on profitable business in the German market, in the context of which we also relinquished low-margin business. Gross written premium contracted slightly in 2008 by EUR 108.1 million to EUR 1,281.0 million.

We responded to the amended legal environment with intensive marketing efforts in support of our structured products and we further raised our profile in this sector. As a consequence, ceding companies increasingly included our products in their reinsurance planning. All in all, we were satisfied with the development of our business with structured products in Germany.

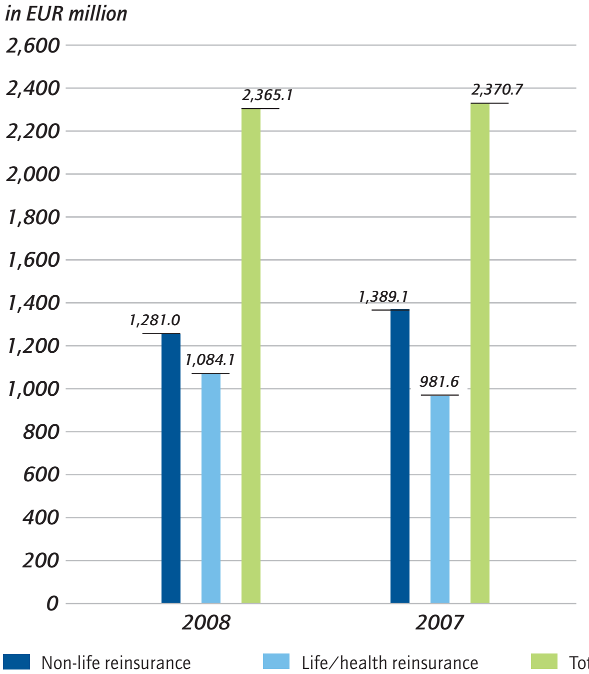
Life and health reinsurance fared especially pleasingly in the year under review. In the areas of deferred annuities, long-term care annuity policies and disability covers we enlarged our business volume and systematically refined our relevant products. What is more, we profited from our internal retrocession agreement with Hannover Re in 2008. Gross written premium was boosted by an appreciable EUR 102.5 million year-on-year to EUR 1,084.1 million.

Overall, the gross written premium booked by E+S Rück in 2008 remained virtually unchanged at EUR 2,365.1 million (EUR 2,370.7 million). The share of our total portfolio attributable to life and health reinsurance reached 45.8%, which thus contributed almost half the gross premium volume. Net premium earned climbed by EUR 17.1 million to EUR 1,797.5 million (EUR 1,780.4 million) owing to the slightly higher level of retained premium.

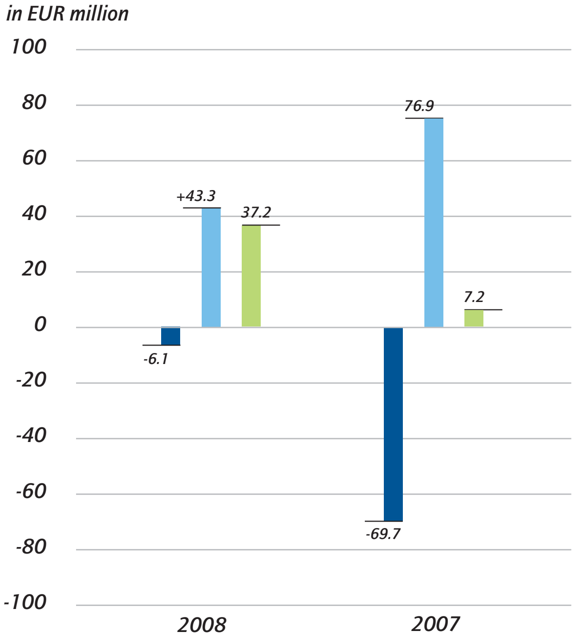
Our underwriting result was adversely affected in the second quarter by the hailstorms “Hilal” and “Naruporn”. In international business we were significantly impacted by hurricane “Gustav” and above all hurricane “Ike” in the third quarter. Our net burden from these four events came in at altogether EUR 87.8 million. The strain on our account from winter storm “Emma”, on the other hand, was a mere EUR 1.8 million. The total net expenditure from catastrophe losses and major claims amounted to EUR 112.9 million in 2008, a figure considerably higher than in the previous year (EUR 70.7 million). We were nevertheless satisfied with the development of our reinsurance business.

In the previous year the net expenditure for incurred claims had been strained by the first-time inclusion of the aviation and marine lines in the actuarial calculation of the IBNR reserve, hence resulting in a decrease to EUR 1,316.1 million (EUR 1,370.7 million) in 2008. The expansion of business in the life line caused an increase in the life assurance provision. Our operating expenses,

Development of gross premium income – breakdown into non-life and life/health reinsurance



Development of underwriting results* – breakdown into non-life and life/health reinsurance



* *Underwriting result: net, before change in the equalisation reserve*

on the other hand, fell thanks to stable administrative costs and lower commissions. Our technical result before changes in the equalisation reserve consequently improved to EUR 37.2 million (EUR 7.2 million).

After write-backs from the equalisation reserve and similar provisions amounting to EUR 29.9 million, the net technical result for 2008 came in at EUR 67.1 million (EUR 20.9 million).

The turmoil on the international capital markets adversely affected E+S Rück's investment result in the 2008 financial year. Principally due to significant falls in share prices, we were compelled to take impairments of EUR 19.1 million on our investments. We also realised a loss of EUR 114.2 million, primarily through the disposal of equities. The total negative impact of the financial market crisis thus amounted to around EUR 130 million.

Current income from investments, on the other hand, exhibited gratifying stability and remained virtually unchanged from the previous year. All in all, the net investment result in the year under review came in at EUR 210.7 million (EUR 365.3 million).

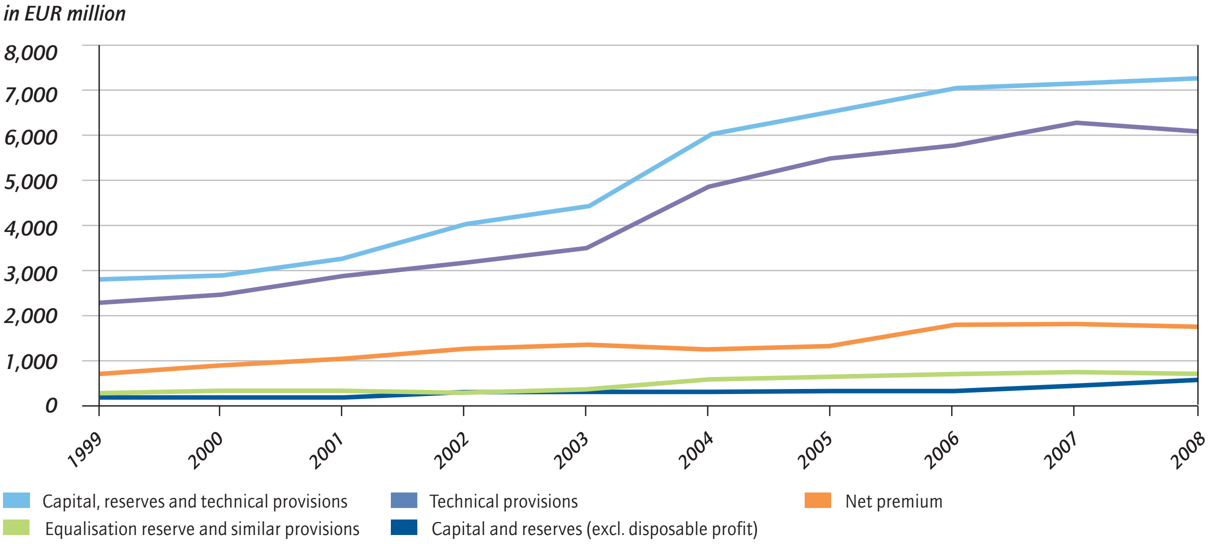
The inflow of additional cash, the bulk of which we invested conservatively in liquid government bonds, more than made up for the write-downs and realised price losses. Our portfolio of assets under own management continued to grow to EUR 4,297.5 million (EUR 4,120.4 million).

The profit on ordinary activities retreated to EUR 148.3 million (EUR 280.0 million) in the 2008 financial year due to the sharp fall in the investment result. Since losses on equities are not tax-deductible in Germany, our tax load contracted by a mere EUR 3.7 million to EUR

96.3 million; the profit for the year consequently slipped to EUR 52.0 million (EUR 180.0 million). Despite the financial market crisis it thus remained comfortably in positive territory and was on a par with the levels recorded in the years 2003 to 2006.

Our capital, reserves and technical provisions continue to be on a high level in spite of the crisis on financial markets and the associated upheavals.

Growth in capital, reserves and technical provisions and in net premium

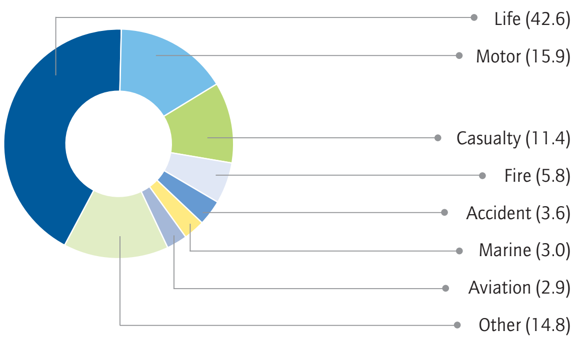


Development of the individual lines of business

The following sections explain the development of each line of business. We first explain the experience of our German business in the various lines in 2008; we then discuss the international business accepted from Hannover Re in the corresponding lines.

Our portfolio mix by line of business scarcely changed in the year under review. Along with the life line, our portfolio is dominated in non-life reinsurance by the fire, casualty, accident, motor, aviation and marine lines. Compared to the previous year, the most notable change in weighting was the increase in the share of life business from 35.1% to 42.6%. The proportion of casualty business, on the other hand, contracted appreciably from 16.9% to 11.4%.

Portfolio mix: gross premium by line of business at home and abroad (in %)



The weighting of the other lines changed only marginally.

In the context of the roll-out of our new reinsurance administration systems we modernised and automated the actuarial calculations used to determine the IBNR reserves. In particular, lines previously assessed on a treaty-by-treaty business were included in the automated, actuarially grounded methodology. This approach led to a sharp increase in the actuarially calculated IBNR reserve in the year under review, while reserves previously constituted for individual treaties were partially written back.

Fire

In 2008 there was still no indication of a trend reversal in German industrial fire business, where the decline in premium income was sustained for a fourth consecutive year. The premium erosion slowed appreciably towards the end of the year, however. Following double-digit falls in the previous years and a further -7% in 2007, the premium volume was reduced by around 5% in the year under review.

Claims expenditure was, if anything, below-average in the early part of the year. Despite an exceptional major loss in September and another large claim in November, we currently anticipate a combined ratio for the German market of around 97% in the 2008 financial year. In view of the very high level of capital commitment in this line, however, the remaining margin should be regarded as clearly too slim.

With market-wide premium income of around EUR 2.2 billion, a volume has been reached where the industry will incur substantial losses even in an average claims year. To this extent, there is no reason to become involved in the intense competition. Some major clients have already secured attractive conditions by agreeing longer-term policies with periods of two to three years. E+S Rück focused exclusively on high-margin business and moved forward with the optimisation of its portfolio in the role of an expert partner.

The facultative fire market was notable for continued competition on the premium side in the year under review; rates fell by around 10-15% compared to the previous year. The thoroughly favourable underwriting results of recent years and undiminished large number of high-capacity providers in the German fire insurance market are the primary reasons for the fierce competition. This trend levelled out somewhat in the fourth quarter, however, with an eye to the upcoming renewals on 1 January 2009: during this phase numerous policies were renewed without any premium reductions – or at most with only modest cuts. Our facultative portfolio was again spared large individual claims and catastrophe losses in the reporting period.

Movements on key foreign markets were particularly crucial to the development of the fire business assumed from Hannover Re: in the United States Hannover Re scaled back its fire portfolio in the year under review, while the business development in the United Kingdom was satisfactory.

The gross premium volume of our total fire portfolio remained virtually unchanged in the year under review at EUR 137.6 million after EUR 137.7 million in the previous year. The loss ratio improved to 43.7% (55.8%). The underwriting result (before changes in the equalisation reserve and similar provisions) climbed to a very gratifying EUR 38.1 million (EUR 20.0 million). An amount of EUR 0.8 million was withdrawn from the equalisation reserve and similar provisions.

Fire

in EUR million	2008	2007
Gross written premium	137.6	137.7
Loss ratio (%)	43.7	55.8
Underwriting result (net)	38.1	20.0

Casualty

Market projections point to a stable premium volume and decreased combined ratio for the casualty line in Germany in 2008, attributable to the reduced number of claims. While we were still characterising 2007 as a "soft" market, opposite tendencies emerged towards the end of 2008 on both the premiums and conditions side as the effects of the financial market crisis made themselves felt. Against this backdrop, market hardening began to set in – especially in the area of directors' and officers' covers.

With effect from 1 January 2008 the amended § 64a Insurance Supervision Act (VAG) entered into force. It requires companies to put in place appropriate risk management, an orderly business organisation and a risk strategy. Against this backdrop, it is to be anticipated that § 64a Insurance Supervision Act will have a spillover effect on the interpretation and concretisation of the general clauses of stock corporation law. At the same time, this may give rise to a correspondingly higher potential liability for board members with associated implications for directors' and officers' insurance.

In its ruling of 1 July 2008 the Federal Court of Justice trimmed back the requirements for the patient's onus of presentation with respect to pharmaceutical claims. It is to be expected that this ruling will make it considerably more difficult for drug manufacturers and their liability insurers to defend against unjustified claims. What is more, a new tendency is emerging with regard to rights of recourse for pharmaceutical claims: social insurance institutions filed an increasing number of claims for redress from drug companies.

Environmental damage insurance has become established in the market, although it is still too soon to speak of complete market penetration. In the areas of pharmaceutical liability and product recall stable prices prevailed on the market. Personal and public liability, on the other hand, saw fierce competition over conditions. Standing by its selective and profitability-oriented underwriting policy, E+S Rück was able to benefit from the changing market climate. No appreciable major casualty claims were incurred for the year under review. This is also true of claims in environmental damage insurance.

On the facultative side industrial liability business continued to be intensely competitive in the year under review. Only in the areas of pharmaceutical and recall covers as well as liability insurance for pure financial losses and medical malpractice liability did prices hold relatively stable in the reporting period. E+S Rück therefore stood by its selective underwriting policy in these segments too.

The casualty business assumed from Hannover Re developed as follows in the year under review:

In view of its rigorous profitability criteria Hannover Re again scaled back its foreign casualty portfolio in the year under review and reduced its market share. This was especially true of the United States, by far its largest single market, since rates were not considered to be adequate. Risks that generated below-average margins were further trimmed back.

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

In the year under review Hannover Re further optimised its portfolio in builder's risk insurance in France, a line in which it is pursuing a long-term strategy of consistent expansion. In the casualty sector it profited above all from its good rating, since ceding companies continue to attach considerable importance to the financial strength of reinsurers. This is particularly true of long-tail casualty business.

Owing to the varying market conditions, the gross written premium generated by our total casualty portfolio contracted appreciably in the year under review to EUR 268.9 million (EUR 400.0 million). The loss ratio in the year under review was lower than in the previous year at 77.0% (80.9%). The underwriting result improved to EUR 12.6 million (-EUR 18.2 million) despite further substantial bolstering of the IBNR reserves. Following an allocation of EUR 30.3 million in the previous year, an amount of EUR 38.2 million was withdrawn from the equalisation reserve and similar provisions in 2008. The required level of these provisions had decreased owing to the contraction in business volume.

Casualty

in EUR million	2008	2007
Gross written premium	268.9	400.0
Loss ratio (%)	77.0	80.9
Underwriting result (net)	12.6	-18.2

Accident

The development of German accident insurance in 2008 – against the backdrop of positive technical results in the original market – was again positive. The market premium grew by 1% while claims expenditure remained unchanged, causing the loss ratio to improve by 1% to 56%. The business experience in France – our second-largest market through the assumption of business from Hannover Re – was also satisfactory.

The hallmark of our activities in this line is the excellent range of services that we offer our clients with respect to product development and underwriting as well as in the area of claims management. Along with detailed checklists our clients receive extensive support for decisions on individual cases as well as for claim classification and handling; we also assist with training activities for personnel in the fields of proposal assessment and underwriting. On the product side, our focus remains on combined personal accident annuities and assistance benefits, especially with an eye to the needs of senior citizens.

The gross written premium of EUR 86.4 million did not quite match up to the previous year (EUR 89.6 million). The loss ratio rose to 86.5% (47.5%) on account of additional IBNR reserves. The underwriting result in the year under review consequently slipped into the red at -EUR 13.0 million (EUR 6.9 million). We withdrew an amount of altogether EUR 16.0 million from the equalisation reserve.

Accident

in EUR million	2008	2007
Gross written premium	86,4	89,6
Loss ratio (%)	86,5	47,5
Underwriting result (net)	-13,0	6,9

Motor

Motor business in Germany witnessed sustained price competition in the year under review; the effects on average premiums were, however, less marked than had been anticipated at the end of 2007. Nevertheless, the reduction in premiums alone was sufficient to produce poorer technical results, although in motor liability business these were again alleviated in 2008 by the further drop in the claims frequency.

The claims experience in the own damage lines, on the other hand, was striking: the extensive hailstorm event "Hilal" at the end of May and in early June caused a market loss of EUR 450 million; this was equivalent to a loss ratio of more than 6%. Nor were the subsequent weeks entirely spared hail events, the most notable of which was "Naruporn" in the middle of June. From the market perspective, then, motor own damage insurance performed significantly more poorly in 2008 than in the previous year, which had been overshadowed by winter storm "Kyrill".

Our portfolio remained relatively stable in motor liability insurance as a consequence of the improvements in conditions that were obtained in 2008 despite developments in the primary sector. In the own damage lines, however, E+S Rück took a considerable charge from the aforementioned losses – especially under non-proportional covers.

The motor liability business accepted from Hannover Re produced a mixed picture in the year under review: in the United States and France the development of the motor line was not satisfactory. Since the rate level is still insufficient, Hannover Re wrote the business highly selectively. By contrast, it enlarged its portfolio in Asian markets, including for example China, and also in the CIS states.

The premium volume booked in the motor line increased by altogether 11.0% from EUR 339.0 million to EUR 376.3 million. The loss ratio climbed as a consequence of the hail events to 98.2% (96.1%). The underwriting result therefore deteriorated from -EUR 48.3 million to -EUR 56.2 million. An amount of EUR 4.8 million was allocated to the equalisation reserve.

Motor

in EUR million	2008	2007
Gross written premium	376.3	339.0
Loss ratio (%)	98.2	96.1
Underwriting result (net)	-56.2	-48.3

Aviation

The primary market in aviation insurance was again heavily overshadowed by surplus capacities in the year under review, although original rates did show initial tendencies towards stabilisation – and indeed in some cases even increased. This was triggered by the poor results posted by aviation insurers in 2007, which left players in the primary market with their first losses after five sometimes very profitable years. In the second half of 2008 – in part also due to the effects of the financial market crisis – the premium erosion was further halted. On the reinsurance side, too, market hardening and hence moderate price increases could be discerned. In this line E+S Rück continues to profit from the fact that it ranks among the most sought-after reinsurers due to its excellent rating. The company is well placed to act on profitable business opportunities in a hardening market.

The diversification of the portfolio written by Hannover Re, which is one of the world's leading reinsurers in aviation and space business, was improved still further in the year under review; the dominance of fleet business continued to diminish.

Notable major losses incurred by Hannover Re in the year under review included a serious plane crash in Madrid and a satellite failure.

The premium volume contracted by EUR 10.2 million to EUR 68.3 million (EUR 78.5 million). Thanks to the release of IBNR reserves the loss ratio stood at just 62.7%. By contrast, the loss ratio in the previous year (87.2%) had been influenced by an increase in the IBNR reserves. The underwriting result moved back into positive territory at EUR 6.4 million (-EUR 3.6 million). An amount of EUR 5.3 million was withdrawn from the equalisation reserve.

Aviation

in EUR million	2008	2007
Gross written premium	68.3	78.5
Loss ratio (%)	62.7	87.2
Underwriting result (net)	6.4	-3.6

Marine

After the comparatively high frequency of small and mid-sized hull and cargo claims recorded in the previous year, 2008 was, if anything, a rather moderate year for marine business. Here, too, however, a major loss was incurred: a hailstorm in Emden at the end of June damaged a large number of motor vehicles that were awaiting shipment.

Since the autumn of 2008 we have seen severe repercussions on global trade from the financial market crisis: a decline in demand for shipping services led to considerable surplus capacities for most types of vessel, prompting a sometimes dramatic slump in freight rates. Similarly, a number of shipyards suffered cancellations of previously received orders for new vessels, because shipowners no longer considered it wise to expand their fleets in light of the decreased level of freight rates.

In common with the aviation portfolio Hannover Re also writes marine business predominantly through the London Market; in this line too it is one of the major reinsurance providers. After two years that were virtually spared catastrophe losses, rates in marine reinsurance softened slightly in 2008 worldwide – albeit with regional differences. The Asian market, for example – one of the most intensely competitive – saw reductions of some 20%. Essentially, Hannover Re preserved its existing portfolio - although exposures in the Gulf of Mexico were consciously scaled back.

In addition to higher basic losses in the primary sector in offshore/energy business, it was hurricane "Ike" that inflicted sizeable losses on the (re)insurance industry: despite the relatively moderate strength of its winds, the hurricane caused considerable devastation as it progressed slowly along its storm track. As a result, the market loss for offshore business – i.e. the drilling rigs and oil platforms in the Gulf of Mexico – is put at around USD 3 billion. Hannover Re's net loss expenditure from hurricane "Ike" totalled EUR 198.4 million and encompassed not only offshore but also onshore business, i.e. the insured property damage on land. Another hurricane – "Gustav" – was incurred in the Caribbean in the year under review, although the associated cost for Hannover Re (EUR 15.2 million) was relatively modest.

Our volume of assumed business contracted particularly sharply on account of the selective underwriting policy; gross written premium consequently retreated to EUR 71.8 million (EUR 74.4 million). The loss ratio decreased from 118.9% to 92.6%. The underwriting deficit improved from -EUR 15.8 million to -EUR 3.4 million. An amount of EUR 0.4 million was withdrawn from the equalisation reserve.

Marine

in EUR million	2008	2007
Gross written premium	71.8	74.4
Loss ratio (%)	92.6	118.9
Underwriting result (net)	-3.4	-15.8

Life

With the entry into force of the amended Insurance Contract Act (VVG), the German life insurance industry embarked on a new phase on 1 January 2008. Salient features of the reform are an increased level of information, improved transparency of policy terms and conditions, higher cash surrender values in the event of premature contract termination and timely participation of customers in life insurers' hidden reserves (e.g. with respect to equity securities and fixed-income securities).

The revised Insurance Contract Act prompted significant restructuring in operating processes at many life insurers, most notably in the areas of customer acquisition and care. This was reflected in a drag on new business that was particularly visible in the first half of the year. Premium income nevertheless enjoyed gratifying growth in the year under review - particularly thanks to government-assisted "Riester" annuity products, for which the fourth step increase was implemented at the beginning of 2008.

Annuity policies continue to be the dominant product in new business on the German market, accounting for a share of more than 60%. Nevertheless, risk-oriented products such as term life and disability covers still enjoy brisk demand.

For many years E+S Rück has participated in international life reinsurance business through a comprehensive quota share retrocession arrangement with its parent company Hannover Re. This gives us long-term growth and earnings potentials for a globally diversified life and annuity portfolio that could not be realised in the German market alone. Most significantly, E+S Rück profits from the systematically pursued expansion in major emerging markets such as China, India and Brazil.

Cessions from Hannover Re increased markedly in the year under review following the writing of several sizeable transactions in the Anglo-American markets. The development of bancassurance business in Romance-speaking markets was similarly favourable.

In the UK market, which is traditionally dominated by a close link between mortgage loans and life insurance policies, the company withdrew from some segments of protection business on account of excessive competition. On the other hand, with its focus on enhanced annuities for individuals with a reduced life expectancy Hannover Re was able to acquire new clients and has now assumed the mantle of market leader. Cooperation with newly established insurers specialising in the assumption of liabilities from occupational pension funds is also bearing initial fruit.

In the United States the company remains well positioned when it comes to designing financially oriented solutions geared to its clients' capital management as well as in the area of Medicare Supplement private health insurance covers for seniors. In this connection it should be emphasised that the first age cohort of the baby boomer generation (those born in the years 1946-1964, altogether more than 95 million people) has now reached retirement at age 62 and consequently attaches greater importance to considerations of private health insurance.

Hannover Re moved forward with the expansion of its infrastructure in key threshold markets in the year under review systematically and in accordance with its long-term strategic objectives. In China the company's Shanghai-based life branch commenced operational business in May 2008; Hannover Re also opened a branch in South Korea in the second quarter, thereby opening up direct access to Asia's largest life reinsurance market. The setting up of an office in Mumbai to cover both life/health reinsurance and facultative non-life business will enable the company to provide direct support for the Indian life insurance market. Having secured the status of "admitted" reinsurer and established a representative office in Rio de Janeiro, Hannover Re also put in place a good platform in Brazil in the year under review.

All in all, our gross written premium in the life line grew to EUR 1,006.5 million; this corresponds to an increase of 20.8% compared to the previous year. Profitability in the year under review proved to be highly gratifying. It was underscored by the favourable experience of the biometric risks of "mortality" and "longevity", while the structural risks associated with the "persistency of the business in force" and the client-specific "counterparty risk" - which are of vital importance first and foremost under financing transactions - were unremarkable. The underwriting result came under strain, however, from considerable prefinancing expenses in the year under review. The net underwriting profit consequently declined to EUR 42.0 million, after EUR 71.5 million in the previous year.

Life

in EUR million	2008	2007
Gross written premium	1,006.5	833.0
Underwriting result (net)	42.0	71.5

Other lines

The lines of health, credit and surety, other indemnity insurance and other property insurance are reported together under other lines. Other property insurance consists of the extended coverage, comprehensive householder's (contents), comprehensive householder's (buildings), burglary and robbery, water damage, windstorm, plate glass, engineering, loss of profits, hail and livestock lines. Other indemnity insurance encompasses legal protection, fidelity as well as other pure financial losses and property damage. Reflecting their significance, our comments on the other lines will concentrate on credit and surety insurance, health insurance and natural hazards covers.

We were thoroughly satisfied with the development of the credit and surety lines in the year under review. This business is traditionally geared to continuity, and loyalty considerations are therefore of major significance in relations between insurers and reinsurers. Despite the worsening economic environment primary insurers again increased their retentions in 2008 – while conditions remained unchanged. The supply of reinsurance capacity was at the same time still adequate, although ceding companies placed greater emphasis on the financial strength of their reinsurers. The rate decline on the primary insurance side was, however, halted in the wake of the financial market crisis. We cemented our position in the year under review and selectively expanded our involvement in credit and surety business in the year under review.

Hannover Re ranks third in worldwide credit and surety reinsurance; in North America it is similarly one of the market leaders. The protracted crisis on financial markets led to a drop in the solvency level of businesses and hence to a rising number of bankruptcies in the year under review. The claims frequency in the credit line consequently increased. Losses in surety business, on the other hand, rose only marginally.

The meltdown on the US mortgage market did not have any repercussions for our credit and surety portfolio. Our underwriting guidelines preclude the writing of credit derivatives, i.e. including financial guarantee business. All in all, the gross premium volume contracted in the year under review to EUR 74.3 million (EUR 84.6 million). The underwriting profit of EUR 5.6 million was somewhat smaller than in the previous year (EUR 8.7 million), principally due to an increased loss ratio in credit business.

In the area of health reinsurance we primarily assume international business from Hannover Re. The latter takes a very conservative approach in this line and principally accepts business on a proportional basis from its US subsidiary Hannover Life Re America in Orlando. Hannover Re also writes a small number of non-proportional covers in Romance-speaking European countries and – on a carefully selected basis – in certain other markets. Following the loss of a large US contract in the Medicare Supplement sector due to portfolio withdrawal, the premium volume contracted sharply in the year under review and totalled just EUR 77.6 million (EUR 148.7 million). The net underwriting result also retreated to close with a profit of EUR 1.3 million (EUR 5.4 million).

Summer storms in Germany were the focus of attention under natural hazards covers: unstable weather conditions gave rise to repeated costly hail events and local flooding from May 2008 onwards. In addition, winter storm "Emma" in March was the most conspicuous event of its type recorded in the year under review. The burden of losses for the market and for E+S Rück came in well below the record losses of 2007. While the previous year had been overshadowed by winter storm "Kyrill", the hail events of 2008 - as already mentioned - primarily caused losses in the motor own damage portfolio. Our foreign portfolio, on the other hand, was impacted more heavily by windstorm damage in 2008.

The gross written premium in all the other insurance lines combined contracted in the year under review to EUR 349.4 million (EUR 418.4 million), principally owing to the reduced portfolio of health reinsurance. The loss ratio decreased to 69.6% (74.2%), as a consequence of which the underwriting result moved back into positive territory at EUR 10.7 million (-EUR 5.3 million). An amount of altogether EUR 26.0 million was allocated to the equalisation reserve and similar provisions constituted in the other lines.

Other lines

in EUR million	2008	2007
Gross written premium	349.4	418.4
Loss ratio (%)	69.6	74.2
Underwriting result (net)	10.7	-5.3

Investments

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

In view of the recessionary tendencies in virtually all major currency areas, a cycle of interest rate reductions was set in motion worldwide. While the US Federal Reserve Board slashed its key lending rates dramatically to 0% to 0.25% by year-end, the adjustment made by the European Central Bank - which cut the base rate to 2.5% - was comparatively moderate.

The return on ten-year European government bonds shrank to less than 3.0% over the course of the year. In the United States the decline was even more marked owing to the economic outlook. Highs comfortably in excess of 4 % had been recorded as recently as the middle of the year. As the fourth quarter progressed corporate bonds were listed with considerable risk premiums. The markets for fixed-income securities with counterparty exposure are largely illiquid.

The company's investment policy continues to be guided by the following core principles:

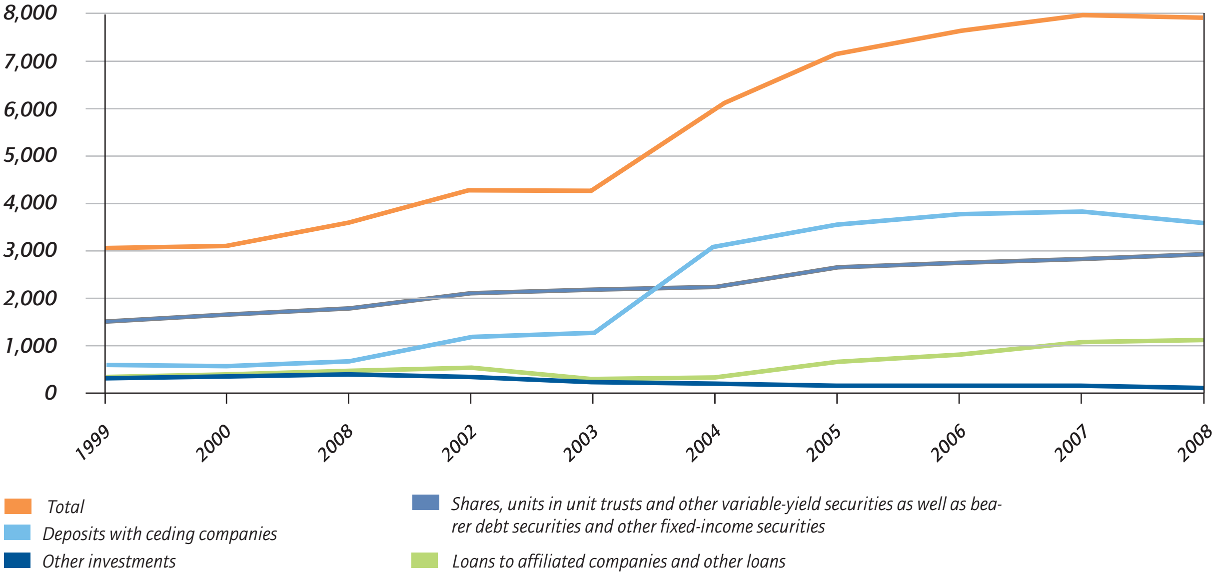
- generation of stable, plannable and tax-optimised returns while at the same time maintaining the high quality standard of the portfolio;
- ensuring the company's liquidity and solvency at all times;
- high diversification of risks within the framework of the investment strategy;
- management of currency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

With these goals in mind we engage in active risk management on the basis of balanced risk/return relationships. In this context we observe investment guidelines and are guided by dynamic financial analysis based on the latest scientific insights. These measures ensure that at all times we are able to meet our payment obligations in light of our liabilities profile.

Within the scope of our asset/liability management activities, the allocation of investments by currency is determined by the development of underwriting items

Investments

in EUR million



on the liabilities side of the balance sheet. We are thus able to achieve extensive currency matching of assets and liabilities, thereby ensuring that our result is not significantly affected by fluctuations in exchange rates.

Moderate cash inflows from the technical account and investments enabled us to boost our portfolio of assets under own management to EUR 4.3 billion (EUR 4.1 billion) in the year under review.

The balance of our deposit interest and expenses was largely unchanged at EUR 97.9 million (EUR 100.8 million). Gains on disposals of EUR 108.1 million (EUR 138.9 million) were attributable mainly to the liquidation of a hedge on almost one-third of the equity holdings in the fourth quarter as well as the realisation of reserves as part of the significant reduction of the equity allocation. This contrasted with realised losses of EUR 114.2 million (EUR 3.1 million) that similarly resulted from the sharp reduction of the equity allocation in the fourth quarter. Last but not least, write-downs of EUR 34.6 million (EUR 19.6 million) were also a factor in the appreciable contraction of the net investment result to EUR 210.7 million (EUR 365.3 million).

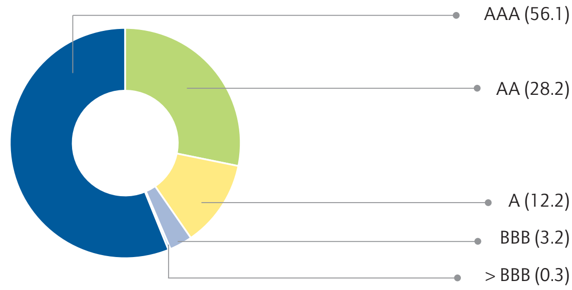
For years we have actively managed the average duration of our fixed-income portfolio, thereby conserving our shareholders' equity. During the current reporting period we reduced only slightly the modified duration of our bond portfolio, which consequently stood at 4.0 years (4.2 years) as at 31 December 2008.

The portfolio of fixed-income securities climbed sharply to EUR 4.0 billion (EUR 3.4 billion), primarily as a consequence of the reduced equity allocation but also due to inflows of cash from the technical account. The funds were invested predominantly in government bonds. Net unrealised gains on fixed-income securities totalled

EUR 101.8 million as at year-end, compared with unrealised losses of EUR 31.7 million in the previous year.

Movements on equity markets were extremely turbulent in the year under review. The downward trend that had started in the first half of the year accelerated sharply in the fourth quarter. We therefore reduced our equity allocation to a minimum, leaving it at significantly less than 1% (14.3%). Write-downs of EUR 3.3 million (EUR 7.4 million) were taken on this remaining portfolio.

Rating of fixed-income securities in %



Human resources

E+S Rück strives to be an attractive employer for ambitious, performance-minded individuals who identify with the company's goals. With this in mind we offer a flexible, receptive working environment as well as latitude for self-reliant decision-making. Our human resources staff, systems and structures put in place the framework needed for the further professional development of our workforce. The cornerstones of our personnel activities in the year under review were the recruitment of highly qualified people and the promotion of a healthy work/life balance for our employees. E+S Rück employed 255 (247) staff as at 31 December 2008.

Labour market for qualified university graduates remains fiercely competitive

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

With a view to consolidating and further extending our position as an attractive employer in the market, we systematically seek to identify room for optimisation within the scope of our strategic human resources planning. In 2008 we therefore set up a "Task Force" for the recruitment of mathematicians. Comprised of the managers of departments which are especially reliant on mathematicians as well as representatives of Human Resources, it has set itself the task of further improving the way in which the company addresses this group of graduates in particular. Stepping up and expanding our contacts with universities – in part also through the sponsoring of chairs in mathematics –, increasing the number of positions offered to apprentices and soon-to-be graduates as well as launching an employer branding project are just the first measures undertaken by this task force.

Flanking these marketing-oriented approaches, we have also created a trainee programme specially aimed at mathematicians: in the future, E+S Rück will offer particularly well-suited graduates the opportunity to undergo an 18-month trainee programme for junior executives and thereby familiarise themselves with the company from a broad variety of perspectives by spending periods of six to twelve weeks in various areas of the organisation. In this way, we shall be able to promptly fill vacancies in these departments as they arise with well-trained staff and further boost the appeal of E+S Rück among university graduates with a background in mathematics.

Work/life balance

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

Management feedback

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

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

New module for personnel development

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

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

Fostering of a culture of achievement

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

E+S Rück again participated in a customer survey in 2008. In the competition to find "Germany's Customer Champions 2008" it achieved a total score of 836 points out of a possible thousand. The company thus took sixth place overall and ranked as high as third among employers with a workforce of more than 500.

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

Participation of staff in the performance bonus (Hannover location)

2008	Number
Senior executives	66
Managerial levels up to the rank of Chief	403
Total participants	469
Proportion of the total workforce	48.7 %

Word of thanks to our staff

The Executive Board would like to thank all employees for their dedication in the past year. At all times the workforce identified with the company's objectives and purposefully pursued them. We would also like to express our appreciation to the staff and representatives who participated in our co-determination bodies for their critical yet always constructive cooperation.

Sustainability report

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

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

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

Social commitment

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

Social commitment is also something that E+S Rück takes very seriously, and the assumption of social responsibility constitutes a core element of our corporate culture. In Hannover, for example, we launched a Christmas tree campaign this year – inspired by the model at Hannover Re's South African subsidiary: in this way, staff at E+S Rück helped to realise the dreams of children at a local children's home during the Christmas season.

Environment

E+S Rück recognises that business flights undertaken by its employees cause CO_2 pollution. As a compensatory measure we pay a carbon offset levy for each kilometre flown to "atmosfair", an international organisation that puts the funds collected towards climate protection. "atmosfair" invests inter alia in solar, hydroelectric, biomass and energy-saving projects so as to reduce greenhouse gases to an extent comparable with the effect on the climate of the emissions produced by flying. Preferential support is given to projects in developing countries, although all projects must deliver a demonstrable contribution to climate protection.

In 2007 E+S Rück participated for the first time in the "Ecological Project for Integrated Environmental Technology" (Ecoprofit). In the year under review we continued to pursue the basic idea underlying this project – to combine economic profit with ecological benefit – through preventive environmental protection in order to bring about a further reduction in CO_2 emissions.

Support for the arts

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

Risk report

Risk strategy

The risk strategy is an expression of E+S Rück's fundamental approach to the identification and handling of risks. It is derived from the company strategy and constitutes a self-contained set of rules. At the same time it serves as the point of departure for the practice of risk management. The risk strategy is an integral component of entrepreneurial actions and is reflected in the detailed strategies of the various divisions.

Risk conception

As a reinsurer E+S Rück is confronted with a broad diversity of risks that are directly connected with our entrepreneurial activities. Our conception of risk is holistic. For our company, risk means the entire spectrum of positive and negative random realisations in relation to planned or expected values. Negative random realisations, by which we understand the possibility of non-attainment of an explicitly formulated or implicitly deduced goal, are of special importance for risk management. The conservation of capital is a decisive criterion for our risk tolerance. This necessitates a conscious approach to dealing with risks, both in non-life and life/health reinsurance and in the investment sector.

Overriding goals and organisation of our risk management

With a view to conserving capital, we seek to control and manage our specified individual risks in such a way that the total risk remains within the permissible, defined tolerances. Risk management therefore forms an integral component of our value-based enterprise management and hence of all higher-order decision-making processes. In addition to conserving capital, we are careful to allocate our scarce equity resources flexibly to those areas that promise the highest risk-weighted profit. Our insights from the risk management system provide an overview at all times of E+S Rück's current and expected future overall risk situation. These insights thus establish a framework for decision-making on all levels of management by bringing transparency to the relationship between opportunities and risks. Operational realisation of these objectives is ensured inter alia through standard and ad hoc reports tailored to the risks, systematic and comprehensive recording of all material risks and our review – based on a closed loop system – of the efficiency of all relevant systems in risk management. Appropriate rules establish a separation between units that enter into or manage risks, on the one hand, and those that monitor risks, on the other. Process-integrated monitoring is performed by the Risk Committee, the Chief Risk Officer and the supporting organisational units. Process-independent monitoring is the responsibility of Internal Auditing.

Central elements of the risk management system

Controlling elements	Key risk management tasks
Supervisory Board	• Advising and monitoring the Executive Board in its management of the company, inter alia with respect to risk management
Executive Board	• Overall responsibility for risk management • Definition of the risk strategy • Responsible for the proper functioning of risk management
Risk Committee	• Monitoring and coordinating body with respect to operational risk management • Decision-making power is within the bounds of the risk strategy defined by the Executive Board
Chief Risk Officer	• Responsibility for holistic risk monitoring across departments (systematic identification and assessment, control/monitoring and reporting of risks) of all material assets – and liabilities-side risks
Group Risk Management *(central and decentralised risk monitoring function)*	• Process-integrated risk monitoring function • Methodological competence, inter alia for – development of processes/methods for risk assessment, management and analysis – risk limitation and reporting – risk monitoring and determination of the required risk capital
Business units	• Primary risk responsibility, inter alia responsible for risk identification and assessment on the departmental level • The task is performed on the basis of the guidelines set out by Group Risk Management
Internal Auditing	• Process-independent review of all functional areas of E+S Rück

Quantitative and qualitative risk management

Regulatory solvency requirements are regularly monitored within the scope of E+S Rück's risk management. Our qualitative processes and controls for risk identification, quantification and steering are based upon recognised, advanced methods. Centrally defined guidelines, methods and processes as well as systems of limits and thresholds provide the framework for decentralised implementation, monitoring and reporting. In addition, the central risk monitoring function quantifies and aggregates all risks on the level of E+S Rück. It performs central reporting and monitors measures taken across the organisation to control risks that could potentially jeopardise the company's existence.

Technical risks in non-life reinsurance

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

A significant technical risk is the risk of underreserving and the associated strain on the underwriting result. We calculate our loss reserves on an actuarial basis. The point of departure here is always the information provided by our cedants, where necessary supplemented by additional reserves that may seem appropriate on the basis of our own actuarial loss estimations. Furthermore, we constitute an IBNR (incurred but not reported) reserve for losses that have already occurred but have not yet been reported to us. Our own actuarial calculations regarding the adequacy of the reserves are subject to annual quality assurance reviews conducted by external actuaries and auditors. Catastrophe risks, especially those associated with natural hazards such as earthquakes or windstorm events, constitute another material risk for E+S Rück. Licensed scientific simulation models, supplemented by our own expertise, are used to assess the risks posed by natural hazards. Within the scope of accumulation control the Executive Board defines the appetite for assuming natural hazards risks once a year on the basis of our risk strategy. In order to manage the portfolio with this consideration in mind, maximum underwriting limits (capacities) are stipulated for various extreme loss scenarios and return periods / probabilities, utilisation of which is monitored and reported to the relevant bodies. The price/premium risk lies primarily in a failure to correctly calculate the necessary premiums in relation to the future loss experience. The risk arises out of the incomplete or inaccurate estimation of future claims, especially over time. Regular and independent reviews of the models used for treaty quotation as well as the implemented methods, e.g. our compulsory central and local underwriting guidelines, are therefore essential for the management of these risk potentials.

Technical risks in life and health reinsurance

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

We reduce these potential risks with a broad range of risk management measures. For example, the reserves in life and health reinsurance are calculated in accordance with actuarial principles using secure biometric actuarial bases and with the aid of portfolio information provided by our clients. Through our own quality assurance we ensure that the reserves established by ceding companies in accordance with local accounting principles satisfy all requirements with respect to the calculation methods used and assumptions made (e.g. use of mortality and disability tables, assumptions regarding the lapse rate etc.). New business is written in all regions in compliance with internationally applicable Global Underwriting Guidelines, which set out detailed rules governing the type, quality, level and origin of risks. These global guidelines are revised every two years and approved by the Executive Board. They are supplemented by country-specific special underwriting guidelines that cater to the special features of individual markets. In this context the quality standards set for the portfolio reduce the potential counterparty risk stemming from an inability to pay or deterioration in the credit status of cedants. We review the risk feasibility of new business activities and of the assumed international portfolio on the basis of a series of regularly performed, holistic analyses, inter alia with an eye to the lapse risk. Quality is further assured by the actuarial reports and documentation required by local regulators. A key tool of our value-based management and risk management in the area of life and health reinsurance is the European Embedded Value (EEV). This is calculated as the present value of future earnings from the worldwide life and health reinsurance portfolio plus the allocated capital. In this context appropriate allowance is made for all risks underlying the covered business. Since the 2006 financial year the EEV has been calculated on a market-consistent basis. In future, this Market Consistent Embedded Value (MCEV) is to be established on the basis of the principles of the CFO Forum published in June 2008. We publish the MCEV on our Internet website at the same time as the quarterly report for the first quarter. The interest guarantee risk, which is important in life business in the primary insurance sector, is of only minimal risk relevance to our business owing to the structure of our contracts.

Capital market risks

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

The share price risk results from volatilities on equity markets. Fixed-income securities are exposed to the interest rate risk when market interest rates change. Declining market yields lead to increases and rising market yields to decreases in the fair value of fixed-income securities portfolios. Real estate risks derive from unfavourable changes in the value of our own real estate. This may be caused by a general downslide in market values (as seen with the present US real estate crash) or a deterioration in the particular qualities of the property. Real estate risks are of subordinate importance for our company owing to our minimal real estate portfolio. Currency risks result from fluctuations in exchange rates – especially if there is a currency imbalance between the technical liabilities and the investments. By systematically adhering to matching currency coverage, i.e. extensive matching of currency distributions on the assets and liabilities side, we are able to minimise this risk. The spread risk refers to the risk that the interest rate differential between a risk-entailing bond and risk-free bond may change while the quality remains unchanged. We reduce these potential risks using a broad range of risk-controlling measures, the most significant of which are monitoring of the Value at Risk (VaR), various stress tests that estimate the loss potential under extreme market conditions as well as sensitivity and duration analyses and our asset/liability management (ALM). Despite our conservative investment strategy, restrictive limits and thresholds as well as the controlling tools described above, we cannot divorce ourselves entirely from general market developments. We took a number of risk-minimising measures in the year under review in response to the financial market crisis:

- Limitation of the investment spectrum to government or supranational bonds in September 2008. Although this step reduced the average yield for 2008, it also limited any new risk-taking on the credit markets in view of the uncertain state of the market.

- Elimination of all counterparty risks with respect to existing options for equity hedging.

- Despite the already high diversification of the portfolio, further tightening of issuer limits for all investments of E+S Rück in September 2008 in order to minimise potential accumulation risks.

- Near complete reduction of unhedged holdings of listed equities in October 2008.

- Thorough review of the existing investment guidelines in December 2008. Scarcely any adjustments were necessary even in the present circumstances; the limits, especially in respect of covered bonds, ABS and MBS, were nevertheless further refined.

- Making available of a minimum level of liquidity or assets that can be realised at any time in an amount of at least EUR 4 billion or around 20% of the investments under own management as the prevailing illiquidity of secondary markets that had begun in September 2008 continued and in view of the risks arising in connection with the acceptance of LOCs by ceding companies.

Rating structure of our fixed-income securities

Rating	Bearer debt securities		Registered debt securities, debentures and loans		Bond funds		Sundry loans	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	72.9	2,026.6	21.8	238.8	–	–	–	–
AA	18.4	512.2	47.9	525.8	96.5	102,2	–	–
A	6.2	171.6	28.7	315.0	–	–	9.2	5.0
BBB	2.2	60.8	1.6	17.5	–	–	90.8	49.2
<BBB	0.3	9.1	–	–	3.5	3.7	–	–
Total	100.0	2,780.3	100.0	1,097.1	100.0	105.9	100.0	54.2

Of the corporate bonds totalling EUR 689.2 million held by our company, EUR 598.8 million was issued by entities in the financial sector. Of this amount, EUR 586.3 million was attributable to banks. The vast majority of these bank bonds (almost 90%) were rated "A" or better.

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	(88.1)
	Yield increase	+100	basis points	(171.2)
	Yield decrease	- 50	basis points	87.2
	Yield decrease	- 100	basis points	179.4
	Fair value as at 31.12.2008			4,139.2
Equities	Share prices	+10%		1.1
	Share prices	+20%		2.1
	Share prices	- 10 %		(1.1)
	Share prices	- 20 %		(2.1)
	Fair value as at 31.12.2008			10.6

Credit risks

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

In reinsurance business the credit risk is material for our company because the business that we accept is not always fully retained, but instead portions are retroceded as necessary. These retrocessions conserve our capital, stabilise and optimise our results and enable us to derive maximum benefit from a "hard" market (e.g. following a catastrophe loss event). Alongside traditional retrocession we also transfer risks to the capital market. Overall, these tools support diversification within the total portfolio and promote risk reduction. Credit risks are also relevant in life and health reinsurance because we prefinance acquisition costs for our ceding companies. Our investments similarly entail a credit risk. Our clients, retrocessionaires and broker relationships as well as our investments are therefore carefully evaluated and limited in light of credit considerations and are constantly monitored and controlled within the scope of our system of limits and thresholds. E+S Rück counters the risk of default on reinsurance recoverables by carefully selecting its partners with the aid of an expertly staffed Security Committee. The Security Committee continuously monitors the credit status of retrocessionaires and approves measures where necessary to secure receivables. The Group Protections unit is responsible for the Hannover Re Group's ongoing cession management. This process is supported by our "Cession Limits" web-based risk management application. This assists with the Hannover Re Group's cession management by specifying cession limits for the individual retrocessionaires participating in protection cover programmes and determining the capacities still available for short-, medium- and long-term business. Depending on the type and expected run-off duration of the reinsured business, the selection of reinsurers takes account not only of the minimum ratings of the rating agencies Standard & Poor's and A.M. Best but also internal and external (e.g. market information from brokers) expert assessments.

Operational risks

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

Operational risks may derive, inter alia, from system failures or unlawful or unauthorised acts. Given the broad spectrum of operational risks, there is a wide range of different management measures tailored to individual risks. Core elements of risk management are our contingency plans that ensure the continuity of mission-critical enterprise processes and systems (recovery plans, backup computer centre). The range of tools is rounded off with external and internal surveys of clients and staff, the line-independent monitoring of risk management by Internal Auditing and the Internal Control System (ICS).

Other risks

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

The hallmark of emerging risks (such as obesity, nanotechnology) is that the content of such risks is not as yet known with any certainty and their implications – especially for our portfolio – are difficult to assess. It is therefore vital to detect such risks at an early stage and determine their relevance. On this basis it is possible to decide which steps must be taken, e.g. ongoing observation, the implementation of contractual exclusions or the development of new reinsurance products. Strategic risks derive principally from an imbalance between the corporate strategy and changing general economic conditions. Such an imbalance might be caused, for example, by incorrect strategic policy decisions, a failure to consistently implement the defined strategies or by fundamental changes in court decisions or the regulatory environment. We therefore regularly review our strategy and systematically adjust our structures and processes as and when required. Our holistic management system of "Performance Excellence" ensures that our strategy is constantly reviewed and consistently translated into practice. E+S Rück's reputation as a company is one of its most vital intangible assets. It often takes decades to build up a positive reputation, yet this reputation can be damaged or even destroyed within a very brief space of time. Like the strategic risk, the reputational risk usually manifests itself in combination with other risks, such as market or technical risks. Management of this risk is facilitated by our mandatory communication channels and processes that have been specified for defined crisis scenarios as well as by our business principles. The liquidity risk consists of the refinancing risk, i.e. the necessary cash cannot be obtained or can only be raised at increased costs, and the market liquidity risk, meaning that financial market transactions can only be completed at a poorer price than expected due to a lack of market liquidity. Regular liquidity planning and a liquid asset structure are core elements of our ability to manage this risk. Our active liquidity management has helped to ensure that even in times of financial crisis we are able to meet our payment obligations at all times without reservation.

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

Assessment of the risk situation

The above remarks describe the diverse spectrum of potential risks to which we, as a reinsurance company, are exposed as well as the steps taken to manage them. These risks can potentially have a significant impact on our assets, financial position and net income. Yet it is inappropriate to consider only the risk aspect, since risks always go hand-in-hand with opportunities. Thus, we have already explained that our conception of risk is holistic. With the aid of our effective controlling tools as well as our organisational structure and process organisation, we ensure that we are able to identify risks in a timely manner and maximise our opportunities. Based on our currently available insights arrived at from a holistic analysis of the risk situation, we cannot discern any risks that could jeopardise the continued existence of our company in the short or medium term or have a significant, lasting effect on our assets, financial position or net income. This remains true even against the backdrop of the recent upheavals on global financial markets.

Forecast

In general, we expect to see a sharp downturn in the global economy and a continuing recession in 2009. Monetary policy is currently tending towards an expansionary stance worldwide. In view of the drastic slowdown in economic activity and the risk of deflation, central banks have sharply eased their policy on interest rates. In the United States the Federal Reserve moved to a zero interest rate policy in the middle of December 2008.

Economic stimulus packages have already been launched in many countries with a view to alleviating the slumping economy. Further measures intended to revive the economy will probably be unveiled in the course of the year. Despite all the efforts of governments and central banks to stabilise the financial sector and stimulate business activity, the global economy will likely show only very minimal growth in 2009.

With consumption already on the wane in the United States, exports are now also declining. This is likely to be reflected in a sharp contraction in gross domestic product. The European Union is experiencing the most pronounced slump in manufacturing output in its existence. Domestic and foreign demand will drop significantly in 2009 and real gross domestic product will fall. Prospects for the emerging markets have also taken a considerably darker turn.

In Germany the recession is being driven first and foremost by a sharp decline in exports. It is still uncertain whether the steps taken by the federal government to boost the economy will begin to bite. Real gross domestic product will nevertheless contract in 2009 and probably usher in the most severe economic slump since 1974. Provided there is no further bad news to reinforce the downward trend, the economic situation is expected to stabilise gradually in the second half of the year.

The German insurance industry is currently facing protracted major challenges. Along with the trend towards slowing premium growth relative to past years, the technology-driven acceleration of market processes as well as globalisation are fanning intense competition in the insurance industry. Further factors are the scarcity of capital due to the financial market crisis and the tendency towards reduced earnings on account of the fall in interest rates. The situation on reinsurance markets, on the other hand, improved appreciably right at the outset of the year as the aforementioned shortage of capital boosted demand for reinsurance covers. We were already able to profit from this state of affairs in our treaty renewals as at 1 January 2009, securing rate increases that sometimes ran into double-digit percentages.

Prices and conditions in *industrial fire insurance* will likely stabilise in 2009, although modest experience-based premium rebates may still be found in isolated cases. Reinsurers will also play a part in this stabilisation by tightening up conditions for reinsurance across the board. It remains to be seen how foreign providers will position themselves in this context. Given the current state of the market, however, and bearing in mind the general crisis on financial markets, it is unlikely that additional capacities will force their way into the market on a broad scale. If anything, the supply of reinsurance will contract as some providers withdraw from the market. It may also be noted that foreign providers are tending to operate as co-underwriters and are scarcely able to take the lead on German major risks owing to their lack of expertise. In view of the anticipated production slumps – e.g. in the automobile industry and among its suppliers – on the back of the depressed economy, an appreciable contraction in premium volume is nevertheless to be expected, especially in fire loss of profits insurance.

In the area of non-proportional *casualty reinsurance* E+S Rück was able to negotiate higher rates in the 2009 renewals. It was once again evident that E+S Rück is preferred as a reliable partner with a very good rating. The competition surrounding higher limits and extended conditions that had been observed in the past was scarcely a factor here. In 2009 we are again concentrating facultative acceptances on industrial liability business.

In *accident reinsurance* prices and conditions continue to move very satisfactorily for E+S Rück. We are profiting here from the favourable portfolio development enjoyed by many primary insurers. Thanks to our extensive range of services we were also able to acquire new clients. Going forward, as in the past, our focus in this line will be on developing new products in cooperation with our clients and driving an active transfer of knowledge at expert conferences that we organise for employees of our ceding companies.

The competition among German *motor insurers* on the original market was sustained as at 1 January 2009; in our assessment, though, the intensity has eased somewhat compared to the previous year. Conditions on the reinsurance side, especially in non-proportional business, improved appreciably, thereby more than merely offsetting the further erosion of the underlying premium. Against the backdrop of the accumulation losses incurred in 2008, it was also possible to obtain significantly improved conditions for own damage reinsurance.

In *aviation business* we expect to see further hardening on both the insurance and reinsurance side in the course of 2009; our market share is unlikely to remain unchanged.

The strains from hurricane "Ike" incurred by reinsurers transacting *marine business* promise stable to slightly rising prices for German marine reinsurance too. On the primary market upward tendencies can also be discerned in the hull segment. In cargo business, on the other hand, the premium volume in the primary sector is likely to shrink. This is due less to a declining rate level than it is to the anticipated contraction in the volume of global trade.

We were satisfied with the treaty renewals in *credit and surety insurance* effective 1 January 2009. Rate increases and improvements in conditions were observed across the board in response to the spreading crisis on financial markets. At the same time, even greater emphasis was placed on the financial strength of reinsurers – from which we profited through selective increases in written shares. The loss ratios in 2009 are likely to be on a par with 2008 on both the insurance and reinsurance side. Taken in conjunction with the substantially improved reinsurance conditions, we expect to generate another underwriting profit in the coming year.

The renewals in the area of *natural catastrophe covers* failed to bring the originally anticipated market softening. Here too the picture has changed: rates for natural catastrophe covers held stable, while prices for loss-impacted programmes increased. The trend towards an increased demand for capacity went hand-in-hand with a contraction in supply, leading to amendments in the case of some placements. E+S Rück is maintaining its capacities in the German market on a stable level.

All in all, we were able to further enlarge our already sizeable market share in Germany thanks to new customer relationships and increased treaty shares under existing accounts, thereby cementing and extending our position as one of the leading reinsurers in the profitable German market.

The situation in foreign business, which we assume by way of retrocessions from Hannover Re, was as follows:

In the *United Kingdom* Hannover Re was satisfied with the treaty renewals; in both motor insurance and casualty business the portfolio was enlarged on the back of increased rates. In France too the outlook for rates has brightened. Further improvement in prices for natural catastrophe risks should be attainable in the wake of the severe winter storm "Klaus" in January. In the other *European countries* the premium volume was also expanded in accordance with our profitability criteria.

For *North America* Hannover Re is looking to a significantly improved market environment in 2009; reductions in rates or conditions are a thing of the past. The diminished capital resources of primary insurers – in the aftermath of the financial market crisis – have fanned demand for reinsurance covers and hence pushed up prices. This trend is likely to be sustained until the middle of the year.

Hannover Re was similarly very satisfied with the outcome of the treaty renewals in *China*. Both the crisis on financial markets and the losses from the 2008 snowstorm generated greater demand for reinsurance. The renewals picture in the *other Asian markets* was a mixed one. The state of the market in *Taiwan* remained broadly unchanged; conditions for proportional treaties are largely stable. In *Japan* – where the bulk of contracts are renewed on 1 April – rates are expected to rise owing to the effects of the financial market crisis.

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

The financial crisis and economic crunch have had far-ranging repercussions on worldwide credit and surety insurance. The number of insolvencies – and hence also the loss ratios – is set to rise. In the face of this business climate we are seeing appreciable hardening on the markets to the benefit of reinsurers; Hannover Re was thus exceptionally satisfied with the outcome of the treaty renewals as at 1 January 2009.

The general environment for international *life and health reinsurance* remains favourable overall, even if demand should soften in the short term in various countries due to the international financial market crisis. We expect the development of the German market, for example, to be rather muted; going forward, we shall devote increased attention here to innovative insurance products for seniors.

In the United Kingdom Hannover Re will stand by its positioning in the area of enhanced annuities, while in other English-speaking markets such as the United States, South Africa and Australia it will continue to focus on reinsurance solutions designed to support capital and risk management. Along with the growing portfolio from China and Korea, special emphasis will be placed on expanding customer relationships in Indian and Brazilian life business over the coming years.

All in all, we expect the current year to bring an increase in E+S Rück's premium income as well as gratifying underwriting results.

As far as our *investments* are concerned, the anticipated positive underwriting cash flow should serve to further enlarge the volume of assets. Income from investments under our own management will normalise and should reach the level of 2007. We shall continue to focus on high-quality fixed-income securities. As in past years, we shall pay special attention to the broad diversification of our portfolio while at the same time maintaining transparent risk structures.

Bearing in mind the favourable market conditions described above in non-life and life/health reinsurance and given our strategic orientation, we anticipate a very good financial year in 2009 and expect the year-end result to build on the years prior to the financial market crisis. This is, however, subject to the proviso that the loss experience in natural catastrophe business stays within the expected bounds and that there are no fresh upheavals on international capital markets. In this scenario, we should also be able to resume paying a dividend in the accustomed amount.

Looking beyond the current financial year, we expect to see further hardening on the reinsurance markets and an unchanged favourable environment in life and health reinsurance.

Other information

Affiliated companies

We received an adequate consideration for all transactions with affiliated companies according to the circumstances of which we were aware at the time when the transactions were effected. We incurred no losses requiring compensation as defined by § 311 (1) of the Stock Corporation Act (AktG).

Events after the balance sheet date

Hannover Re has acquired a significant life portfolio in the United States. We shall participate in this business under the existing retrocession agreement.

Winter storm "Klaus", which moved across southern France and northern Spain at the end of January, caused insured damage of around EUR 1.0 billion. In this connection we anticipate a net burden of losses in the order of EUR 6.0 million.

Miscellaneous information

Joint administration arrangements exist between our company and Hannover Rückversicherung AG and extend to all functions of the two companies.

Tax matters are largely handled on a central basis for the Group by Talanx AG.

Our investments are managed by AmpegaGerling Asset Management GmbH and real estate matters are handled by AmpegaGerling Immobilien Management GmbH.

Capital, reserves and technical provisions

The capital, reserves and technical provisions constitute the total funds theoretically available to our company to cover actual and possible obligations. If the Annual General Meeting approves our proposals for the distribution of the disposable profit, the composition of these funds will be as follows:

in EUR million	2008	2007
Subscribed capital and reserves	507.3	490.3
Equalisation reserve and similar provisions	711.4	741.3
Technical provisions	6,167.6	6,032.7
Total capital, reserves and technical provisions	7,386.3	7,264.3

The capital, reserves and technical provisions amounted to 409.7% (406.9%) of net premiums; this includes the capital and reserves at 28.1% (27.5%) of net premiums.

Proposal for the distribution of profits

The Executive Board and Supervisory Board intend to propose to the Annual General Meeting that the disposable profit be distributed as follows:

	EUR
Distribution of a dividend on the participating paid-up subscribed capital of EUR 42 621 941.81	35,000,000.00

The dividend is payable on 10 March 2009.

BALANCE SHEET
as at 31 December 2008

Figures in EUR thousand	2008				2007
Assets					
A. Investments					
I. Land and buildings, rights to land and buildings, leasehold			13,093		4,952
II. Investments in affiliated companies and participation interests					
1. Shares in affiliated companies		92,136			74,138
2. Loans to affiliated companies		40,000			40,000
3. Participating interests		14,204			14,204
			146,340		128,342
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		197,377			690,257
2. Bearer debt securities and other fixed-income securities		2,780,255			2,173,575
3. Mortgages and loans secured on land and buildings		–			66
4. Other loans					
a) Registered debt securities	408,618				360,000
b) Debentures and loans	688,440				646,999
c) Sundry loans	54,203				54,203
		1,151,261			1,061,202
5. Deposits with banks		3,402			54,520
6. Other investments		5,793			7,491
			4,138,088		3,987,111
IV. Deposits with ceding companies			3,576,498		3,862,787
				7,874,019	7,983,192

Figures in EUR thousand	2008				2007
Liabilities					
A. Capital and reserves					
I. Subscribed capital			42,622		42,622
II. Capital reserve			372,166		372,166
III. Retained earnings					
1. Statutory reserve		256			256
2. Other retained earnings					
as at 1.1.	75,237				5,237
Allocation	17,000				70,000
as at 31.12.		92,237			75,237
			92,493		75,493
IV. Disposable profit			35,000		110,000
				542,281	600,281
B. Technical provisions					
I. Provision for unearned premiums					
1. Gross		211,835			208,195
2. Less: reinsurance ceded		35,961			40,507
			175,874		167,688
II. Life assurance provision					
1. Gross		3,089,513			3,446,564
2. Less: reinsurance ceded		675,890			826,506
			2,413,623		2,620,058
III. Provisions for outstanding claims					
1. Gross		4,263,148			3,973,968
2. Less: reinsurance ceded		720,803			773,315
			3,542,345		3,200,653
IV. Provision for bonuses and rebates					
1. Gross		1,738			155
2. Less: reinsurance ceded		43			59
			1,695		96
V. Equalisation reserve and similar provisions			711,396		741,256
VI. Other technical provisions					
1. Gross		44,944			52,549
2. Less: reinsurance ceded		10,924			8,256
			34,020		44,293
				6,878,953	6,774,044

Figures in EUR thousand	2008		2007
Assets			
B. Receivables			
I. Accounts receivable arising out of reinsurance operations	365,754		380,872
from affiliated companies:			
246,331 (2007: TEUR 276,258)			
II. Other receivables	12,959		16,026
from affiliated companies:		378,713	396,898
1,996 (2007: TEUR 3,958)			
C. Other assets			
I. Tangible assets and stocks	–		1
II. Current accounts with banks, cheques and cash in hand	14,932		16,134
III. Sundry assets	–		2,314
		14,932	18,449
D. Prepayments and accrued income			
I. Accrued interest and rent	79,498		65,703
II. Other accrued income	1		110
		79,499	65,813
		8,347,163	8,464,352

Figures in EUR thousand	2008		2007
Liabilities			
C. Provisions for other risks and charges			
I. Provisions for pensions and similar obligations	18,382		16,911
II. Provisions for taxation	81,277		80,186
III. Other provisions	9,189		11,636
		108,848	108,733
D. Deposits received from retrocessionaires		785,465	936,305
E. Other liabilities			
I. Accounts payable arising out of reinsurance operations	28,791		27,317
to affiliated companies:			
10,059 (2007: 11,563)			
II. Miscellaneous liabilities	1,776		17,154
from		30,567	44,471
taxes:			
331 (2007: 15.893)			
to affiliated companies:			
– (2007: 38)			
F. Accruals and deferred income		1,049	518
		8,347,163	8,464,352

PROFIT AND LOSS ACCOUNT

for the 2008 financial year

Figures in EUR thousand		2008		2007
		1.1.–31.12.		1.1.–31.12.
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross written premiums	2,365,093			2,370,677
b) Retrocession premiums	562,375			585,424
		1,802,718		1,785,253
c) Change in the gross provision for unearned premiums (+/-)	(486)			12,088
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	(4,703)			(16,909)
		(5,189)		(4,821)
			1,797,529	1,780,432
2. Allocated investment return transferred from the non-technical account, net of retrocession			78,770	78,003
3. Other technical income, net of retrocession			–	16
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	1,317,714			1,367,048
bb) Retrocessionaires' share	290,714			274,572
		1,027,000		1,092,476
b) Change in provisions for outstanding claims				
aa) Gross	(254,251)			(333,299)
bb) Retrocessionaires' share	(34,839)			55,060
		(289,090)		(278,239)
			1,316,090	1,370,715
5. Change in other technical provisions, net of retrocession				
a) Net life assurance provision		(144,098)		(79,885)
b) Other net technical provisions		935		(374)
			(143,163)	(80,259)
6. Bonuses and rebates, net of retrocession			1,561	(30)
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		529,558		562,409
b) Less: commissions and profit commissions received on retrocession		153,166		163,738
			376,392	398,671
8. Other technical charges, net of retrocession			1,877	1,680
9. Subtotal			37,216	7,156
10. Change in the equalisation reserve and similar provisions			29,860	13,702
11. Net technical result			67,076	20,858

Figures in EUR thousand		2008			2007
		1.1.–31.12.			1.1.–31.12.
Balance brought forward:				67,076	20,858
II. Non-technical account					
1. Investment income					
a) Income from participating interests		6,146			4,309
affiliated companies:					
3.746 (2007: 2.309)					
b) Income from other investments					
affiliated companies:					
54.241 (2007: 51.373)					
aa) Income from land and buildings, rights to land and buildings, leasehold	1,489				488
bb) Income from other investments	277,833				237,775
		279,322			238,263
c) Appreciation on investments		3,674			18,364
d) Gains on the realisation of investments		108,115			138,924
			397,257		399,860
2. Investment charges					
a) Investment management charges, including interest		37,794			11,882
b) Depreciation		34,584			19,594
extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB):					
19.107 (2007: 2.223)					
c) Losses on the realisation of investments		114,208			3,129
			186,586		34.605
			210,671		365,255
3. Allocated investment return transferred to the technical account			(87,494)		(87,842)
				123,177	277,413
4. Other income			22,589		29,420
5. Other charges			64,561		47,679
				(41,972)	(18,259)
6. Profit or loss on ordinary activities before tax				148,281	280,012
7. Taxes on profit and income			95,269		99,747
8. Other taxes			1,012		265
				96,281	100,012
9. Profit or loss for the financial year				52,000	180,000
10. Allocation to retained earnings: to the other retained earnings				17,000	70,000
11. Disposable profit				35,000	110,000

NOTES

Valuation of assets

Valuation was carried out in accordance with the provisions of §§ 341 et seq. of the Commercial Code (HGB).

Property was valued at the purchase or construction cost less tax-allowable scheduled and unscheduled depreciation in accordance with § 253 (2) of the Commercial Code (HGB). Unscheduled depreciation was taken on one property.

Shares in affiliated companies and participations were valued on a purchase cost basis taking into account write-downs to the lower fair value.

Loans to affiliated companies were valued at acquisition cost.

The portfolio of securities was allocated to fixed assets or current assets depending on the intended use and valued at purchase cost less write-downs to the lower fair value in accordance with the provisions of § 341 b of the Commercial Code (HGB).

Shares, units in unit trusts and other variable-yield securities as well as bearer debt securities and other fixed-income securities were valued according to the strict or modified lower-of-cost-or-market principle depending on the intended use.

Mortgages and loans secured on land and buildings, registered debt securities, debentures and loans as well as other loans were valued at nominal value or cost of acquisition - taking into account amortisation - or at the lower fair value.

Write-ups were effected in accordance with § 280 (1) of the Commercial Code (HGB).

Other investments were carried as current assets at purchase cost. Deposits and cash at banks in current accounts, deposits and accounts receivable arising out of reinsurance operations and other debts were valued at the nominal amounts. Valuation adjustments were set up for default risks.

Valuation of liabilities

The provision for unearned premiums, life insurance provision, provisions for outstanding claims, provisions for bonuses and rebates and other technical provisions were entered as liabilities according to the information provided by the ceding companies.

The basis for the valuation of the provision for unearned premiums is the reinsurance premium less 92.5% of the reinsurance commission in accordance with the NRW order dated 29 May 1974. In marine insurance the provision for unearned premiums and the provisions for outstanding claims were regarded as one unit and shown as provisions for outstanding claims. It was determined on the basis of the so-called English system. The provision is replaced by a provision established in accordance with general principles no later than three years following the year in which the business was written.

Where the provisions indicated by the ceding companies are not expected to be adequate, they have been increased by appropriate additional amounts. Where no information was available from cedants, the provisions were estimated in the light of the business experience to date. The results of new treaties were at least neutralised. In some cases, provisions have been determined on an actuarial basis. If necessary, additional or complete estimates of the corresponding portfolio or profit elements were carried out where ceding company accounts with substantial premium income were outstanding. Outstanding ceding company accounts involving a low premium income are included in the following year. The estimated gross premium income for treaties of the 2008 underwriting year is 30.2% of the total volume.

In all major lines IBNR reserves have been set up. The calculation was largely carried out in accordance with statistical mathematical methods.

The shares of retrocessionaires in the technical reserves were determined on the basis of the reinsurance treaties. Provision was made for bad debts.

The equalisation reserve was set up in accordance with the notes to § 29 of the regulation on the presentation of insurance company accounts (RechVersV); similar provisions were constituted in accordance with § 30 of the regulation on the presentation of insurance company accounts (RechVersV). With respect to insurance lines 28 Other property insurance and 29 Other indemnity insurance, separate profit and loss accounts were drawn up only for the fidelity line.

The provision for nuclear plants was calculated in accordance with § 30 (2) of the regulation on the presentation of insurance company accounts (RechVersV).

We calculated the major risk provision for pharmaceutical product liability in accordance with § 30 (1) of the regulation on the presentation of insurance company accounts (RechVersV).

The catastrophe risk provision for terrorism risks was calculated in accordance with § 30 (2a) of the regulation on the presentation of insurance company accounts (RechVersV).

The provision for pensions was established according to the fractional value method as per § 6a of the Income Tax Act (EStG) in conjunction with Paragraph 41 Income Tax Regulations (EStR) 2003. The 2005 G standard tables of Dr. Klaus Heubeck were used as a basis for this with an accounting interest rate of 4.9% (4.9%).

The pension commitments are established according to the present value of the expectancy and are protected by insurance.

In our opinion, the provisions for taxation and other provisions take into account all identifiable risks and uncertain liabilities. The accounting option of recognising deferred tax assets was not taken up.

The other provisions were established in the amount that will probably be utilised or on the basis of actuarial opinions.

A provision was constituted for virtual stock options in accordance with actuarial principles on the basis of a recognised financial option pricing model (Black-Scholes Model with the aid of a trinomial tree method).

The other liabilities were valued at the amounts repayable.

Currency conversion

Transactions booked in foreign currencies were converted to the reporting currency at the applicable monthly exchange rate at the date of entry in the accounts. Assets and liabilities entered in the balance sheet were converted to euros at the average exchange rates on the balance sheet date.

In order to reduce currency risks as far as possible, matching cover was extensively established for liability elements by setting up corresponding asset elements in the different currencies. In the case of foreign currencies in which investments are held, the profits arising out of revaluation were allocated – after offsetting against losses within the financial year – to the reserve for currency risks as unrealised profits. Exchange-rate losses from these investment currencies were – where possible – neutralised by releases from the reserve. In addition, this reserve is written back on a year-by-year basis.

Miscellaneous

The technical interest results in the main from the interest income earned on the basis of the life assurance provision. Standard methods were used for the calculation.

Insurance contracts with the HDI-Gerling non-life group are booked with a time delay of one quarter.

Notes on assets

Figures in EUR thousand	2007	2008				
Change in asset items A.I. to A.III.	Book values 31.12.	Additions	Disposals	Write-ups	Depre-ciation	Book values 31.12.
A. I. Land and buildings, rights to land and buildings, leasehold	4,952	8,859	–	–	718	13,093
A. II. Investments in affiliated companies and participating interests						
1. Shares in affiliated companies	74,138	33,493	15,495	–	–	92,136
2. Loans to affiliated companies	40,000	–	–	–	–	40,000
3. Participating interests	14,204	–	–	–	–	14,204
4. Total A. II.	128,342	33,493	15,495	–	–	146,340
A. III. Other financial investments						
1. Shares, units in unit trusts and other variable-yield securities	690,257	837,052	1,308,798	–	21,134	197,377
2. Bearer debt securities and other fixed-income securities	2,173,575	2,933,867	2,321,134	3,627	9,680	2,780,255
3. Mortgages and loans secured on land and buildings	66	–	66	–	–	–
4. Other loans						
a) Registered debt securities	360,000	73,618	25,000	–	–	408,618
b) Debentures and loans	646,999	45,000	3,559	–	–	688,440
c) Sundry loans	54,203	–	–	–	–	54,203
5. Deposits with banks	54,520	–	51,118	–	–	3,402
6. Other	7,491	396	2	–	2,092	5,793
7. Total A. III.	3,987,111	3,889,933	3,709,677	3,627	32,906	4,138,088
Sum total	4,120,405	3,932,285	3,725,172	3,627	33,624	4,297,521

Land and buildings and rights to land and buildings

As at 31 December 2008, the company owned a developed site in Leipzig. The company also owned a share worth EUR 2,599 thousand in a developed site in Frankfurt as well as two shares worth altogether EUR 9,549 thousand developed sites in Hannover, of which one property is for own use (book value: EUR 8,328 thousand).

Shares in affiliated companies and participations

Our major shares in affiliated companies and participations are listed below. We have omitted companies of subordinate economic importance with no material influence on the assets, financial position or net income.

A complete list of shareholdings has been deposited with the electronic company register.

Name and registered office of the company Figures in currency units of 1,000	Participations (in %)	Capital and reserves (§ 266 (3) of the Commercial Code)	Result for the last financial year
Shares in affiliated companies			
Companies resident abroad			
Hannover Re Real Estate Holdings, Inc., Orlando/USA	13.49	USD 138,741	USD (11,498)
Participations			
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover/Germany	20.00	EUR 73,544[1]	EUR 11,638[1]

[1] Financial year ending 31 December 2007

Other notes on investments

Assets with a balance sheet value of EUR 47,045 (EUR 42,701) thousand have been blocked as security for ceding companies. Security deposits were sometimes made available to banks for security loan transactions in favour of third parties. A guarantee fund of EUR 205 (EUR 215) thousand has been established to secure commitments under partial retirement arrangements.

Fair values pursuant to § 54 RechVersV

The fair values of land and buildings were determined using the gross rental method.

Income values were determined for shares in affiliated companies and participating interests, and in the case of life insurance companies embedded values were calculated. In individual cases, book values were used.

Shares, units in unit trusts, bearer debt securities and other securities were valued at market value. This is obtained from stock market prices and bid prices as at the balance sheet date.

Securities not traded in illiquid markets were valued using average and theoretical prices provided by Bloomberg, the plausibility of which was checked using self-calculated theoretical prices on the basis of credit default swap rates.

The fair values of the sundry loans were determined on the basis of yield curves, taking into account the creditworthiness of the specific debtor and the currency of the loan.

Other investments were valued at nominal values and in individual cases at book value.

Figures in EUR thousand		2008	
Fair values pursuant to § 54 RechVersV of asset items A.I. to A.III.	Book values 31.12.	Fair values 31.12.	Difference 31.12.
A. I. Land and buildings, rights to land and buildings, leasehold	13,093	25,600	12,507
A. II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	92,136	116,475	24,339
2. Loans to affiliated companies	40,000	41,840	1,840
3. Participating interests	14,204	15,691	1,487
4. Total A. II.	146,340	174,006	27,666
A. III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	197,377	211,617	14,240
2. Bearer debt securities and other fixed-income securities	2,780,255	2,846,410	66,155
3. Mortgages and loans secured on land and buildings	-	-	-
4. Other loans			
a) Registered debt securities	408,618	420,199	11,581
b) Debentures and loans	688,440	709,064	20,624
c) Sundry loans	54,203	52,819	(1,384)
5. Deposits with banks	3,402	3,402	-
6. Other investments	5,793	6,063	270
7. Total A. III.	4,138,088	4,249,574	111,486
Sum total	4,297,521	4,449,180	151,659

The sundry loans were not marked down to the lower fair value because impairment ist not expected to be permanent.

Other receivables

Figures in EUR thousand	2008	2007
Receivables from reinsured pension schemes	10,116	9,711
Receivables from affiliated companies	1,996	3,958
Interest and rent due	689	2,039
Receivables from the revenue authorities	86	75
Other receivables	72	243
Total	12,959	16,026

Sundry assets

The amount for the previous year related to current tax assets. It was carried under other receivables in the previous year.

Accruals and deferred income

Figures in EUR thousand	2008	2007
Accrued interest and rent	79,498	65,703
Other	1	110
Total	79,499	65,813

Notes on liabilities

Subscribed capital

The subscribed capital of the company amounted to EUR 42,622 thousand as at 31 December 2008. It consists of 75,783 no-par-value registered shares.

Capital reserve

The capital reserve refers soldely to the amount generated upon the issue of shares in excess of the parvalue of the subscribed capital.

Retained earnings

An amount of EUR 17,000 thousand was allocated to other retained earnings from the profit for the 2008 financial year.

Provision for unearned premiums

Figures in EUR thousand	2008		2007	
Insurance line	gross	net	gross	net
Fire	25,100	23,558	25,015	22,722
Casualty	32,171	29,313	50,134	47,117
Accident	9,046	5,872	10,264	5,783
Motor	25,915	24,536	9,212	7,843
Aviation	23,082	20,995	20,255	18,376
Life	46,126	29,584	46,268	27,779
Other lines	50,395	42,016	47,047	38,068
Total	211,835	175,874	208,195	167,688

Life assurance provisions

Figures in EUR thousand	2008		2007	
Insurance line	gross	net	gross	net
Accident	696	217	857	577
Life	3,084,277	2,408,866	3,441,135	2,614,909
Other lines	4,540	4,540	4,572	4,572
Total	3,089,513	2,413,623	3,446,564	2,620,058

Provisions for outstanding claims

Figures in EUR thousand	2008		2007	
Insurance line	gross	net	gross	net
Provision for reimbursements and surrenders (except annuities)				
Fire	141,959	127,688	161,063	137,885
Casualty	1,409,943	1,219,967	1,335,542	1,127,451
Accident	125,794	73,852	111,627	56,309
Motor	1,503,122	1,261,360	1,414,509	1,181,043
Aviation	247,872	171,012	238,627	160,238
Marine	198,311	177,725	162,432	141,560
Life	144,020	124,134	95,406	73,874
Other lines	410,174	298,306	387,622	264,320
	4,181,195	3,454,044	3,906,828	3,142,680
Separate value adjustment on retrocessions	–	22,986	–	3,991
	4,181,195	3,477,030	3,906,828	3,146,671
Provision for annuities				
Casualty	4,422	4,089	4,120	3,803
Accident	13,348	10,294	11,069	8,444
Motor	64,183	50,932	51,951	41,735
	81,953	65,315	67,140	53,982
Total	4,263,148	3,542,345	3,973,968	3,200,653

Equalisation reserve and similar provisions

Figures in EUR thousand	2008			
Insurance line	Position at 1.1.	Addition	Withdrawal and release	Position at 31.12.
Equalisation reserve				
Fire	121,487	3,581	2,081	122,987
Casualty	181,526	–	36,605	144,921
Accident	22,874	–	16,014	6,860
Motor	190,989	4,821	–	195,810
Aviation	51,723	1,766	7,090	46,399
Marine	–	499	–	499
Other lines	134,076	26,156	–	160,232
	702,675	36,823	61,790	677,708
Provisions which are similar to the equalisation reserve – major risks –				
Fire	20,328	258	2,599	17,987
Casualty	7,189	455	2,007	5,637
Accident	98	17	–	115
Motor	14	2	–	16
Marine	1,356	–	855	501
Other lines	9,596	372	536	9,432
Total	741,256	37,927	67,787	711,396

Other technical provisions

Figures in EUR thousand	2008		2007	
Type of provision	gross	net	gross	net
Profit commission	45,404	34,485	51,630	43,397
Premium cancellation	5	5	940	940
Road accident victims' assistance	24	18	24	18
Commissions	(489)	(488)	(45)	(62)
Total	44,944	34,020	52,549	44,293

Technical provisions – total

Figures in EUR thousand	2008		2007	
Insurance line	gross	net	gross	net
Fire	313,317	297,504	333,619	307,317
Casualty	1,609,362	1,415,678	1,594,336	1,382,434
Accident	158,360	99,666	157,077	94,294
Motor	1,795,799	1,539,375	1,680,142	1,434,483
Aviation	322,970	240,807	312,680	231,695
Marine	201,867	180,477	165,208	144,308
Life	3,275,121	2,563,284	3,583,487	2,717,241
Other lines	645,778	519,176	596,138	458,281
	8,322,574	6,855,967	8,422,687	6,770,053
Separate value adjustment on retrocessions	–	22,986	–	3,991
Total	8,322,574	6,878,953	8.422.687	6,774,044

Provisions for other risks and charges

Figures in EUR thousand	2008	2007
Provisions for pensions and similar liabilities	18,382	16,911
Provisions for taxation	81,277	80,186
Sundry provisions		
Provisions for outstanding payments	3,735	5,138
Provisions for currency risks	1,416	1,118
Provisions for partial retirement	1,401	1,444
Provisions for annual accounts costs	1,023	946
Provisions for suppliers' invoices	838	2,279
Provisions for litigation risks	327	327
Provisions for costs of legal action	170	114
Other provisions	279	270
	9,189	11,636
Total	108,848	108,733

Miscellaneous liabilities

Figures in EUR thousand	2008	2007
Liabilities from advance payments	953	–
Liabilities in respect of the revenue authorities	331	15,893
Liabilities from land and buildings	292	117
Liabilities from LOC	30	1,091
Accounts due to affiliated companies	–	38
Other liabilities	170	15
Total	1,776	17,154

Deferred items

Figures in EUR thousand	2008	2007
Disagio	1,042	511
Other accruals and deferred income	7	7
Total	1,049	518

Notes on the profit and loss account

Figures in EUR thousand	2008	2007	2008	2007	2008	2007	2008	2007
	Gross written premiums		Gross premiums earned		Net premiums earned		Technical result for own account	
Fire	137,553	137,745	138,013	137,638	115,726	110,703	38,974	37,356
Casualty	268,883	400,035	287,467	391,510	255,896	356,993	50,722	(48,447)
Accident	86,366	89,628	87,550	85,087	50,377	51,132	2,988	12,720
Motor	376,258	339,003	360,397	349,594	302,301	289,408	(61,049)	(19,099)
Aviation	68,335	78,530	66,197	87,552	42,750	54,182	11,767	2,200
Marine	71,766	74,382	71,766	74,382	46,265	46,532	(3,061)	(16,060)
Other lines	349,418	418,394	346,343	412,869	274,906	330,409	(15,246)	(19,275)
Total property and casualty insurance	1,358,579	1,537,717	1,357,733	1,538,632	1,088,221	1,239,359	25,095	(50,605)
Life	1,006,514	832,960	1,006,872	844,133	709,308	541,073	41,981	71,463
Total insurance business	2,365,093	2,370,677	2,364,605	2,382,765	1,797,529	1,780,432	67,076	20,858

Total insurance business

Figures in EUR thousand	2008	2007
Gross claims incurred	1,571,965	1,700,347
Gross operating expenses	529,558	562,409
Reinsurance balance	158,037	108,963

Expenses for personnel

Figures in EUR thousand	2008	2007
1. Wages and salaries	19,103	18,894
2. Social security payments and expenses for welfare	2,882	2,766
3. Expenses for old-age pension scheme	1,609	3,259
4. Total expenses	23,594	24,919

Expenses for investments

Figures in EUR thousand	2008	2007
Shares, units in unit trusts	129,297	9,039
Deposit and bank fees	28,909	2,193
Fixed-income securities	11,880	13,387
Administrative expenses	7,859	7,609
Options contracts	3,059	1,749
Other investments	2,091	–
Land and buildings	1,744	628
Deposits	959	–
Registered bards and other loans	788	–
Total	186,586	34,605

Other income

Figures in EUR thousand	2008	2007
Cancellation of value adjustments	6,879	9,610
Exchange rate gains	6,030	7,246
Profit from services	5,706	6,936
Release of non-technical provisions	1,660	4,440
Allocated investment return	1,178	578
Reinbursement of expenses	585	15
Other income	551	595
Total	22,589	29,420

Other expenses

Figures in EUR thousand	2008	2007
Separate value adjustment on accounts receivable and retrocessions	27,943	3,499
Exchange rate losses	13,044	11,835
Deposit interest	11,871	12,613
Expenses for the whole company	9,023	7,383
Expenses from services	5,706	6,935
Interest pursuant to § 233a AO (Fiscal Code)	3,409	13,373
Interest charges on old-age pension scheme	892	723
Interest charges on reinsurance operations	795	385
Expenses for letters of credit	139	141
Other interest and expenses	463	631
	73,285	57,518
Less: Technical interest	8,724	9,839
Total	64,561	47,679

Other information

Notes on § 341b and § 285 of the Commercial Code (HGB)

Of the units in unit trusts totalling EUR 186,821 (EUR 570,490) thousand shown under the "Other investments" in the item "Shares, units in unit trusts and other variable-yield securities", an amount of EUR 177,358 (EUR 324,098) thousand was allocated to fixed assets. The fair value amounts to EUR 191,581 (EUR 410,486) thousand. Based on the assumption that the impairments will not be permanent, write-downs of EUR 8,181 (EUR 1,000) thousand were not taken on a portfolio with a book value of EUR 52,517 (EUR 15,119) thousand.

Of the bearer debt securities and other fixed-income securities, securities with a book value of EUR 848,834 (EUR 915,009) thousand and a fair value of EUR 841,643 (EUR 895,245) thousand were allocated to fixed assets. Write-downs of EUR 21,953 (EUR 29,659) thousand were not taken on a portfolio with a book value of EUR 439,792 (EUR 642,934) thousand since a permanent impairment is not anticipated. Fixed-income securities with a book value of EUR 87,221 thousand were reclassified from current assets to fixed assets.

Special investments in private equity funds and asset pools held long term for which no market price was available were valued at acquisition cost or net asset value (NAV). Temporary impairments were disregarded to the extent that a full return flow of funds is anticipated within the aggregate term.

Of the total fees paid to the auditor, EUR 351 (EUR 367) thousand related to the audit of the financial statements, EUR 21 (EUR 61) thousand to tax consulting and EUR 18 (EUR 45) thousand to other services.

Contingent liabilities and commitments

Liabilities for remaining calls exist with respect to shares in affiliated companies and special investments in the amount of EUR 118,049 (EUR 70,580) thousand.

Group companies belonging to the Talanx Group are participating in a counter-guarantee given by the insurance industry 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 has extended a loan to the HRE Group, as well as to the holders of debentures, through the issue of which further funds have been made available to the HRE Group. By way of the aforementioned counter-guarantee in an amount of EUR 1.4 billion the insurance industry, among others, is participating in this guaranteed sum put up by the federal government with an eye to its interest in stabilising HRE and the German financial system under the leadership of the German Insurance Association (GDV) and with extensive involvement of the Federal Financial Supervisory Authority (BaFin). E+S Rück's interest in this counter-guarantee is limited to a principal amount of EUR 11.1 million.

There were no other contingent liabilities or other financial commitments not shown in the annual balance sheet which are relevant to an assessment of the financial position.

Long-term commitments

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

Membership of the association for the reinsurance of pharmaceutical risks and the association for the insurance of German nuclear reactors gives rise to an additional call in accordance with the quota participation if one of the other pool members should fail to meet its liabilities. There were no other commitments with a remaining term in excess of five years.

Miscellaneous information

The names of the members of the Supervisory Board, Advisory Board and Executive Board are listed on pages 4 to 7.

The emoluments paid to the Supervisory Board in the year under review totalled EUR 367 thousand, those to the Advisory Board EUR 167 thousand, those to the Executive Board EUR 1,527 thousand and those to former members of the Executive Board and their surviving dependants EUR 421 thousand. The amount of EUR 4,091 thousand was shown on the liabilities side for current pensions of former members of the Executive Board; an amount of EUR 95 thousand was allocated to the provision constituted in this regard.

No mortgage loans were granted to board members.

The company has not entered into any contingent liabilities for members of the boards.

The average number of employees was 255 in the financial year.

Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover, holds a majority interest of 64.19 % in our company.

Hannover Rückversicherung AG includes the figures from our annual accounts in its consolidated financial statements. In addition, our annual accounts are included in the consolidated financial statements of Talanx AG, Hannover, and in the consolidated financial statements of HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover. These financial statements are published in the electronic federal gazette.

Hannover, 27 February 2009

Executive Board

Zeller Arrago Dr. Becke

Gräber Dr. König Dr. Pickel Wallin

AUDITORS' REPORT

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of the E+S Rückversicherung AG, Hannover, for the business year from 1 January to 31 December 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company’s position and suitably presents the opportunities and risks of future development.

Hannover, 2 March 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft
(formerly KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft)

Husch	Dr. Dahl
Wirtschaftsprüfer	Wirtschaftsprüfer

REPORT OF THE SUPERVISORY BOARD

of E+S Rückversicherung AG

In our function as the Supervisory Board we considered at length during the 2008 financial year the position and development of the company. We advised the Executive Board on the direction of the company, monitored the management of business on the basis of written and verbal reports from the Executive Board and held four meetings in order to adopt the necessary resolutions after appropriate discussion. The Standing Committee also met on two occasions. A resolution was adopted by a written procedure with respect to one matter requiring attention at short notice. Furthermore, we received quarterly written reports from the Executive Board on the course of business and the position of the company pursuant to § 90 German Stock Corporation Act. At each meeting the Executive Board presented to us the profit expectations for the 2008 financial year. In this context the repercussions of the international financial market crisis and the above-average burden of catastrophe losses on the year-end result were a focus of our deliberations. The operational planning for 2009 and the medium-term planning until the year 2013 were also the subject of intensive debate. The profitability of the joint underwriting arrangements with Hannover Re and the company's participation in a deficiency guarantee given by the German insurance industry to rescue Hypo Real Estate were similarly discussed at length.

In addition, the Supervisory Board reviewed inter alia the company's risk management system, the authorisation process for real estate acquisitions, the findings of a survey of the company's brand perception in the eyes of its clients, the performance of life and health reinsurance business – also in comparison with our competitors – and the approval process for the transfer of registered shares of the company with limited transferability. The Supervisory Board was also informed about the Business Principles of the Hannover Re Group.

The Chairman of the Supervisory Board was constantly kept informed by the Chairman of the Executive Board of major developments and impending decisions as well as of the risk situation at the company. All in all, we were involved in decisions taken by the Executive Board as required by our statutory responsibilities and those placed upon us by the company's Articles of Association.

The Supervisory Board selected the auditor for the 2008 annual financial statements; the Chairman of the Supervisory Board issued the specific audit mandate. In addition to the usual audit tasks, the audit focused particularly on the documentation of the internal control system for the preparation of the annual financial statements as well as the translation of foreign currencies in accordance with the German Commercial Code. The audit report was distributed to all members of the Supervisory Board, and the auditors participated in the meeting of the Supervisory Board held to discuss and approve the annual accounts.

The accounting, annual financial statements and management report were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Hannover (formerly KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft). This audit did not give rise to any objections; an unqualified audit certificate was therefore issued. In conclusion, having examined and discussed the annual financial statements and the management report and having received answers to a number of questions, the Supervisory Board concurred with the opinion of the auditors and approved the annual financial statements drawn up by the Executive Board.

The report on the company's relations with affiliated companies drawn up by the Executive Board has likewise been examined by KPMG AG and given the following unqualified audit certificate:

"Having audited the report in accordance with our professional duties, we confirm that

1. its factual details are correct;

2. in the case of the transactions detailed in the report, the expenditure of the company was not unreasonably high."

For our part, we examined both the Executive Board's report and the auditors' report on the company's relations with affiliated companies, and we found everything to be in order. As a final result of our examination we had no objections to the statement by the Executive Board at the end of its report on relations with affiliated companies.

The Supervisory Board has thus approved the annual financial statements, which are thereby adopted. We concur with the Executive Board's proposal regarding the appropriation of the disposable profit for 2008.

With effect from the date of the Annual General Meeting on 5 March 2008 Mr. Gerd Kettler stepped down as a representative of the shareholders after belonging to the Supervisory Board for 15 years. The Supervisory Board praised his contribution to the company's development and thanked Mr. Kettler for his many years of constructive work on this body – on which he had served as Deputy Chairman since the middle of 1993. Since that time Mr. Kettler had also belonged to the Standing Committee of the Supervisory Board. On 5 March 2008 the Supervisory Board elected Rolf-Peter Hoenen to succeed Mr. Kettler as its new Deputy Chairman. Following the Annual General Meeting's election of Mr. Robert Baresel as a new member of the Supervisory Board, the latter then elected him to serve on the Standing Committee. Also with effect from 5 March 2008 Mr. Georg Zaum was elected to the company Advisory Board.

There were no changes in the composition of the Executive Board in the year under review. At its meeting on 5 November 2008 the Supervisory Board extended the appointment of Mr. André Arrago and Mr. Ulrich Wallin as members of the company's Executive Board until 31 August 2014. At an extraordinary meeting of the Supervisory Board held on 20 January 2009 Mr. Wallin was appointed as the new Chief Executive Officer of the company with effect from 1 July 2009. Mr. Wallin will succeed Mr. Zeller, who is stepping down from the company's Executive Board at the end of June 2009 at the age of 65.

At the same meeting the decision was taken to terminate the mandate of Dr. Elke König as a member of the company's Executive Board on the most amicable terms effective 31 March 2009. The Supervisory Board expressed its thanks and appreciation to Dr. König for her considerable personal dedication and her successful work on behalf of the company. Mr. Roland Vogel was appointed to succeed Dr. König as a deputy member of the Executive Board with effect from 1 April 2009 for a period of three years.

The Supervisory Board thanks the members of the Executive Board and all staff for their work in the year under review.

Hannover, 9 March 2009

For the Supervisory Board

Herbert Haas

Chairman

GLOSSARY

Accumulation loss: sum of several individual losses incurred by various policyholders as a result of the same loss event (e.g. windstorm, earthquake). This may lead to a higher loss for the direct insurer or reinsurer if several affected policyholders are insured by the said company.

Alternative risk financing: use of the capacity available on the capital markets to cover insurance risks, e.g. through the securitisation of natural catastrophe risks.

Bancassurance: partnership between a bank and an insurance company for the purpose of selling insurance products through the banking partner's branches. The link between the insurer and the bank is often characterised by an equity participation or a long-term strategic cooperation between the two parties.

Benefit reserves: value arrived at using mathematical methods for future liabilities (present value of future liabilities minus present value of future incoming premium), primarily in life and health insurance.

Block assumption transaction (BAT): proportional reinsurance treaty on a client's life or health insurance portfolio, by means of which it is possible, inter alia, for our clients to realise in advance the future profits so as to be able to efficiently ensure the attainment of corporate objectives, e.g. in the areas of financial or solvency policy.

Capital, reserves and technical provisions: an insurer's capital and reserves, also including the provisions committed to technical business and the equalisation reserve. Total maximum funds available to offset liabilities.

Catastrophe loss: loss which has special significance for the direct insurer or reinsurer due to the amount involved; it is defined as a catastrophe loss in accordance with a fixed loss amount or other criteria.

Cedant: direct insurer or reinsurer which passes on (also: cedes) shares of its insured or reinsured risks to a reinsurer in exchange for premium.

Cession: transfer of a risk from the direct insurer to the reinsurer.

Claims and claims expenses: sum total of paid claims and provisions for loss events that occurred in the business year; this item also includes the result of the run-off of the provisions for loss events from previous years, in each case after the deduction of own reinsurance cessions.

Combined ratio: sum of the loss ratio and expense ratio.

Credit status (also: creditworthiness): ability of a debtor to meet its payment commitments.

Creditworthiness: cf. → credit status

Critical illness coverages: cf. → dread disease coverages

Deposits with ceding companies/deposits received from retrocessionaires (also: Funds held by ceding companies/funds held under reinsurance treaties): collateral provided to cover insurance liabilities that a (re-)insurer retains from the liquid funds which it is to pay to a reinsurer under a reinsurance treaty. In this case, the retaining company shows a deposit received, while the company furnishing the collateral shows a deposit with a ceding company.

Derivatives, derivative financial instruments: these are financial products derived from underlying primary instruments such as equities, fixed-income securities and foreign exchange instruments, the price of which is determined on the basis of an underlying security or other reference asset. Notable types of derivatives include swaps, options and futures.

Direct (also: primary) insurer: company which accepts risks in exchange for an insurance premium and which has a direct contractual relationship with the policyholder (private individual, company, organisation).

Dread disease (also: critical illness) coverages: personal riders on the basis of which parts of the sum insured which would otherwise only become payable on occurrence of death are paid out in the event of previously defined severe illnesses.

Equalisation reserve: provision for the equalisation of substantial fluctuations in the claims experience of individual lines of business over several years.

Excess of loss treaty: cf. → non-proportional reinsurance

Expense ratio: administrative expenses in relation to the (gross or net) premium written.

Exposure: level of danger inherent in a risk or portfolio of risks; this constitutes the basis for premium calculations in reinsurance.

Facultative reinsurance: participation on the part of the reinsurer in a particular individual risk assumed by the direct insurer. This is in contrast to → obligatory (also: treaty) reinsurance.

Fair value: price at which a financial instrument would be freely traded between two parties.

Financial solutions: targeted provision of financial support for primary insurers through reinsurance arrangements under which the reinsurer participates in the original costs of an insurance portfolio and receives as a consideration a share of the future profits of the said portfolio. This approach is used primarily for long-term products in personal lines, such as life, annuity and personal accident insurance.

Free float: the free float refers to the part of the capital stock held by shareholders with a low stockholding in both absolute and relative terms.

Funds held by ceding companies/funds held under reinsurance treaties: cf. → Deposits with ceding companies/deposits received from retrocessionaires

Gross/Retro/Net: gross items constitute the relevant sum total deriving from the acceptance of direct insurance policies or reinsurance treaties; retro items constitute the relevant sum total deriving from own reinsurance cessions. The difference is the corresponding net item (gross – retro = net, also: for own account).

IBNR (Incurred but not reported) reserve: provision for claims which have already occurred but which have not yet been reported.

Issuer: private enterprise or public entity that issues securities, e.g. the federal government in the case of German Treasury Bonds and a joint-stock corporation in the case of shares.

Leader: if several (re-)insurers participate in a contract, one company assumes the role of leader. The policyholder deals exclusively with this lead company. The lead (re-) insurer normally carries a higher percentage of the risk for own account.

Letter of credit (LOC): bank guarantee; at the request of the guaranteed party, the bank undertakes to render payment to the said party up to the amount specified in the LOC. This method of providing collateral in reinsurance business is typically found in the USA.

Life and health (re-)insurance: collective term for the lines of business concerned with the insurance of persons, i.e. life, pension, health and personal accident insurance.

Life business: this term is used to designate business activities in our life and health reinsurance business group.

Loss, economic: total loss incurred by the affected economy as a whole following the occurrence of a loss. The economic loss must be distinguished from the → insured loss.

Loss, insured: the insured loss reflects the total amount of losses covered by the insurance industry (insurers and reinsurers).

Loss ratio: proportion of loss expenditure in the → retention relative to the (gross or net) premium earned.

Mark-to-market valuation: the evaluation of financial instruments to reflect current market value or → fair value.

Matching currency cover: coverage of technical liabilities in foreign currencies by means of corresponding investments in the same currency in order to avoid exchange-rate risks.

Net: cf. → Gross/Retro/Net

Non-life business: by way of distinction from business activities in our life and health reinsurance business group, we use this umbrella term to cover our lines of non-life reinsurance business.

Non-life (re)insurance: collective term for all lines of business which in the event of a claim reimburse only the incurred loss, not a fixed sum insured (as is the case in life and personal accident insurance, for example). This principle applies in all lines of property and casualty insurance as well as specialty insurance and structured products.

Non-proportional reinsurance: reinsurance treaty under which the reinsurer assumes the loss expenditure in excess of a particular amount (→ priority) (e.g. under an excess of loss treaty). This is in contrast to → proportional reinsurance.

Obligatory (also: treaty) reinsurance: reinsurance treaty under which the reinsurer participates in a → cedant's total, precisely defined insurance portfolio. This is in contrast to → facultative reinsurance.

(Insurance) Pool: a risk-sharing partnership under civil law formed by legally and economically independent insurers and reinsurers in order to create a broader underwriting base for particularly large or unbalanced risks. The members undertake to write certain risks only within the scope of the insurance pool. They include such risks – while maintaining their commercial independence – in the insurance pool against a commission fee. Each insurer participates in the profit or loss of the insurance pool according to its proportionate interest. Reinsurance is often ceded or accepted in order to further diversify the risk. Pools can be divided into two types: coinsurance pools, in which all members take the role of primary insurers according to their interests, and reinsurance pools, in which a primary insurer writes the risks and then spreads them among the participating insurers by way of reinsurance.

Portfolio: a) all risks assumed by an insurer or reinsurer in a defined sub-segment (e.g. line of business, country) or in their entirety;
b) group of investments defined according to specific criteria.

Premium: agreed remuneration for the risks accepted from an insurance company. Unlike the earned premium, the written premium is not deferred.

Primary insurer: cf. → direct insurer

Priority: direct insurer's loss amount stipulated under → non-proportional reinsurance treaties; if this amount is exceeded, the reinsurer becomes liable to pay. The priority may refer to an individual loss, an → accumulation loss or the total of all annual losses.

Proportional reinsurance: reinsurance treaties on the basis of which shares in a risk or → portfolio are reinsured under the relevant direct insurer's conditions. → Premium and losses are shared proportionately on a pro-rata basis. This is in contrast to → non-proportional reinsurance.

Protection cover: protection of segments of an insurer's portfolio against major losses (per risk/per event), primarily on a non-proportional basis.

Provision: liability item as at the balance sheet date to discharge obligations which exist but whose extent and/or due date is/are not known. Technical provisions, for example, are for claims which have already occurred but which have not yet been settled, or have only been partially settled (= provision for outstanding claims, abbreviated to: claims provision).

Provision for unearned premium (also: unearned premium reserve): premium written in a financial year which is to be allocated to the following period on an accrual basis. This item is used to defer written premium.

Quota share reinsurance: form of proportional reinsurance under which the reinsurer assumes a contractually set percentage share of the written risk. Since the insurer is responsible for acquisition, pricing, policy administration and claims handling, the administrative expenditure for the reinsurer is very low. The latter therefore participates in the aforementioned expenses through payment of a reinsurance commission. This commission can amount to 15%–20% of the original premium depending upon the market and cost situation.

Rate: percentage rate (usually of the premium income) of the reinsured portfolio which is to be paid to the reinsurer as reinsurance premium under a → non-proportional reinsurance treaty.

Rating: systematic evaluations of companies with respect to their → credit status or the credit status of issuers with regard to a specific obligation. They are awarded by a rating agency or bank.

Reinsurer: company which accepts risks or portfolio segments from a → direct insurer or another reinsurer in exchange for an agreed premium.

Reserve ratio: ratio of (gross or net) technical provisions to the (gross or net) premium.

Retention: the part of the accepted risks which an insurer/reinsurer does not reinsure, i.e. shows as → net (retention ratio: percentage share of the retention relative to the gross written premium).

Retro: cf. → Gross/Retro/Net

Retrocession: ceding of risks or shares in risks which have been reinsured. Retrocessions are ceded to other reinsurers in exchange for a pro-rata or separately calculated premium.

Risk, insured: defines the specific danger which can lead to the occurrence of a loss. The insured risk is the subject of the insurance contract.

Securitisation instruments: innovative instruments for transferring reinsurance business to the capital markets with the goal of refinancing or placing insurance risks.

Segmental reporting: presentation of items from the annual financial statements separated according to functional criteria such as segments and regions.

Structured products: reinsurance with limited potential for profits and losses; the primary objective is to strive for risk equalisation over time and to stabilise the → cedant's balance sheet.

Surplus reinsurance: form of proportional reinsurance under which the risk is not spread between the insurer and reinsurer on the basis of a previously agreed, set quota share. Instead, the insurer determines a maximum sum insured per risk up to which it is prepared to be liable. Risks that exceed the ceding company's retention (surpluses) are borne by the reinsurer. The reinsurer's lines thus vary according to the level of the retention and the sum insured of the reinsured contract. The reinsurer's liability is generally limited to a multiple of the ceding company's retention.

Technical result: the balance of income and expenditure allocated to the insurance business and shown in the technical statement of income (after additional allowance is made for the allocation to/withdrawal from the equalisation reserve: net technical result).

Treaty reinsurance: cf. → obligatory reinsurance

Underwriting: process of examining, accepting or rejecting (re-)insurance risks and classifying those selected in order to charge the proper premium for each. The purpose of underwriting is to spread the risk among a pool of (re-)insureds in a manner that is equitable for the (re-) insureds and profitable for the (re-)insurer.

Unearned premium reserve: cf. → provision for unearned premium.

Value of in-force business (VIF): present value of expected future profit flows from the portfolio of in-force retained business, discounted by a currency-specific risk discount rate. It is determined in accordance with local accounting principles.

E+S Rückversicherung AG

Karl-Wiechert-Allee 50
30625 Hannover

Telefon 0511 5604-0
Fax 0511 5604-1188
info@es-rueck.de
www.es-rueck.de