Annual Report 2009

e+s rück

Key figures

in EUR million	2009	+/- previous year	2008	2007	2006	2005
Gross written premium	2,558.1	+8.2%	2,365.1	2,370.7	2,437.7	2,213.7
Net premium earned	1,968.3	+9.5%	1,797.5	1,780.4	1,841.3	1,370.5
Underwriting result[1]	0.3	(99.2%)	37.2	7.2	35.5	(56.3)
Change in the equalisation reserve and similar provisions	54.0		(29.9)	(13.7)	84.3	86.1
Investment result	289.9	+37.6%	210.7	365.3	276.5	277.9
Pre-tax profit	132.3	(10.8%)	148.3	280.0	100.2	31.8
Profit or loss for the financial year	80.0	+53.8%	52.0	180.0	70.4	22.0
Investments	8,828.2	+12.1%	7,874.0	7,983.2	7,737.2	7,231.4
Capital and reserve[2]	507.3		507.3	490.3	420.3	420.3
Equalisation reserve and similar provisions	765.4	+7.6%	711.4	741.3	755.0	670.6
Net technical provisions	6,716.7	+8.9%	6,167.6	6,032.7	5,875.5	5,556.5
Total capital, reserves and technical provisions	7,989.4	+8.2%	7,386.3	7,264.3	7,050.8	6,647.4
Number of employees	267	+12	255	247	235	229
Retention	77.8%		76.2%	75.3%	75.1%	62.4%
Loss ratio[1,3]	77.4%		78.0%	80.8%	74.8%	76.7%
Expense ratio[3]	24.6%		22.4%	24.5%	21.3%	26.1%
Combined ratio[1,3]	102.0%		100.4%	105.3%	96.1%	102.8%

1 Since the 2006 financial year the option of including special allocations to the provisions for outstanding claims in the non-technical account rather than the technical account has not been exercised. Figures for previous years have been adjusted for better comparability.
2 Excluding disposable profit
3 Excluding life reinsurance

Contents

Ulrich Wallin
Chairman of the Executive Board

Dear clients and shareholders,

The 2009 financial year closed with a good result for your company E+S Rück. Whereas in the previous year our performance – in common with that of our competitors – had been impacted by the international financial market crisis, we were able in the year under review to appreciably increase our premium volume as well as both the profit for the year and the disposable profit. It is also of considerable importance to the sustainable favourable development of E+S Rück that we were able to boost our total capital, reserves and technical provisions by 8% in 2009.

The entire reinsurance industry proved remarkably robust in the face of the financial and economic crisis. Particularly at such a critical time, the value of reinsurance covers for risk management purposes became very evident, hence pushing up demand for reinsurance protection. Compared to our competitors, we profited especially strongly from this situation owing to our solid financial strength and good market position.

Vigorous organic growth in excess of 15% was recorded in non-life reinsurance. The gratifying surge in volume derived particularly from the casualty, fire, accident, motor and aviation lines. In life and health reinsurance the premium volume remained virtually unchanged on a high level following the sharp increase in the previous year. The slight decrease in life business was almost offset by growth in health reinsurance.

Having booked annual premium income of around EUR 2.4 billion over the past three years, we were able for the first time to substantially boost our total gross premium volume to roughly EUR 2.6 billion in 2009. With a view to turning the positive tendency that manifested itself in the year under review into a long-term trend, we are continuously refining our business models in non-life and life/health reinsurance and exploring new business opportunities. With this in mind, we put in place in 2009 the structures needed to systematically and consistently identify such opportunities and hence generate attractive new business. The passing of the baton at the top of your company and the reshuffling of responsibilities on the Executive Board associated with this changeover passed off smoothly.

Our investment income is determined by our conservative investment policy. More than 90% of our investments are made in fixed-income securities with a concentration on government bonds or bonds backed by government guarantees as well as corporate bonds of very good quality. In view of the current low level of interest rates, this risk-averse investment policy led to a diminished return relative to the previous year. On the other hand, the write-downs taken were considerably lower than in the previous year as financial markets moved back towards normality. We refrained from investments in listed equities in the year under review, for two reasons: firstly, we do not yet consider the environment to be sufficiently stable and, secondly, investments in listed equities would result in a substantial capital commitment in the capital models used by rating agencies. In light of our good opportunities to acquire attractive reinsurance business, we decided to use the capital to expand our reinsurance portfolio rather than to invest in stocks.

Having contracted in 2008 in the wake of the financial market crisis, our disposable profit more than doubled year-on-year to reach EUR 80 million in the year under review. While the profit thus fell short of that recorded in the record year of 2007, it is comfortably above the level of prior years. We are therefore pleased to be in a position again to pay our shareholders an attractive dividend.

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

The treaty renewals as at 1 January 2010 passed off satisfactorily for our company overall – especially in German business –, although modest rate erosion was observed, most notably in property lines. All in all, we still expect conditions to be commensurate with the risks, and this should enable us to generate our target margins. In life and health reinsurance we have moved forward with a number of business approaches in various areas, which should bear fruit in the first half of 2010. For 2010, therefore, we again anticipate moderate growth in premium income provided exchange rates do not change significantly.

I would like to thank you, our valued clients and shareholders, for your trust in E+S Rück. Rest assured, my colleagues and I on the Executive Board will work together with our employees and do everything in our power to equip your company to handle the opportunities and risks that lie ahead.

Yours sincerely,

Ulrich Wallin
Chairman of the Executive Board

Boards and officers

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Burgwedel
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Chairman of the Board of Management HDI Haftpflichtverband der Deutschen Industrie V.a.G., Talanx AG

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Coburg
Deputy Chairman
Spokesman of the Executive Boards (retired) HUK-COBURG Versicherungsgruppe

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Münster
Chairman of the Executive Boards LVM Versicherungen

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Hannover

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Freiburg
Former Chairman of the Executive Board VHV Vereinigte Hannoversche Versicherung V.a.G.

Hans-Joachim Haug
Stuttgart
Chairman of the Executive Board Württembergische Gemeinde-Versicherung a.G.

Frauke Heitmüller[1]
Hannover

Ass. jur. Tilman Hess[1]
Hannover

Dr. Immo Querner
Ehlershausen
Member of the Board of Management HDI Haftpflichtverband der Deutschen Industrie V.a.G., Talanx AG

[1] Staff representative

Advisory Board (Beirat)

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Berg
Chairman of the Supervisory Board HDI Haftpflichtverband der Deutschen Industrie V.a.G., Talanx AG

Dr. Edo Benedetti
Trent
(until 16 February 2009)
President ITAS Mutua, Trent, Italy

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Chairman of the Executive Boards Barmenia Versicherungen

Wolfgang Bitter
Itzehoe
Chairman of the Executive Boards Itzehoer Versicherungen/Brandgilde von 1691 Versicherungsverein auf Gegenseitigkeit

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Hannover
Chairman of the Executive Boards CONCORDIA Versicherungsgesellschaften

Georg Zaum
Hemmingen
Chairman of the Executive Board Mecklenburgische Versicherungsgruppe

Executive Board of E+S Rück (Vorstand)

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

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

Dr. Wolf Becke
- Life and Health markets worldwide

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

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

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

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

E+S Rück – a strong brand

E+S Rück fashions a clear mission statement

Customer satisfaction surveys and competitions confirm it time and again: E+S Rück occupies a leading position in the German market and enjoys an exceptionally good reputation.

With a view to cementing this position and welding staff and customers alike even more closely to the E+S Rück brand, the "E+S Rück Brand Awareness" initiative was launched in 2008; it was supported by an agency specialising in such tasks. The goal was to define a shared self-image and to clearly position and strengthen the brand both internally and externally.

In an increasingly international environment we found it important to review our orientation. How do our clients see us? Do clients want our focus on Germany? What image do our employees have of E+S Rück?

To this end, clients, reinsurance brokers and staff were surveyed and the market profiles of competitors were analysed. Based on the findings, the differentiating aspects of E+S Rück were identified and an overarching mission statement was shaped.

In this context, we shall continue to concentrate on long-standing and trusting cooperation with our German clients. The focus on Germany sets E+S Rück apart from its competitors.

We offer our clients reliability, solidity, competence and bespoke, individual solutions. Our company is characterised by flat hierarchies and quick, undogmatic decision-making.

Another unique value proposition of E+S Rück is its special service for mutual insurers, which in some cases are at once clients and shareholders of the company.

The personal intimacy to clients in Germany is reflected in statements from the external survey:

"Someone you can call at 12:00 midnight if you have a problem."

"Relaxed, but reliable."

(Statements by shareholders and brokers)

The most salient points of the mission statement are:

- The E+S Rück claim: The reinsurer for Germany.
- Our clients buy the E+S Rück brand, not capacity.
- Our staff make the difference – come alive.

We have not reinvented ourselves through the work on the mission statement, but we do see many things a lot more clearly now. We feel encouraged to continue charting our course together with our clients.

The mission statement in detail

As a reinsurer based in Germany, E+S Rück concentrates exclusively on the German market. This makes us unique.

Together with Hannover Re we belong to one of the largest, most highly respected and most profitable reinsurance groups in the world.

We are the second-largest provider on Europe's largest reinsurance market. Over the past ten years E+S Rück has gained market shares on the German market more successfully than any other major reinsurer.

We are superbly positioned to continue writing this success story.

E+S Rück: The reinsurer for Germany

We strive to always be the first point of contact for our clients. We want to be synonymous with reinsurance in Germany.

Our name stands for expertise, innovation and financial strength with a consistently excellent rating.

Our clients are treated with a level of attentiveness and appreciation unequalled by any other reinsurer. The result is a partnership that can be relied on – permanently.

This is our promise and the practice that we have lived up to for more than eight decades. E+S Rück is thus also the first reinsurer whose quality has been certified.

Continuous partnership with our clients based on mutual trust is the maxim that guides our actions.

Our clients buy the E+S Rück brand, not capacity.

The people at E+S Rück are expert and motivated. They are ambassadors who embody the E+S Rück brand for our clients.

Our employees are enterprising in their thoughts and actions. We therefore systematically delegate powers and responsibilities to them. Combined with E+S Rück's highest possible degree of market intimacy as a reinsurer headquartered in Germany, this enables our clients to profit from unsurpassed decision-making speed.

Guided by pragmatism and geared to results, we concentrate on what really counts for our clients: the value that we can deliver to them. Flexible and undogmatic, we are thus able to find a customised solution for every challenge faced by our clients.

Our staff make the difference – come alive.

Management report of E+S Rückversicherung AG

The 2009 financial year passed off highly satisfactorily for E+S Rück overall. The international financial market crisis stimulated demand for reinsurance, from which we profited particularly strongly in non-life reinsurance relative to our competitors thanks to our robust financial strength and good market position. In life and health reinsurance the premium volume remained virtually stable on a high level after the vigorous surge of the previous year. The development of our investment portfolio was also thoroughly satisfactory. All in all, we are thus able to report a good result.

Economic climate

One of the overriding issues of the year under review was the global economic crisis. Most notably, the sharp contraction in global trade at the beginning of the year ushered in a deep recession. It impacted first and foremost the large industrial nations, which had to absorb a record fall in their economic output. From the spring of 2009 onwards the economy was back on course for recovery. A crucial factor here was the stabilisation of the financial markets, a success attributable primarily to massive central bank intervention as well as the announcement of state assistance programmes and guarantees for the financial sector. Government stimulus packages also left a positive mark on the real economy. By year-end the situation on the world's financial markets had eased appreciably, and the economic climate was steadily improving.

Against the backdrop of the global recession and the financial market crisis, GDP in Germany contracted by 5.0% in the year under review. The German economy tumbled sharply at the start of the year; it suffered under softer international demand owing to a strong export orientation. From the second quarter onwards the situation recovered somewhat as exports stabilised and thanks to the car scrappage scheme, which had a positive effect on consumption. Economic activity was fostered by fiscal stimuli and a continued expansionary monetary policy. Unlike in most countries, a massive surge in unemployment was avoided. By the beginning of 2010 the German economy had entered a period of regeneration.

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

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

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

The German insurance industry

The German insurance industry emerged as an important factor in economic stability during the worldwide financial and economic crisis of the past two years. While the insurance sector was also impacted by developments on international financial markets, the effects were far less marked than those felt by other financial services providers. This can be attributed principally to the different business models of the insurers – especially compared to the banks – as well as the regulatory laws governing the insurance industry in Germany.

The financial market crisis underscored the stability of the insurance sector. Through its stringent legal provisions regulating investments, insurance supervisory law ensures above all the reliability of the insurance industry for its customers. With the elaboration and implementation of new framework conditions in supervisory law (Solvency II) and against the backdrop of the difficult financial market climate, insurance regulation is nevertheless facing major challenges going forward.

Despite the financial and economic crisis, the premium income booked by the German insurance industry showed robust growth in 2009. This can be attributed to the negligible deterioration in the economic position of private households, which account for more than 80 percent of insurance demand. The premium development was shaped by fierce competition, high market penetration and a moderate claims experience as well as political reforms. What is more, the financial and economic crisis also opened up fresh opportunities for German insurers.

For 2009 the German insurance industry recorded total growth of 3.1% relative to the previous year to reach a premium volume of EUR 169.6 billion (EUR 164.5 billion). This increase in premium income derived principally from life and health insurance. The population's need for security further bolstered this segment during the financial crisis.

The premium volume in property and casualty insurance booked in the primary sector likely grew only minimally in the year under review – as in the previous year – by 0.2% to altogether EUR 54.7 billion. Business prospects here were appreciably muted, as was ultimately confirmed by the deterioration in the combined ratio to 97% (94.7%). The underwriting profit similarly contracted in this segment by EUR 1.2 billion to EUR 1.6 billion. This was due to the noticeably heavier burden of losses incurred by property/casualty insurers as a consequence of the worldwide economic crisis, especially in the areas of legal protection, marine as well as credit, surety and fidelity insurance.

Motor insurance experienced a sustained decline in premium income with no change in the competitive situation. The loss expenditure here of EUR 19.5 billion was slightly below that of the previous year, and the combined ratio came in at 104% (101.6%) – producing another underwriting deficit.

Premium income rose by a modest 1% in industrial property insurance. The loss experience was favourable overall thanks to a low frequency of major claims. The combined ratio for industrial property insurance stood at 94% (96.1%) in 2009.

Marine insurance saw a flattening off in premium growth. However, given that the economic trend – which particularly impacted the import and export of goods – crucially influenced this line in the year under review, the sluggishness should, if anything, be assessed neutrally. Cargo volumes on the maritime transport market, for example, slumped dramatically; the logistics sector suffered massive job cuts. These repercussions of the crisis will have implications for marine insurance in the near future. That the latter has so far escaped unscathed can be attributed to the nature of the policies, which are priced on the basis of turnover in prior years. It is our assumption that the consequences of the economic crisis will only make themselves felt in this area after a certain delay and that premium income will then be able to recover again in the course of time. The combined ratio in 2009 stood at 102% (91%).

Credit insurance in Germany was particularly hard hit in the year under review by the financial and economic crisis. The stable premium volume contrasted with a surge of around 40% in claims expenditure, hence pushing the combined ratio up to 114% (77.9%).

With a view to further containing the financial market crisis, the federal government proposed the "Act on the Further Development of Financial Market Stabilisation" in 2009. Ailing financial institutions now have the possibility to set up so-called "bad banks", enabling them to offload toxic assets from their balance sheets and hence step up their lending again to the business community. In addition, the federal government backed up its previous steps with the "Act for the Strengthening of the Supervision of Financial Markets and Insurance". The legislation gives the Federal Financial Supervisory Authority (BaFin) greater powers to regulate the financial market.

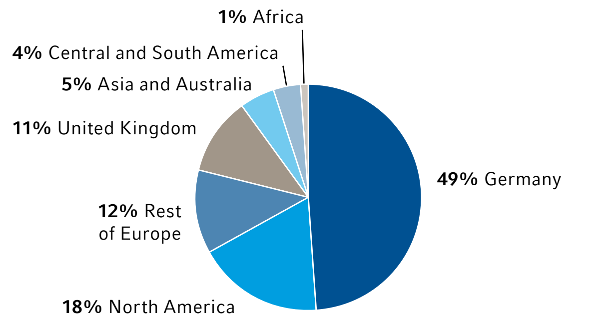
The Solvency II Directive of the European Commission continues to be of great significance to the insurance industry. Solvency II is intended to provide Europe with a risk-based solvency system. The specifics are currently under consideration by various government bodies in consultation with the insurance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

Business development

E+S Rück, the reinsurer for Germany, continues to rank among the leading reinsurers here in its domestic market. In the global context Germany remains the second-largest non-life reinsurance market. Our success is founded upon our pronounced client orientation and the long-standing continuity of our business relationships. Thanks to our excellent financial standing we were again a highly sought-after partner in the year under review, writing gross premium of altogether EUR 1,232.6 million in Germany.

Our international business from the internal retrocession arrangement with the internationally operating Hannover Re remained very stable in 2009. Under this agreement E+S Rück and Hannover Re exchange business so as to achieve broader risk spreading and geographical diversification of their portfolios. Of E+S Rück's total gross premium volume, EUR 1,325.5 million (51%) derived from foreign business in the year under review.

Geographical split of gross premium

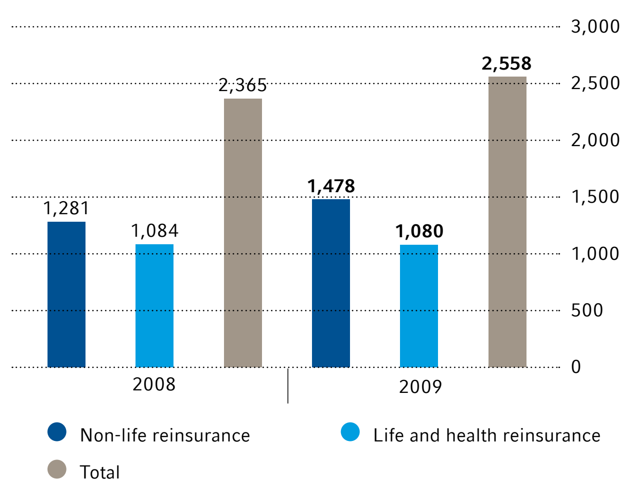


Altogether, the gross written premium booked by E+S Rück in 2009 climbed 8.2% to EUR 2,558.1 million. The share of life and health reinsurance contracted to 42% owing to the sharp rise in non-life reinsurance. As a consequence of the slightly increased level of retained premium, net premium earned grew more vigorously by 9.5% to EUR 1,968.3 million (EUR 1,797.5 million).

Intense competition continued to be the hallmark of the non-life primary insurance markets in 2009, above all in Germany – 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. The climate on the reinsurance side, however, was more favourable, as a result of which rates and conditions were broadly adequate. The gross written premium in non-life reinsurance climbed by EUR 196.9 million in 2009 to EUR 1,477.9 million. The gratifying volume growth derived in particular from the casualty, fire, accident, motor and aviation lines.

The premium volume in life and health reinsurance remained virtually unchanged year-on-year. The minimal contraction in life business was almost offset by growth in health reinsurance. Gross written premium in the two lines fell by 0.4% in 2009 to EUR 1,080.2 million.

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



The burden of catastrophe losses was below average in the year under review, in part thanks to an unremarkable hurricane season. Despite a series of devastating natural disasters, the repercussions on the reinsurance industry were mostly slight. The largest single event in 2009 for our company was the flooding in Manila in the Philippines at the end of September with a net strain of EUR 10.8 million, followed by the crash of the Air France Airbus at the start of June (EUR 6.7 million). The total net expenditure from catastrophe losses and major claims amounted to a mere EUR 35.4 million (EUR 112.9 million) in 2009.

Net expenditure for incurred claims climbed by EUR 233.4 million in the year under review to EUR 1,549.4 million, principally due to increased expenditures in the casualty and life lines. The expense for the other net technical reserves, on the other hand, amounted to just EUR 27.8 million (EUR 143.2 million) in 2009. The expansion of business also pushed operating expenses higher than in 2008: they rose by EUR 92.4 million to EUR 468.8 million. Our own administrative costs, however, increased only marginally. The administrative expense ratio – the ratio of administrative expenses to net premium earned – decreased from 1.7% to 1.6% in the year under review.

Our underwriting result before changes in the equalisation reserve and similar provisions contracted on account of the increased expenditures in both non-life and life/health reinsurance to EUR 0.3 million (EUR 37.2 million).

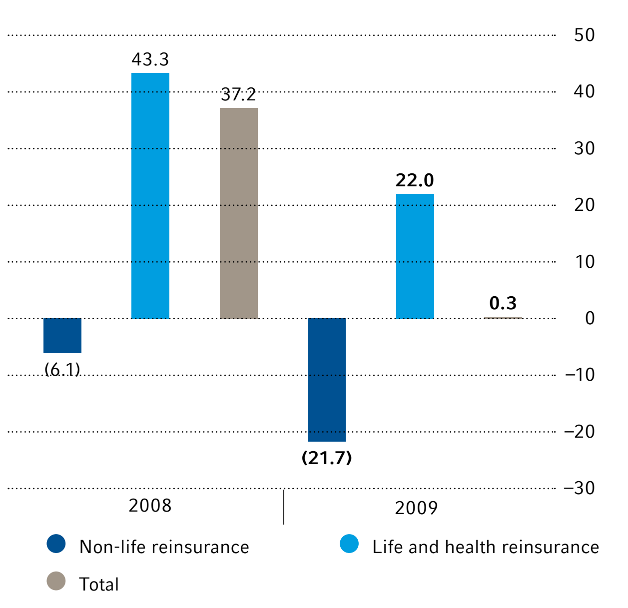
Instead of a write-back from the equalisation reserve and similar provisions – as was the case in the 2008 financial year –, they were increased in the year under review by EUR 54.0 million, hence producing a net underwriting deficit for 2009 of –EUR 53.8 million (EUR 67.1 million).

Against the backdrop of progressive stabilisation on international capital markets, E+S Rück again generated a satisfactory investment result of EUR 289.9 million in 2009. The previous year's figure of EUR 210.7 million had been impacted by losses realised on the disposal of equities. The expansion of our business led to a considerable inflow of additional cash, the bulk of which we invested prudently in debentures in the year under review. Our portfolio of assets under own management continued to grow to EUR 4.5 billion (EUR 4.3 billion).

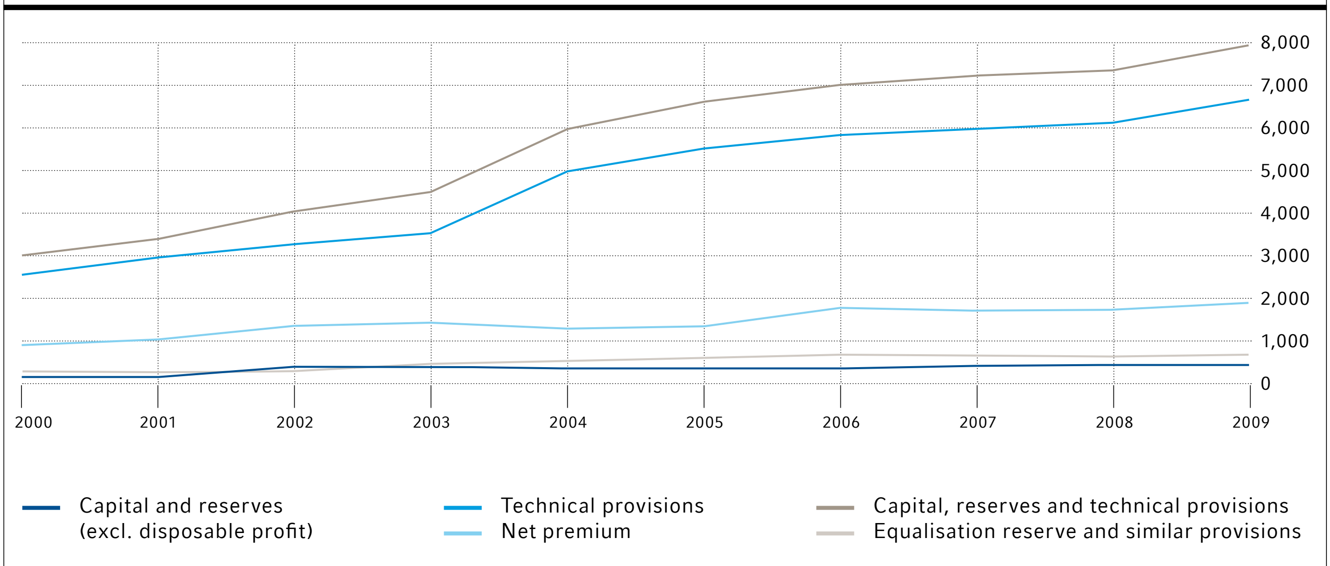
On account of the deterioration in the technical result, the profit on ordinary activities fell to EUR 132.3 million (EUR 148.3 million) in the 2009 financial year despite the normalised investment result. The profit for the year after tax came in higher at EUR 80.0 million (EUR 52.0 million). Since losses on equities are not tax-deductible in Germany, the tax load in the previous year was even more substantial than in the year under review.

Our capital, reserves and technical provisions increased vigorously during the year under review by EUR 603.1 million to EUR 8.0 billion. The technical provisions grew especially sharply, and the equalisation reserve also increased.

Development of the (net) underwriting result – breakdown into non-life and life/health reinsurance in EUR million



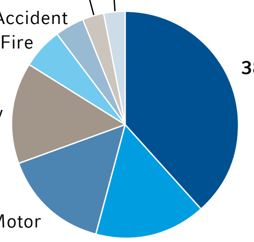
Growth in capital, reserves and technical provisions and in net premium in EUR million



Development of the individual lines of business

Our portfolio mix by line of business in the 2009 financial year was again dominated by life business, although its relative weighting fell from 42.6% in the previous year to 38.4%. The proportion of casualty business rose from 11.4% to 14.4%. The shares of the other non-life reinsurance lines – fire, accident, motor, aviation and marine – changed only marginally. Health reinsurance – included under the "Other lines" – accounted for a slightly larger share of the portfolio in the year under review at 3.8% (3.3%).

Gross premium by line of business at home and abroad



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 2009, before turning to the international business accepted from Hannover Re. Finally, we discuss the change in the gross premium and the underwriting result before allocations to or withdrawals from the equalisation reserve and similar provisions.

Fire

Contrary to expectations at the outset of 2009, the premium erosion in the German industrial fire/property insurance market was sustained. The continuing soft market was due, on the one hand, to the considerable available capacities and, on the other, to the comparatively low burden of major claims. The market-wide premium income in industrial fire insurance for 2009 is likely to be in the order of EUR 2.2 billion, with a combined ratio of 95% after run-off.

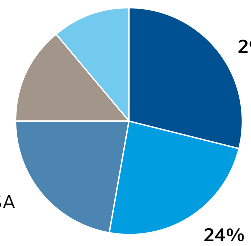
Direct repercussions of the financial market crisis had still to make themselves clearly felt in the year under review. As E+S Rück, we continue to focus exclusively on business with adequate margins and we are pressing ahead systematically with our selective underwriting policy.

German facultative industrial fire business was affected by just a few major claims in 2009. Rate erosion was relatively moderate overall market-wide. We succeeded in further enlarging our portfolio during the renewals on the basis of sensible conditions.

The proportion of German business in our fire portfolio increased to 29% in the year under review. Thanks to the below-average frequency of major claims, the results of our covered business were satisfactory.

The development of Anglo-Saxon markets was particularly crucial to the fire business assumed from Hannover Re: especially in the United States and also in the United Kingdom, Hannover Re boosted its premium volume on the back of improved profitability. Translated into euro, the US fire business booked by E+S Rück thus grew by a vigorous 15%, while the share of US business stood at 22% overall in the year under review. Our volume in the United Kingdom contracted marginally on account of exchange rate movements. The volumes in other European countries as well as in Asia were also lower than in the previous year; in Central and South America, on the other hand, premium income increased.

Geographical split of fire business — in % of gross premium



The gross premium volume of our total fire portfolio increased in the year under review to EUR 154.7 million after EUR 137.6 million in the previous year. The flooding in Manila in the Philippines produced loss expenditure of

EUR 10.8 million; the loss ratio nevertheless remained on a satisfactory level at 57.2%. The underwriting result (before changes in the equalisation reserve and similar provisions) stood at EUR 24.5 million. An amount of EUR 11.3 million was allocated to the equalisation reserve and similar provisions.

Fire in EUR million	2009	2008
Gross written premium	154.7	137.6
Loss ratio (%)	57.2	43.7
Underwriting result (net)	24.5	38.1

Casualty

Stable premium income is projected for the German casualty market in 2009. Nor are any appreciable changes expected in the loss ratio of around 67% and the combined ratio of roughly 89%. Particularly as far as non-exposed risks in commercial and industrial business are concerned, the market must still be described as soft from the insurer's standpoint. The private customer segment held steady in terms of premiums, but competition continued to intensify over terms and conditions.

There were no claims worthy of note in 2009. This is also true of the critical segment of directors' and officers' (D&O) insurance, which came under especially close scrutiny in the past year in the context of the financial market crisis. The federal government responded to the debate surrounding the appropriateness of top managers' compensation with the "Act on the Adequacy of Management Board Remuneration" (VorstAG). Since August 2009 board members at certain types of enterprise have been subject to stricter rules, as a consequence of which rising demand for D&O covers has already been observed.

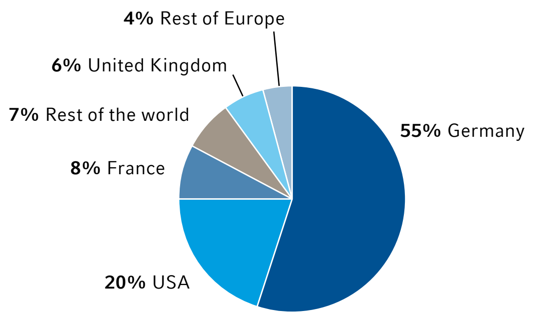
Financial services companies experienced sharp rate increases and a partial capacity shortage, while "commercial" D&O risks – especially in the case of small and mid-sized enterprises – continued to be highly competitive. We wrote risks very selectively; the volume of the facultative D&O portfolio remained largely unchanged.

Facultative industrial liability business similarly delivered positive technical results in the financial year just-ended. Capacities remained high, however, on both the primary and the reinsurance side. The market was and still is competition-driven, although the premium decline in the latest renewal season was on a significantly lower scale than in previous years. Our existing facultative portfolio was largely spared any losses. We successfully renewed our participations and were able to modestly enlarge the portfolio. Altogether, German business accounted for 55% of our casualty line.

Foreign business in the casualty sector increased sharply in the year under review as a consequence of Hannover Re's expansion. This was particularly true of France – and here most notably builder's risk insurance – as well as the United Kingdom and Latin America. France has now moved ahead of the UK in terms of gross premium written by E+S Rück.

The volume in the United States, our most important foreign casualty market, was virtually unchanged owing to exchange rate movements. Having drastically scaled back its acceptances of US professional indemnity business in recent years, Hannover Re did not further reduce its exposure in the year under review.

Geographical split of casualty business in % of gross premium



The gross written premium generated by our total casualty portfolio increased in the year under review by EUR 100 million to EUR 368.8 million. This was attributable not only to the expansion of our foreign business but also to a special effect in the previous year: the gross written premium in 2008 had been reduced owing to a change in accounting procedure with a major cedant.

We strengthened our loss reserve in the year under review as a precautionary measure. All in all, an underwriting loss of –EUR 63.7 million was recorded. An amount of EUR 28.6 million was withdrawn from the equalisation reserve and similar provisions.

Casualty in EUR million	2009	2008
Gross written premium	368.8	268.9
Loss ratio (%)	96.5	77.0
Underwriting result (net)	(63.7)	12.6

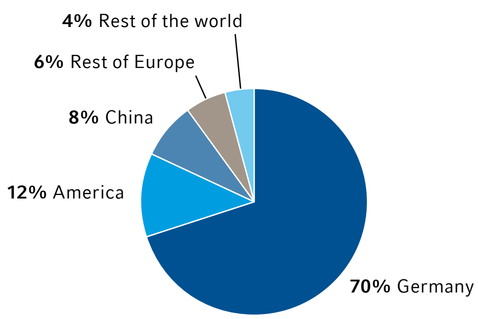
Accident

Accident insurance, which we continue to regard as one of our target lines, again developed favourably. With a combined ratio of roughly 83%, profitability on the original market in German accident insurance was once more highly gratifying in 2009. The market premium showed further modest growth, although claims expenditure also rose sharply.

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.

We appreciably boosted our gross premium in Germany, while the volumes assumed from Hannover Re remained broadly stable in the year under review – or declined slightly in some European countries. The share of the portfolio originating from Asia grew substantially, since for the first time we also accepted a sizeable amount of Chinese business. China thus became our second-largest single market in the accident line.

Geographical split of casualty business — in % of gross premium



The gross written premium improved on the previous year by 19% to reach EUR 102.5 million. The loss ratio of 51.8% was again very satisfactory. The underwriting result thus moved back into positive territory in the year under review at EUR 6.5 million. We allocated an amount of EUR 5.1 million to the equalisation reserve and similar provisions.

Accident in EUR million	2009	2008
Gross written premium	102.5	86.4
Loss ratio (%)	51.8	86.5
Underwriting result (net)	6.5	(13.0)

Motor

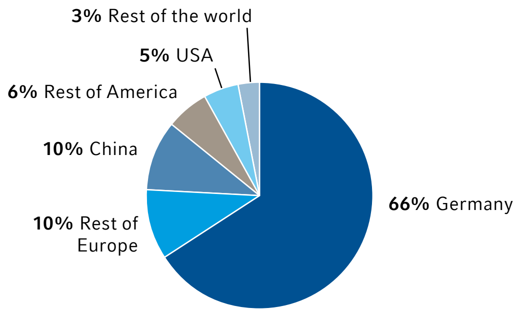
German motor insurance was notable for a reduced contraction in premium volume compared to the previous year. The market increasingly implemented tariff adjustments in the course of the year, while premium income in comprehensive motor own damage increased due to the car scrappage incentive scheme.

Developments on the claims side were negative in the year under review. In motor liability business the claims expenditure rose sharply, although the claims frequency was virtually unchanged. In comprehensive motor own damage insurance this trend was confirmed by increased expenditure on claims for accident damage, as a consequence of which loss expenditure was only marginally lower despite the absence of significant natural catastrophe events. All in all, then, motor insurance closed with another underwriting deficit in 2009.

Under non-proportional covers it was possible to obtain appreciable improvements in conditions both in motor liability insurance and in the own damage lines. In the own damage portfolio with natural hazards exposure this can be attributed in particular to the results posted in 2008, when some covers took a considerable hit as a result of severe thunderstorms with hail events.

We moderately expanded our German business in the year under review; the proportion of the gross written premium in the motor portfolio deriving from Germany increased by 1% to 66%. There were, however, more pronounced shifts within our foreign business assumed from Hannover Re: volumes in China and Eastern Europe contracted, while premiums in the United Kingdom, United States and Latin America moved sharply higher.

Geographical split of motor business in % of gross premium



The premium volume booked in the motor line increased by altogether 4.0% from EUR 376.3 million to EUR 391.3 million. The loss ratio decreased to 79.3%, after the previous year (98.2%) had been overshadowed by hail events. The underwriting result improved from –EUR 56.2 million to –EUR 3.8 million thanks to the lower claims burden. An amount of EUR 28.7 million was allocated to the equalisation reserve and similar provisions.

Motor in EUR million	2009	2008
Gross written premium	391.3	376.3
Loss ratio (%)	79.3	98.2
Underwriting result (net)	(3.8)	(56.2)

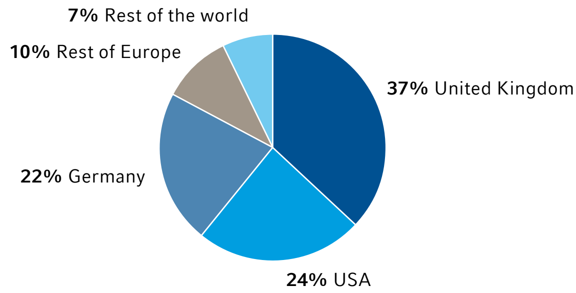
Aviation

The primary market in aviation insurance was again heavily overshadowed by surplus capacities in the year under review, although original rates did see significant increases. They were triggered by the plane crashes involving Colgan Air in the United States at the beginning of the year and Air France over the Atlantic last June, both of which caused sizeable losses. Insurance premiums consequently surged appreciably in the second half of 2009. The reinsurance market was also substantially affected by the major losses and responded with commensurate price increases.

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. We are well placed to act on profitable business opportunities in a hardening market. This was reflected in the enlargement of our gross written premium in Germany by 33% in the year under review, as a consequence of which the share of the portfolio attributable to our German business rose to 22%.

The portfolio written by Hannover Re, one of the world's leading reinsurers in aviation and space business, also grew vigorously in the year under review – from which we profited accordingly. Along with a moderate increase in our assumed gross premium in the United Kingdom, volume growth was particularly strong in the United States and France.

Geographical split of aviation business in % of gross premium



Our total aviation premium volume grew by 19% in 2009 to EUR 81.4 million. The year under review was, however, adversely affected by a higher-than-average burden of losses. The largest single loss for our account was the crash of the Air France passenger jet at a net cost of EUR 6.7 million. The loss ratio of 68.1% was nevertheless still satisfactory.

The underwriting result came in EUR 2.0 million higher than in the previous year at EUR 8.4 million. An amount of EUR 4.6 million was allocated to the equalisation reserve and similar provisions.

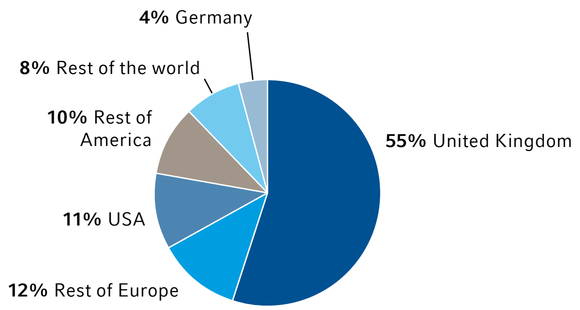
Aviation in EUR million	2009	2008
Gross written premium	81.4	68.3
Loss ratio (%)	68.1	62.7
Underwriting result (net)	8.4	6.4

Marine

2009 was a moderate year for marine business in terms of the claims experience. The sharp decline in world trade, however, had an adverse impact: fewer goods were transported at lower prices, hence causing the premium volume in cargo insurance to contract. In view of the fall in the values of vessels, triggered by surplus capacities and the associated sharply lower freight rates, premiums also declined in hull insurance. Combined with the drop in commodity prices, these developments did, however, have positive implications for claims inflation. Demand on the reinsurance side remained stable: thanks to adequate conditions the state of the market was good, and we were able to push through higher prices.

In the marine line, as in aviation business, Hannover Re is one the leading reinsurance providers; its activities are focused predominantly on London, the most important and the largest market in the world for marine insurance – including reinsurance. The volume assumed by our company in this area contracted marginally by EUR 4 million in the year under review, as a consequence of which the share of UK business in our gross written premium fell to 55%. The premium volumes in Germany, the United States, Latin America and Asia, on the other hand, increased slightly.

Geographical split of marine business in % of gross premium



Our gross written premium remained virtually unchanged year-on-year at EUR 71.4 million (EUR 71.8 million). The loss ratio decreased further from 92.6% to 69.5%. The underwriting result improved from –EUR 3.4 million to EUR 6.6 million. The equalisation reserve and similar provisions were boosted by an amount of EUR 15.5 million.

Marine in EUR million	2009	2008
Gross written premium	71.4	71.8
Loss ratio (%)	69.5	92.6
Underwriting result (net)	6.6	(3.4)

Life

The German life and annuity insurance market was shaped in the year under review by the ongoing implementation of the amended Insurance Contract Act, which entered into force on 1 January 2008. This reform brought significant changes for insurance companies, their sales organisations and policyholders in relation to transparency, surrender values and hidden reserves.

Just as crucial were the consequences of the international financial market crisis – on the one hand with respect to the behaviour of existing policyholders inasmuch as lapse rates moved higher, and on the other hand with respect to future customers in new business, which proved to be very muted for unit-linked products. In the area of conventional policies the focus was on single-premium products, for which various German life insurers offered their customers a very attractive total return right from the outset.

Risk-oriented covers for mortality and disability have retained their appeal; products from the bancassurance sector designed to protect consumer credit and mortgage loans also continue to play a major role.

The attempts of a number of international insurance groups to gain larger market shares in Germany through annuity policies with strong, long-term financial guarantees (variable annuities) scarcely met with any success. The remaining providers considerably simplified their products so as to counter the increased costs for hedging strategies.

E+S Rück was able to extend its position in the German market for life and annuity policies through the acquisition of several new clients; with gross written premium of EUR 515 million ceded by altogether 41 companies, it plays a leading role. The share of our German business in the total portfolio increased appreciably in the year under review and now stands at 51% – compared to 46% in the previous year.

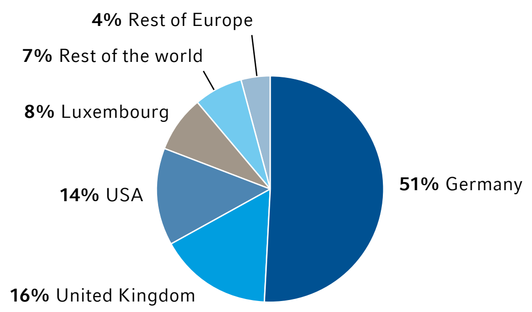
For many years E+S Rück has participated in the dynamic growth of the international life reinsurance business written by the Hannover Re Group through the already mentioned comprehensive quota share retrocession arrangement. This model affords strategically important diversification effects and economies of scale, and it enables E+S Rück to share in the rapid growth of major emerging markets such as China, India and Brazil.

In the United Kingdom, Europe’s most significant reinsurance market, Hannover Re is rather conservatively positioned as a traditional reinsurer of mortality and critical illness risks. In view of the extremely intense competition prevailing in this market, the main emphasis in the year under review was on selectively maintaining the existing cedant relationships.

Hannover Re has been operating in the UK annuity market as a reinsurer of enhanced annuities since the mid-1990s; just a few years ago it entered a new business segment with the insurance of selected longevity risks for existing pension funds already paying out. The related investment risks are not assumed through these longevity swaps in connection with the reinsurance of UK pension funds.

Our ceded premium volume from the United Kingdom increased only marginally in euro owing to the depreciation of the pound sterling; the proportion of the premium volume in life business rose slightly to 16%. While the weighting of other countries and regions similarly shifted only minimally, the volume in the United States fell by EUR 60 million – as a consequence of which the share attributable to US premium fell to 14%. Along with the slide in the value of the US dollar, this was connected with the booking of a large individual contract in the previous year, the premium from which diminished as expected in the year under review.

Geographical split of life business — in % of gross premium



All in all, E+S Rück's gross premium volume in life and annuity insurance contracted marginally by 2.3% to EUR 982.9 million owing to the aforementioned effects. The decline in foreign business was virtually offset by expansion in Germany.

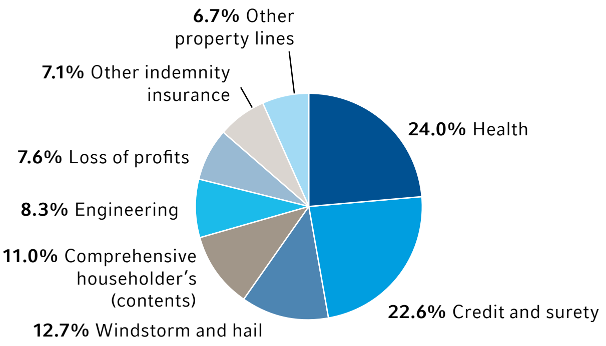
Compared to the previous year, increased net claims expenditure was incurred in the year under review owing to extensive cancellations of unit-linked products. On the other hand, the allocation to the net life assurance provision was considerably reduced as life assurance provisions for the cancelled contracts were released. As a further factor, the diminished volume of new business led to lower commissions on business ceded. In the previous year we had profited here from increased commission income on the volume that was ceded for the first time. In view of the aforementioned effects, the net underwriting profit declined to EUR 25.1 million, after EUR 42.0 million in the previous year.

Life in EUR million	2009	2008
Gross written premium	982.9	1,006.5
Underwriting result (net)	25.1	42.0

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.

Breakdown of business in the other lines — in % of gross premium



Reflecting their significance, our comments on the other lines will concentrate on health insurance, credit and surety insurance and natural hazards covers in windstorm and hail business.

With gross premium of EUR 97.3 million (a gain of 25% on the previous year), our portfolio of health insurance was shaped principally by international retrocessions assumed from Hannover Re. German business was limited to a few non-proportional covers, predominantly in the international travel medical insurance segment.

The US portfolio is comprised primarily of quota share participations in private-sector health insurance products for senior citizens (Medicare Supplement and Medicare Advantage). We also reinsure health policies from the United Kingdom, where we support an innovative health insurer that was newly established just a few years ago. Health policies from Central America – first and foremost Mexico – and from China (including Hong Kong) are also covered.

Partly as a reflection of our prudent reserving practice, the year under review closed with a technical deficit of –EUR 3.1 million; this can be attributed in large measure to prefinancing effects in the UK market.

With the recession continuing to reverberate in the year under review, the situation in credit and surety insurance was challenging. Some bottoming out was nevertheless observed in the fourth quarter. Against the backdrop of higher insolvency figures, insurers were faced with significantly increased claims rates in the year under review; this was particularly true of the credit line. Dramatic rehabilitation of the business was therefore initiated. Premiums thus climbed by low double-digit percentages – while exposures were reduced. In some cases it was even possible to obtain increases of as much as 100%. In surety business, too, rates picked up, although the average increases were less appreciable due to lower claims rates. For the reinsurance industry the claims situation was similar to that seen in the primary sector, although non-proportional business was scarcely impacted by losses.

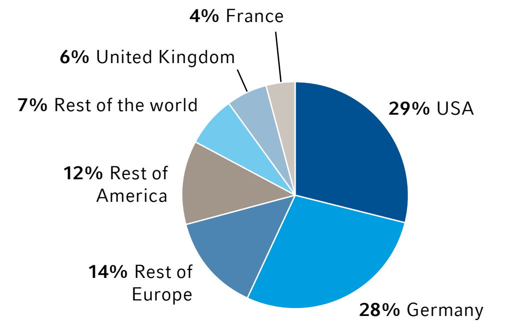
Hannover Re is one of the market leaders in worldwide credit and surety reinsurance. All in all, it wrote business even more restrictively than before and further improved the diversification of its portfolio. In the year under review the company made the most of the significant price rises and selectively enlarged its volume, as a result of which the business assumed by E+S Rück also increased.

Gross premium in credit and surety reinsurance grew from EUR 74.3 million to EUR 91.6 million. Although the underwriting result came in negative at –EUR 10.5 million (EUR 5.6 million) due to higher default rates in credit reinsurance and our prudent reserving policy, we anticipate a return to profitability in 2010 as loss ratios recover.

The losses incurred by German insurers under natural hazards covers were below average in 2009. The spring storms and thunderstorms in the summer did not cause any appreciable expenditure. Only agricultural hail insurance was impacted by severe losses. The high deductibles carried by primary insurers meant that our company – in common with other reinsurers – was only minimally affected, if at all.

The substantial expansion of business in the lines of health, credit and surety, hail, comprehensive householder's (contents) and loss of profits insurance considerably boosted the gross written premium in all the other insurance lines combined to EUR 405.2 million (EUR 349.4 million) in the year under review. Broken down by countries and regions, the business volume grew especially markedly in Latin America, the United States and China.

Geographical split of business in the other lines in % of gross premium



The loss ratio increased slightly to 72.6% (69.6%), as a consequence of which the underwriting result slipped into negative territory at –EUR 3.2 million. An amount of altogether EUR 17.4 million was allocated to the equalisation reserve and similar provisions in the other lines.

Other lines in EUR million	2009	2008
Gross written premium	405.2	349.4
Loss ratio (%)	72.6	69.6
Underwriting result (net)	(3.2)	10.7

Investments

While the US Federal Reserve left its key interest rates unchanged during the year under review at 0% to 0.25% after the dramatic cuts of 2008, the European Central Bank lowered its prime rate incrementally as the year progressed from 2.5% to 1.0%.

The return on ten-year US treasury bonds climbed appreciably from 2.1% to 3.8% in the course of the year. A comparable development was also observed for European government bonds, although in this case the increase from 2.9% to 3.4% was more moderate. In the area of corporate bonds sharp falls in risk premiums were noted across virtually all credit rating classes and industries in 2009.

Having already scaled back our exposure to listed equities to virtually zero in 2008, stock market volatility obviously had only a very limited effect on our investment result. As part of our investment strategy we made the most of opportunities on the real estate market and further stepped up our involvement in this sector. The euro moved slightly higher against the US dollar and pound sterling after substantial fluctuations within the year. 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
- Limitation of currency exposures in accordance with the principle of matching currencies

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

Within the scope of our asset/liability management (ALM) the allocation of investments by currencies and maturities is determined by the technical liabilities. The modified duration of our bond portfolio is geared largely to the average maturity of the technical liabilities. We thereby adjust the maturity pattern of the fixed-income securities to the expected payment patterns of our liabilities and reduce the economic exposure to the interest rate risk. In addition, through active and regular management of the currency spread in our fixed-income portfolio we bring about extensive matching of currencies on the assets and liabilities sides of the balance sheet, as a consequence of which fluctuations in exchange rates have no significant influence on our result.

Our portfolio of assets under own management remained virtually unchanged in the year under review at EUR 4.5 billion (EUR 4.3 billion). Ordinary income also held stable at EUR 285.7 million (EUR 285.5 million). This was similarly true of the deposit interest and expenses, the balance of which stood at EUR 101.5 million (EUR 97.9 million).

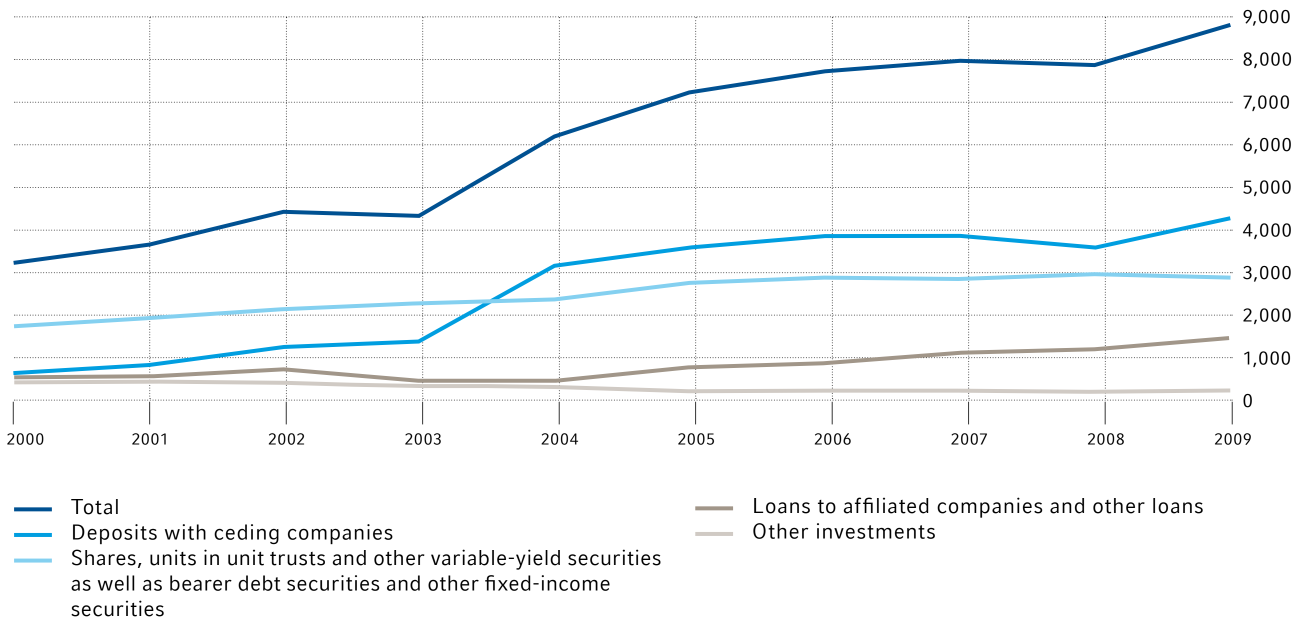
Gains on disposals of EUR 48.9 million (EUR 108.1 million) contrasted with realised losses of EUR 5.1 million (EUR 114.2 million). The relatively high realisations of the previous year were attributable mainly to the liquidation of a hedge on almost one-third of the equity holdings in the fourth quarter as well as the significant reduction of the equity allocation. As a result, we scarcely took any further write-downs on listed equities (EUR 0.4 million), thanks principally to our reduced involvement in this area and the rally on equity markets.

Write-downs on fixed-income securities decreased to EUR 7.7 million (EUR 26.1 million). It was, however, necessary to take value adjustments of EUR 3.7 million (EUR 3.4 million) on private equity investments as well as EUR 2.4 million (EUR 0.0 million) on investments in affiliated companies. All in all, the net investment result increased to EUR 289.9 million (EUR 210.7 million) on the back of stable ordinary income and substantially lower write-downs.

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 slightly reduced the modified duration of our bond portfolio, which consequently stood at 3.6 years (4.0 years) as at 31 December 2009.

The portfolio of fixed-income securities and fund units grew to EUR 4.2 billion (EUR 4.0 billion), primarily as a consequence of cash inflows from the technical account. The funds were invested predominantly in government

Investments in EUR million



bonds. Net unrealised gains on fixed-income securities totalled EUR 135.0 million (EUR 101.8 million) as at year-end.

Overall, E+S Rück generated another satisfactory net investment result of EUR 289.9 million (EUR 210.7 million) in the year under review.

Human resources

Our staff

Highly skilled and motivated staff have been instrumental in the success enjoyed by E+S Rück today. Continuously fostering our employees' expertise and motivation therefore continues to be one of the most important keys to securing our company's future and constitutes the foundation of our human resources policy. Our personnel management activities in the year under review were concentrated on the areas of employer branding, competency management, succession planning and training. E+S Rück employed 267 staff as at 31 December 2009.

Employer branding

Strong demand for expert staff has been the hallmark of competition on the reinsurance labour market in recent years. The economic crisis did not bring any relief in the year under review. The demographically-induced decline in graduate numbers will exacerbate the situation going forward. E+S Rück accepts these challenges and is developing measures to ensure that it continues to succeed on the recruitment market.

Competency management

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

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

All in all, E+S Rück's competency management makes it possible to identify the need for personnel development, assure the quality of personnel development measures and hence carry out effective controlling of the learning environment. What is more, it assists managers with career and succession planning, into which employee potentials can thus be integrated on an interdepartmental basis.

Succession planning

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

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

Internal training

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

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

Word of thanks to our staff

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

Corporate Social Responsibility

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

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

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

Environmental responsibility

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

In addition, as part of the "Climate Alliance Hannover 2020", we have been playing our part since 2008 in efforts to accomplish the state capital's goal of cutting climate-threatening greenhouse gas emissions to levels 40% lower than in 1990 by the year 2020. Our specific contributions will be regularly checked every two years from 2011 onwards.

We are also participating in the new government commission on "Climate Protection" launched by the Federal State of Lower Saxony. With our expertise in the modelling of natural hazards as well as our extensive claims histories, we are supporting the commission in its efforts to devise a comprehensive climate protection concept for Lower Saxony.

In the year under review we cut the power consumption of our computer centre and approved a videoconferencing concept that – once implemented in 2010 – is intended to reduce the CO_2 emissions caused by staff travelling on business trips.

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

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

Social commitment

Since its establishment in 2008 we have supported the efforts of the Lower Saxony Road Safety Foundation as a member of the board of trustees. By furthering scientific research the foundation seeks to develop the bases for road safety policy actions, set in motion new traffic safety projects and push through systematic advancement of the honorary office.

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

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

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

Support for the arts

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

Risk report

Risk strategy

E+S Rück concentrates exclusively on the needs of the German market and, in so doing, is integrated into the risk management of the Hannover Re Group. The risk strategy derived from the company strategy constitutes the basis for our handling of risks and opportunities. The parameters and decisions of the Executive Board with respect to the risk appetite are fundamental to the acceptance of risks. The risk strategy – as a self-contained set of rules – serves as the foundation for risk management. It is thus an integral component of entrepreneurial actions and is reflected in the detailed strategies of the various divisions.

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

Overriding goals and organisation of our risk management

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

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

Functions within the risk management system

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

Quantitative and qualitative risk management methods

Regulatory solvency requirements are regularly monitored as part of E+S Rück's risk management. Our qualitative methods and practices support our internal risk management and control system. The system is subject to a constant cycle of planning, action, control and improvement. The basic elements of the system, such as risk identification and risk reporting, are efficiently interlinked.

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

Within our central system of limits and thresholds key ratios have been specified for steering and monitoring the material risks of E+S Rück – within the meaning of the materiality concept defined in the risk strategy. Risk steering and monitoring is operationalised through the specification of suitable limits and thresholds for quantitatively measurable material risks. Material risks that cannot be quantified or are difficult to quantify (such as operational risks or reputational risks) are primarily steered and monitored using appropriate processes and practices (e.g. contingency and crisis communication plans).

Another key element of the overall system is the Framework Guideline on the Internal Control System (ICS). The purpose of this set of rules is to ensure systematic execution of our company strategy with a special eye to capital protection. In addition, we thereby support our strategic

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 • Responsibility for the proper functioning of risk management • Definition of the risk strategy
Risk Committee	• Monitoring and coordinating body with respect to operational risk management • Decision-making power is within the bounds of the risk strategy defined by the Executive Board
Chief Risk Officer	• Responsibility for holistic risk monitoring across business groups (systematic identification and assessment, control/monitoring and reporting of risks) of all material assets- and liabilities-side risks
Group Risk Management	• Process-integrated risk monitoring function • Methodological competence, inter alia for – Development of processes/methods for risk assessment, management and analysis – Risk limitation and reporting – Risk monitoring and determination of the required risk capital across the Group
Business units	• Primary risk responsibility, inter alia 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

action fields of "Corporate Governance" and "Compliance". In accordance with these principles, the Framework Guideline puts in place a consistent appreciation of controls as well as a uniform procedure and standards for implementation of the ICS across all organisational units.

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

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

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

Material risks

Technical risks in non-life reinsurance

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

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

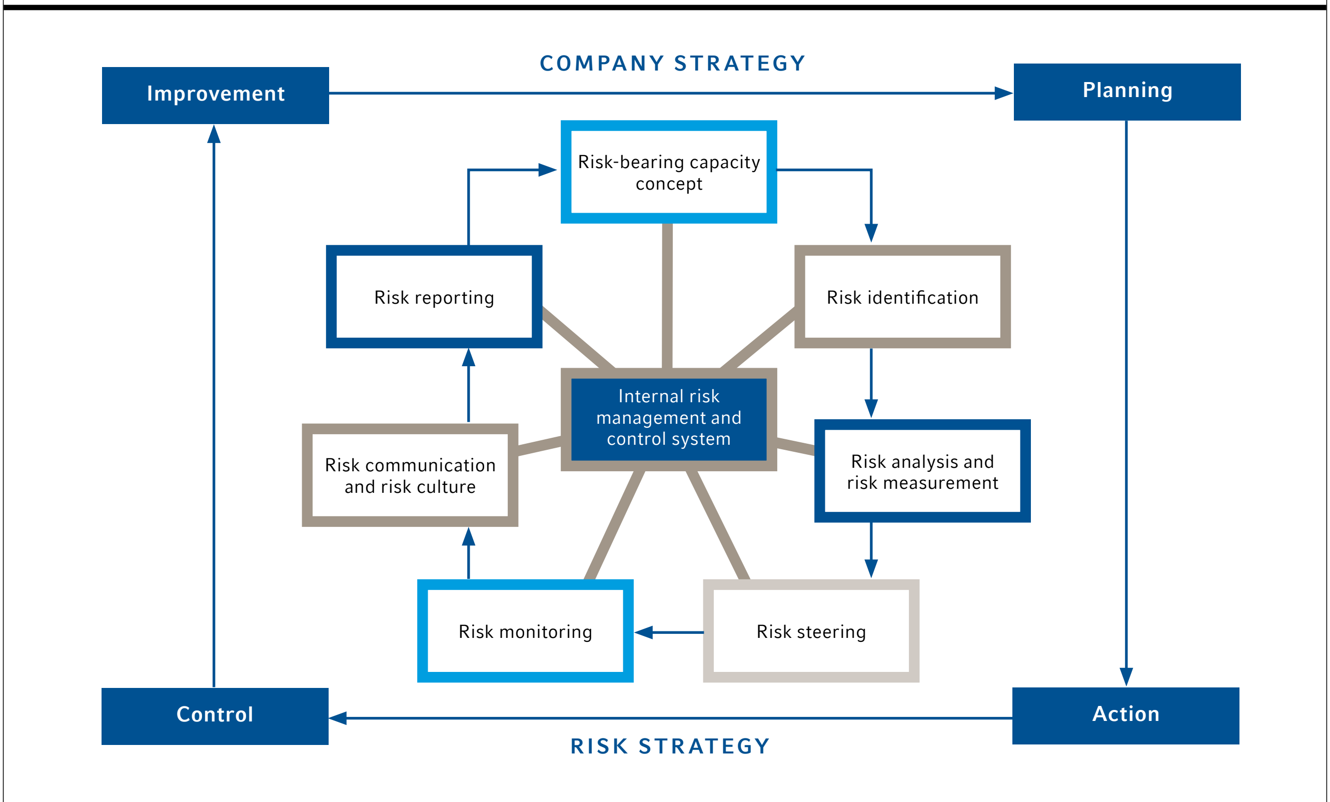
Liability claims are a key influencing factor for the IBNR reserve. The IBNR reserve is calculated on a differentiated basis according to risk categories and regions. The statistical run-off triangles used by our company are another monitoring tool. They show how the reserve has changed over time as a consequence of paid claims and the recalculation of the reserves that are to be established as at each balance sheet date. Their adequacy is monitored using actuarial methods. Our own actuarial calculations regarding the adequacy of the reserves are subject to annual quality assurance reviews conducted redundantly by external actuaries and auditors.

Licensed scientific simulation models, supplemented by the expertise of our own specialist departments, are used to assess our material catastrophe risks from natural hazards (earthquakes, windstorms). Furthermore, we establish the risk to our portfolio from various scenarios (e.g. hurricanes in the US, windstorms in Europe, earthquakes in the US) in the form of probability distributions. The monitoring of the natural hazards exposure of the portfolio (accumulation control) is rounded out by the progressive inclusion of realistic extreme loss scenarios. Within the scope of accumulation controlling of these risks the Executive Board defines the appetite for assuming natural hazards risks once a year on the basis of the risk strategy.

The risk appetite is a key basis for our underwriting approach in this segment. For the purposes of risk limitation, maximum underwriting limits (capacities) are stipulated for various extreme loss scenarios and return periods in light of probability criteria. Adherence to these limits is continuously verified by the central risk monitoring function. The Risk Committee, the Executive Board and the body responsible for steering non-life reinsurance are kept regularly updated on the degree of capacity utilisation.

The price/premium risk lies primarily in the risk of incomplete or inaccurate estimation of future claims, especially in relation to timing. Regular and independent reviews of the models used for treaty quotation as well as the implemented practices, e.g. our compulsory central and local underwriting guidelines, are vital management components. In addition, E+S Rück's treaty departments prepare regular reports on the progress of the various treaty renewals. The reporting in this regard makes reference inter alia to significant changes in conditions, risks (such as inadequate premiums) as well as to emerging market opportunities and the strategy pursued in order to accomplish targets.

Internal risk management and control system



Technical risks in life and health reinsurance

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

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

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

Market risks

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

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

The portfolio of fixed-income securities is generally exposed to the interest rate risk. Declining market yields lead to increases and rising market yields to decreases in the fair value of the fixed-income securities portfolio. The credit spread risk should also be mentioned. The credit spread risk refers to the risk that the interest rate differential between a risk-entailing bond and a risk-free bond may change while the quality remains unchanged. Changes in these risk premiums, which are observable on the market, similarly result – analogously to changes in pure market yields – in changes in the fair values of the securities concerned.

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

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

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

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

Further information on the risk concentrations can be obtained from the table on the rating structure of fixed-income securities.

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

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

Credit risks

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

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

The Group Protections unit is responsible for E+S Rück's ongoing cession management. This process is supported by our "Cession Limits" Web-based risk management application, which specifies cession limits for the individual retrocessionaires participating in protection cover programmes and determines the capacities still available for short-, medium- and long-term business (cession management). Depending on the type and expected run-off duration of the reinsured business, the selection of reinsurers

Scenarios for changes in the fair value of our securities — in EUR million

	Scenario	Portfolio change based on fair value
Equity securities	Share prices +10%	+1.0
	Share prices +20%	+2.0
	Share prices –10%	(1.0)
	Share prices –20%	(2.0)
Fixed-income securities	Yield increase +50 basis points	(80.6)
	Yield increase +100 basis points	(158.5)
	Yield decrease –50 basis points	+83.2
	Yield decrease –100 basis points	+169.2

Rating structure of our fixed-income securities[1]								
Rating classes	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	71.2	1,982.9	42.7	599.1	–	–	–	–
AA	21.5	599.3	38.7	545.0	75.2	11.1	–	–
A	5.2	144.6	14.9	210.0	–	–	14.8	5.0
BBB	1.5	43.0	3.7	52.5	–	–	85.2	28.7
< BBB	0.6	17.1	–	–	24.8	3.7	–	–
Total	**100.0**	**2,786.9**	**100.0**	**1,406.6**	**100.0**	**14.8**	**100.0**	**33.7**

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

takes into account not only the minimum ratings of the rating agencies Standard & Poor's and A. M. Best but also internal and external expert assessments (e.g. market information from brokers).

Overall, retrocessions conserve our capital, stabilise and optimise our results and enable us to derive maximum benefit from a "hard" market (e.g. following a catastrophe loss event). Alongside traditional retrocessions in non-life reinsurance we also transfer risks to the capital market. Yet credit risks are relevant to our investments and in life and health reinsurance, too, because we prefinance acquisition costs for our ceding companies. Our clients, retrocessionaires and broker relationships as well as our investments are therefore carefully evaluated and limited in light of credit considerations and are constantly monitored and controlled within the scope of our system of limits and thresholds.

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

Operational risks

In our understanding, this category encompasses the risk of losses occurring because of the inadequacy or failure of internal processes or as a result of events triggered by employee-related, system-induced or external factors. The operational risk also extends to legal risks. Operational risks exist, inter alia, in relation to the risk of business interruptions or system failures or may derive from unlawful or unauthorised acts. Given the broad spectrum of operational risks, there is a wide range of different management and monitoring measures tailored to individual types of risk.

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

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

Against the backdrop of the wave of illness caused by the A/H1N1 virus E+S Rück took a number of preventive steps to protect its staff. Among other things, they were kept constantly updated on the latest news. In addition, the crisis management team held regular meetings to consider at length the issue of an influenza pandemic. The range of tools is rounded off with external and internal surveys of clients and staff, the line-independent monitoring of risk management by Internal Auditing and the internal control system.

Other risks

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

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

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

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

The liquidity risk refers to the risk of being unable to convert investments and other assets into cash in order to meet our financial obligations when they become due. The liquidity risk consists of the refinancing risk, i.e. the necessary cash cannot be obtained or can only be raised at increased costs, and the market liquidity risk, meaning that financial market transactions can only be completed at a poorer price than expected due to a lack of market liquidity. Our regular liquidity planning and liquid asset structure are core elements of our ability to manage this risk. These measures ensure that E+S Rück is able to meet its payment obligations at all times without reservation. We manage the liquidity risk inter alia by allocating a liquidity code to every security. Adherence to the limits defined in our investment guidelines for each liquidity class is subject to daily control. The spread of investments across the various liquidity classes is recorded in the monthly investment reports and managed/monitored by way of appropriate limits.

Assessment of the risk situation

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

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

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

Forecast

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

That prices largely remained stable is a reflection of the underwriting discipline practised among reinsurers. Given that the returns obtainable on investments are lower on account of the reduced interest rate level, greater attention is now directed towards the underwriting result. We are expanding those segments in which prices are rising. This is true of aviation as well as credit and surety reinsurance. Premium income is expected to show modest growth overall. In light of the equity requirements arising out of "Solvency II", reinsurance is taking on even greater significance as a tool for insurers.

In the course of the renewals it was again evident that our clients attach considerable importance to the ratings of their reinsurers; this applies above all to the underwriting of long-tail casualty business. In this area a very good rating is a necessary prerequisite in order simply to be asked to submit a quotation. Thanks to its very good ratings ("AA–" from Standard & Poor's and "A" from A.M. Best) E+S Rück is one of the reinsurers to meet this condition without reservation. While many companies were rated in the "AA" range in 2007, the majority of them had merely an "A" rating by the end of 2009. Only around a quarter of the worldwide reinsurance capacity is currently rated in the "AA" range.

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

The general economic crisis is likely to make itself felt in industrial fire insurance in 2010, since premiums from turnover-based policies – which are typical in fire loss of profits insurance – will probably be adjusted downwards. It is currently difficult to estimate how high the premium lost as a consequence of the recession will be. The rate erosion in facultative fire insurance is expected to continue easing in 2010. We are making every effort to further consolidate and expand the position that we have attained. We shall continue to actively support our business partners.

The premiums for casualty covers of many industrial and commercial policyholders are calculated according to their total turnover in 2009. Against the backdrop of the tense economic situation affecting many businesses, the premium volume for 2010 is therefore expected to contract. The will also impact the proportional casualty reinsurance business of E+S Rück. In view of the unchanged profit orientation of our underwriting policy and our emphasis on non-proportional business – which we shall step up if possible – we believe that we are well positioned for the new financial year.

In industrial facultative casualty insurance we are standing by our business orientation focused largely on non-proportional participations which promise profitability. In addition, we shall strengthen our marketing in the industrial liability sector, in particular, so as to secure an even greater counterweight here to our other non-life lines. In the area of facultative directors' and officers' (D&O) insurance we expect a considerable surge in demand for so-called individual policies on the German market as a consequence of the "Act on the Adequacy of Management Board Remuneration" (VorstAG).

Turning to the accident line, the performance of which hinges crucially on medical know-how, we have gathered expertise in the fields of underwriting and claims handling at our company. Combined with extensive data stocks for rating purposes, we are thus in a position to support our clients with far-ranging expertise both in product development and all other relevant areas of accident insurance.

The original market in motor insurance is still fiercely competitive, albeit with an increased tariff level marketwide owing to the pressure of recent negative technical results. On the claims side we do not expect any appreciable change apart from modest annual inflation in the cost of the average claim. In some instances we were able to push through improvements in conditions under our proportional portfolios. Conditions continued to improve in motor liability insurance under non-proportional covers.

For aviation business we expect – provided there are no extraordinary developments – further hardening on both the primary and reinsurance market in the course of 2010. We intend to moderately enlarge our current market share.

The price level in marine business will come under slight pressure on the reinsurance side owing to declining premium income, the reduced exposure driving this trend and the positive effects of the global recession on claims inflation. These factors aside, we nevertheless expect a stable market environment. The economic recovery will not initially bring about any fundamental changes in the market climate in primary business. We therefore continue to anticipate premium effects in the primary sector, which will cause 2010 to slip back well below the levels prior to the onset of the financial market crisis.

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

By and large, the price level in the renewals can be described as solid. The bulk of programmes were renewed at unchanged conditions. E+S Rück will maintain stable capacities in the German non-life reinsurance market.

The growth prospects for worldwide life and health reinsurance remain thoroughly favourable despite the continuing repercussions of the financial market crisis. The expansion on reinsurance markets will likely surpass the pace of growth on primary markets. It is our expectation that the increased demand for financially oriented reinsurance solutions will be sustained over the next two years, offering a reinsurer of our quality and financial strength excellent opportunities to write attractive treaty business.

For the German life and annuity market we anticipate a certain stabilization in 2010, which should be reflected in growing new business and increased persistency of the business in force. Given a favourable performance of European equity markets, unit-linked products should also enjoy a more positive response than in the past two years.

Taking all lines of non-life and life/health reinsurance together, we shall be able to enlarge our already large market share in Germany in 2010 thanks to new customer relationships and increased treaty shares under existing accounts – thereby cementing 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, is as follows:

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

Hannover Re was broadly satisfied with the treaty renewals in the United Kingdom. In motor insurance rates moved slightly slower but are still on an adequate level. Rates in liability business and workers' compensation insurance held stable or declined slightly, but they improved in the financial institutions sector.

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

All in all, terms and conditions in worldwide non-life reinsurance continue to be favourable for Hannover Re.

For the life and health reinsurance business group (hereinafter referred to as Hannover Life Re), too, the company anticipates sustained dynamic growth over the medium term; this can be attributed to the demographic changes in numerous regions. The main drivers of business in the current year will continue to be the mature insurance markets of the United States, United Kingdom, Australia, South Africa and France. Hannover Life Re is also enlarging its portfolio in China and Japan.

Hannover Life Re believes that business in the United Kingdom involving the biometric risk of longevity – both in the form of enhanced annuities with a reduced payment period and through the assumption of risks associated with existing pension funds – will prove to be a significant growth sector.

The international expansion of Hannover Life Re will lead to a rising premium volume as well as unchanged attractive profitability for E+S Rück as well; in this regard, not only the reported Commercial Code (HGB) results but also the change in the embedded value, the present value of future profits from our portfolio, must be taken into consideration.

We expect the total business of E+S Rück (at home and abroad) to deliver another modest increase in our premium income and satisfactory underwriting results in the current year.

The expected positive cash flow generated from the technical account and our investments should – subject to stable exchange rates – lead to further growth in our asset portfolio. In the area of fixed-income securities we continue to stress the high quality and diversification of our portfolio. In view of the low yield level on government bonds and the reduced risk premiums on corporate bonds, however, we do not anticipate any significant improvement in the investment income. What is more, we believe that yield curves are likely to rise, as a consequence of which equity impairments from medium- to long-dated bonds are possible.

We are keeping a very close eye on stock markets in view of the continued anticipated volatility. A possible re-entry into equity investments will only be undertaken incrementally after weighing up the opportunities and risks. Our strategy of stepping up investments in real estate will continue in 2010. We anticipate further attractive opportunities here in our focus markets of Germany and the United States. When it comes to alternative investments, too, we shall invest within the limits of our investment strategy since we see here a means of risk diversification and a chance to boost our return.

Bearing in mind the favourable market conditions in non-life and life/health reinsurance and given our strategic orientation, we anticipate another good financial year in 2010 and expect a year-end result on a similar scale to the previous year. 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 distortions on international capital markets.

Looking beyond the current financial year, we expect to see further strong demand for reinsurance with an "AA" rating, which should open up attractive growth opportunities for E+S Rück in both non-life and life/health reinsurance.

Other 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:

Figures in EUR million	2009	2008
Subscribed capital and reserves	507.3	507.3
Equalisation reserve and similar provisions	765.4	711.4
Technical provisions	6,716.7	6,167.6
Total capital, reserves and technical provisions	7,989.4	7,386.3

The capital, reserves and technical provisions amount to 401.3% (409.7%) of net premiums; this includes the capital and reserves at 25.5% (28.1%) 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	80,000,000.00

The dividend is payable on 9 March 2010.

Balance Sheet

Assets in EUR thousand	2009				2008
A. Investments					
I. Land and buildings, rights to land and buildings, leasehold			12,412		13,093
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies		113,368			92,136
2. Loans to affiliated companies		40,000			40,000
3. Participating interests		16,204			14,204
			169,572		146,340
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		100,178			197,377
2. Bearer debt securities and other fixed-income securities		2,786,852			2,780,255
3. Other loans					
a) Registered debt securities	459,878				408,618
b) Debentures and loans	946,738				688,440
c) Sundry loans	33,719				54,203
		1,440,335			1,151,261
4. Deposits with banks		31,945			3,402
5. Other investments		2,787			5,793
			4,362,097		4,138,088
IV. Deposits with ceding companies			4,284,142		3,576,498
				8,828,223	7,874,019

Liabilities in EUR thousand	2009			2008
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	92,237			92,237
		92,493		92,493
IV. Disposable profit		80,000		35,000
			587,281	542,281
B. Technical provisions				
I. Provision for unearned premiums				
1. Gross	233,548			211,835
2. Less: reinsurance ceded	36,649			35,961
		196,899		175,874
II. Life assurance provision				
1. Gross	3,847,215			3,089,513
2. Less: reinsurance ceded	1,083,868			675,890
		2,763,347		2,413,623
III. Provisions for outstanding claims				
1. Gross	4,413,631			4,263,148
2. Less: reinsurance ceded	688,197			720,803
		3,725,434		3,542,345
IV. Provision for bonuses and rebates				
1. Gross	98			1,738
2. Less: reinsurance ceded	26			43
		72		1,695
V. Equalisation reserve and similar provisions		765,433		711,396
VI. Other technical provisions				
1. Gross	35,938			44,944
2. Less: reinsurance ceded	5,013			10,924
		30,925		34,020
			7,482,110	6,878,953

Assets in EUR thousand	2009				2008
B. Receivables					
I. Accounts receivable arising out of reinsurance operations			459,341		365,754
from affiliated companies:					
355,448 (2008: 246,331)					
II. Other receivables			18,340		12,959
from affiliated companies:				477,681	378,713
5,812 (2008: 1,996)					
C. Other assets					
I. Current accounts with banks, cheques and cash in hand			5,549		14,932
II. Sundry assets			8,976		–
				14,525	14,932
D. Prepayments and accrued income					
I. Accrued interest and rent			73,285		79,498
II. Other accrued income			100		1
				73,385	79,499
				9,393,814	8,347,163

Liabilities in EUR thousand	2009			2008
C. Provisions for other risks and charges				
I. Provisions for pensions and similar obligations		19,625		18,382
II. Provisions for taxation		84,055		81,277
III. Other provisions		12,432		9,189
			116,112	108,848
D. Deposits received from retrocessionaires			1,185,023	785,465
E. Other liabilities				
I. Accounts payable arising out of reinsurance operations		21,323		28,791
to affiliated companies:				
7,841 (2008: 10,059)				
II. Miscellaneous liabilities		1,565		1,776
from			22,888	30,567
taxes:				
401 (2008: 331)				
F. Accruals and deferred income			400	1,049
			9,393,814	8,347,163

Profit and loss account

Figures in EUR thousand	2009			2008
	1.1.–31.12.			1.1.–31.12.
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross written premiums	2,558,076			2,365,093
b) Retrocession premiums	567,078			562,375
		1,990,998		1,802,718
c) Change in the gross provision for unearned premiums (+/-)	(24,056)			(486)
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	1,395			(4,703)
		(22,661)		(5,189)
			1,968,337	1,797,529
2. Allocated investment return transferred from the non-technical account, net of retrocession			78,977	78,770
3. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	1,650,730			1,317,714
bb) Retrocessionaires' share	316,380			290,714
		1,334,350		1,027,000
b) Change in provisions for outstanding claims				
aa) Gross	(170,825)			(254,251)
bb) Retrocessionaires' share	(44,265)			(34,839)
		(215,090)		(289,090)
			1,549,440	1,316,090
4. Change in other technical provisions, net of retrocession				
a) Net life assurance provision		(27,799)		(144,098)
b) Other net technical provisions		2		935
			(27,797)	(143,163)
5. Bonuses and rebates, net of retrocession			(1,356)	1,561
6. Operating expenses, net of retrocession				
a) Gross acquisition expenses		590,963		529,558
b) Less: commissions and profit commissions received on retrocession		122,138		153,166
			468,825	376,392
7. Other technical charges, net of retrocession			2,325	1,877
8. Subtotal			283	37,216
9. Change in the equalisation reserve and similar provisions			(54,037)	29,860
10. Net technical result			(53,754)	67,076

Figures in EUR thousand	2009				2008
	1.1.–31.12.				1.1.–31.12.
Balance brought forward:				–53,754	67,076
II. Non-technical account					
1. Investment income					
a) Income from participating interests		1,357			6,146
affiliated companies:					
1,357 (2008: 3,746)					
b) Income from other investments					
affiliated companies:					
53,458 (2008: 54,241)					
aa) Income from land and buildings, rights to land and buildings, leasehold	1,626				1,489
bb) Income from other investments	282,694				277,833
		284,320			279,322
c) Appreciation on investments		6,223			3,674
d) Gains on the realisation of investments		48,914			108,115
			340,814		397,257
2. Investment charges					
a) Investment management charges, including interest		30,980			37,794
b) Depreciation		14,815			34,584
extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB):					
5,762 (2008: 19,107)					
c) Losses on the realisation of investments		5,139			114,208
			50,934		186,586
			289,880		210,671
3. Allocated investment return transferred to the technical account			–91,342		–87,494
				198,538	123,177
4. Other income			43,609		22,589
5. Other charges			56,101		64,561
				–12,492	–41,972
6. Profit or loss on ordinary activities before tax				132,292	148,281
7. Taxes on profit and income			51,174		95,269
8. Other taxes			1,118		1,012
				52,292	96,281
9. Profit or loss for the financial year				80,000	52,000
10. Allocation to retained earnings: to the other retained earnings				–	17,000
11. Disposable profit				80,000	35,000

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).

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.

Derivative instruments were valued on a mark-to-market basis.

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.

Various models are used for the valuation of alternative investments allocated to fixed assets. In the case of leveraged loan funds and high yield funds, actually incurred defaults and expected losses are considered in relation to the fund volume. In this context allowance is further made for historical recovery rates. The same approach is also used as a basis for the valuation of credit opportunity funds and CLO equity positions. In these cases the established loss rates are additionally determined using factors that correspond to the individually expected effect of defaults on the fair value development of such investments.

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 2009 underwriting year is 29,6% 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.

E+S Rück calculates the run-off result of the previous year's provision for outstanding claims on an underwriting-year basis for systemic reasons; in other words, a loss event from 2009 affecting a treaty written in 2008 is recorded as a loss of the previous year. This approach regularly leads to the recognition of high run-off losses. In order to be able to assess the adequacy of the loss reserve according to cause, the regular premiums as well as commissions and other expenses associated with these treaties are recognised in addition to the run-off result. In 2009 this approach produced a marginally positive run-off of the previous year's loss reserve.

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.

Notes on assets

Figures in EUR thousand	2008	2009				
Change in asset items A.I. to A.III.	Book values 31.12.	Additions	Disposals	Write-ups	Depreciation	Book values 31.12.
A.I. Land and buildings, rights to land and buildings, leasehold	13,093	–	2	–	679	12,412
A.II. Investments in affiliated companies and participating interests						
1. Shares in affiliated companies	92,136	26,093	2,503	–	2,358	113,368
2. Loans to affiliated companies	40,000	–	–	–	–	40,000
3. Participating interests	14,204	2,000	–	–	–	16,204
4. Total A.II.	146,340	28,093	2,503	–	2,358	169,572
A.III. Other financial investments						
1. Shares, units in unit trusts and other variable-yield securities	197,377	525,015	620,695	2,602	4,121	100,178
2. Bearer debt securities and other fixed-income securities	2,780,255	1,680,485	1,669,786	1,912	6,014	2,786,852
3. Other loans						
a) Registered debt securities	408,618	72,053	20,793	–	–	459,878
b) Debentures and loans	688,440	389,615	131,317	–	–	946,738
c) Sundry loans	54,203	–	20,000	–	484	33,719
4. Deposits with banks	3,402	28,543	–	–	–	31,945
5. Other	5,793	–	2,772	925	1,159	2,787
6. Total A.III.	4,138,088	2,695,711	2,465,363	5,439	11,778	4,362,097
Sum total	4,297,521	2,723,804	2,467,868	5,439	14,815	4,544,081

Land and buildings and rights to land and buildings

As at 31 December 2009, the company owned a developed site in Leipzig. The company also owned a share worth EUR 2,522 thousand in a developed site in Frankfurt/Main as well as two shares worth altogether EUR 9,008 thousand in developed sites in Hannover, of which one property is for own use (book value: EUR 7,797 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 in Germany					
Hannover Re Euro RE Holdings GmbH Cologne/Germany	50.00	EUR	28,462	EUR	(449)
Hannover Euro Private Equity Partners III GmbH & Co. KG Cologne/Germany	40.98	EUR	53,143	EUR	(2,265)
holds 100.00% of the shares in: HEPEP III Holding GmbH Cologne/Germany		EUR	10,170	EUR	(690)
Hannover Euro Private Equity Partners IV GmbH & Co. KG Cologne/Germany	36.76	EUR	56,499	EUR	(14,532)
Hannover Euro Private Equity Partners II GmbH & Co. KG Cologne/Germany	35.21	EUR	14,521	EUR	4,210
holds 100.00% of the shares in: HEPEP II Holding GmbH Cologne/Germany		EUR	8,461	EUR	(470)
Hannover Re Euro PE Holdings GmbH & Co KG Cologne/Germany	25.00	EUR	16,648	EUR	(1,333)
Companies resident abroad					
Penates A., Ltd. Tortola/British Virgin Islands	26.82	USD	145,660	USD	39,676
Participations					
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover/Germany	20.00	EUR	63,759[1]	EUR	2,215[1]

1 Financial year ending 31 December 2008

Other notes on investments

Assets with a balance sheet value of EUR 49,847 (EUR 47,045) 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 221 (EUR 205) 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 in 2009 using the gross rental method.

Income values were determined for shares in affiliated companies and participating interests. 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		2009		
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	12,412	25,422	13,010
A.II.	Investments in affiliated companies and participating interests			
	1. Shares in affiliated companies	113,368	113,633	265
	2. Loans to affiliated companies	40,000	42,166	2,166
	3. Participating interests	16,204	16,305	101
	4. Total A.II.	169,572	172,104	2,532
A.III.	Other investments			
	1. Shares, units in unit trusts and other variable-yield securities	100,178	133,953	33,775
	2. Bearer debt securities and other fixed-income securities	2,786,852	2,877,153	90,301
	3. Other loans			
	a) Registered debt securities	459,878	477,125	17,247
	b) Debentures and loans	946,738	967,286	20,548
	c) Sundry loans	33,719	33,625	–94
	4. Deposits with banks	31,945	31,945	–
	5. Other investments	2,787	2,787	–
	6. Total A.III.	4,362,097	4,523,874	161,777
Sum total		**4,544,081**	**4,721,400**	**177,319**

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	2009	2008
Receivables from reinsured pension schemes	11,949	10,116
Receivables from affiliated companies	5,812	1,996
Interest and rent due	336	689
Receivables from the revenue authorities	71	86
Other receivables	172	72
Total	**18,340**	**12,959**

Sundry assets

The sundry assets relate to tax assets amounting to EUR 8,976 thousand in the year under review.

Accruals and deferred income

Figures in EUR thousand	2009	2008
Accrued interest and rent	73,285	79,498
Other	100	1
Total	**73,385**	**79,499**

Notes on liabilities

Subscribed capital

The subscribed capital of the company amounted to EUR 42,622 thousand as at 31 December 2009. 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 par value of the subscribed capital.

Provision for unearned premiums

Figures in EUR thousand	2009		2008	
Insurance line	gross	net	gross	net
Fire	27,154	25,495	25,100	23,558
Casualty	38,620	35,934	32,171	29,313
Accident	8,462	7,345	9,046	5,872
Motor	26,686	25,280	25,915	24,536
Aviation	22,894	20,666	23,082	20,995
Life	45,806	26,361	46,126	29,584
Other lines	63,926	55,818	50,395	42,016
Total	**233,548**	**196,899**	**211,835**	**175,874**

Life assurance provisions

Figures in EUR thousand	2009		2008	
Insurance line	gross	net	gross	net
Accident	719	257	696	217
Life	3,842,297	2,758,891	3,084,277	2,408,866
Other lines	4,199	4,199	4,540	4,540
Total	**3,847,215**	**2,763,347**	**3,089,513**	**2,413,623**

Provisions for outstanding claims

Figures in EUR thousand	2009		2008	
Insurance line	gross	net	gross	net
Provision for reimbursements and surrenders (except annuities)				
Fire	151,098	136,123	141,959	127,688
Casualty	1,577,560	1,404,549	1,409,943	1,219,967
Accident	115,137	77,365	125,794	73,852
Motor	1,490,333	1,260,650	1,503,122	1,261,360
Aviation	259,955	184,342	247,872	171,012
Marine	180,670	158,983	198,311	177,725
Life	107,652	86,807	144,020	124,134
Other lines	430,537	333,024	410,174	298,306
	4,312,942	3,641,843	4,181,195	3,454,044
Separate value adjustment on retrocessions	–	9,945	–	22,986
	4,312,942	3,651,788	4,181,195	3,477,030
Provision for annuities				
Casualty	5,003	4,616	4,422	4,089
Accident	16,517	12,354	13,348	10,294
Motor	79,169	56,676	64,183	50,932
	100,689	73,646	81,953	65,315
Total	**4,413,631**	**3,725,434**	**4,263,148**	**3,542,345**

Equalisation reserve and similar provisions

Figures in EUR thousand	2009			
Insurance line	Position at 1.1.	Addition	Withdrawal and release	Position at 31.12.
Equalisation reserve				
Fire	122,987	12,409	4,005	131,391
Casualty	144,921	–	30,717	114,204
Accident	6,860	5,050	–	11,910
Motor	195,810	28,735	–	224,545
Aviation	46,399	4,586	–	50,985
Marine	499	15,468	–	15,967
Other lines	160,232	17,516	1,181	176,567
	677,708	83,764	35,903	725,569
Provisions which are similar to the equalisation reserve – major risks				
Fire	17,987	2,879	–	20,866
Casualty	5,637	2,109	–	7,746
Accident	115	96	–	211
Motor	16	11	–	27
Aviation	–	1	–	1
Marine	501	3	–	504
Other lines	9,432	1,078	1	10,509
Total	**711,396**	**89,941**	**35,904**	**765,433**

Other technical provisions

Figures in EUR thousand	2009		2008	
Type of provision	gross	net	gross	net
Profit commission	36,263	31,254	45,404	34,485
Road accident victims' assistance	69	62	24	18
Premium cancellation	1	3	5	5
Commissions	(395)	(394)	(489)	(488)
Total	35,938	30,925	44,944	34,020

Technical provisions – total

Figures in EUR thousand	2009		2008	
Insurance line	gross	net	gross	net
Fire	333,468	316,804	313,317	297,504
Casualty	1,756,572	1,579,785	1,609,362	1,415,678
Accident	153,975	110,449	158,360	99,666
Motor	1,826,868	1,573,265	1,795,799	1,539,375
Aviation	339,735	258,577	322,970	240,807
Marine	199,703	177,155	201,867	180,477
Life	3,996,795	2,873,098	3,275,121	2,563,284
Other lines	688,747	583,032	645,778	519,176
	9,295,863	7,472,165	8,322,574	6,855,967
Separate value adjustment on retrocessions	–	9,945	–	22,986
Total	**9,295,863**	**7,482,110**	**8,322,574**	**6,878,953**

Provisions for other risks and charges

Figures in EUR thousand	2009	2008
Provisions for pensions and similar liabilities	19,625	18,382
Provisions for taxation	84,055	81,277
Sundry provisions		
Provisions for outstanding payments	6,969	3,735
Provisions for currency risks	1,827	1,416
Provisions for partial retirement	1,513	1,401
Provisions for annual accounts costs	1,000	1,023
Provisions for suppliers' invoices	822	838
Provisions for costs of legal action	113	170
Provisions for litigation risks	–	327
Other provisions	188	279
	12,432	9,189
Total	**116,112**	**108,848**

Miscellaneous liabilities

Figures in EUR thousand	2009	2008
Liabilities from advance payments	412	953
Liabilities in respect of the revenue authorities	401	331
Liabilities to banks	366	–
Liabilities from land and buildings	262	292
Other liabilities	124	200
Total	**1,565**	**1,776**

Deferred items

Figures in EUR thousand	2009	2008
Disagio	393	1,042
Other accruals and deferred income	7	7
Total	**400**	**1,049**

Notes on the profit and loss account

Figures in EUR thousand	2009	2008	2009	2008	2009	2008	2009	2008
	Gross written premiums		Gross premiums earned		Net premiums earned		Technical result for own account	
Fire	154,678	137,553	152,476	138,013	128,961	115,726	13,175	38,974
Casualty	368,778	268,883	361,614	287,467	325,393	255,896	(35,120)	50,722
Accident	102,476	86,366	103,195	87,550	62,068	50,377	1,334	2,988
Motor	391,330	376,258	389,355	360,397	340,028	302,301	(32,504)	(61,049)
Aviation	81,354	68,335	81,237	66,197	60,507	42,750	3,788	11,767
Marine	71,381	71,766	71,381	71,766	60,494	46,265	(8,850)	(3,061)
Other lines	405,177	349,418	391,583	346,343	322,271	274,906	(20,634)	(15,246)
Total property and casualty insurance	1,575,174	1,358,579	1,550,841	1,357,733	1,299,722	1,088,221	(78,811)	25,095
Life	982,902	1,006,514	983,179	1,006,872	668,615	709,308	25,057	41,981
Total insurance business	**2,558,076**	**2,365,093**	**2,534,020**	**2,364,605**	**1,968,337**	**1,797,529**	**(53,754)**	**67,076**

Total insurance business

Figures in EUR thousand	2009	2008
Gross claims incurred	1,821,555	1,571,965
Gross operating expenses	590,963	529,558
Reinsurance balance	171,430	158,037

Expenses for personnel

Figures in EUR thousand	2009	2008
1. Wages and salaries	22,917	19,103
2. Social security payments and expenses for welfare	3,062	2,882
3. Expenses for old-age pension scheme	752	1,609
4. Total expenses	**26,731**	**23,594**

Expenses for investments

Figures in EUR thousand	2009	2008
Shares, units in unit trusts	26,221	154,680
Fixed-income securities	6,921	11,880
Administrative expenses	5,724	7,859
Registered bonds and other loans	4,684	788
Deposit and bank fees	2,706	3,526
Affiliated companies	2,358	–
Other investments	1,184	2,091
Land and buildings	1,136	1,744
Options contracts	–	3,059
Deposits	–	959
Total	**50,934**	**186,586**

Other income

Figures in EUR thousand	2009	2008
Cancellation of value adjustments	29,280	6,879
Profit from services	8,172	5,706
Exchange rate gains	3,033	6,030
Release of non-technical provisions	994	1,660
Allocated investment return	727	1,178
Reinbursement of expenses	433	585
Other income	970	551
Total	**43,609**	**22,589**

Other expenses

Figures in EUR thousand	2009	2008
Deposit interest	16,302	11,871
Separate value adjustment on accounts receivable and retrocessions	12,751	27,943
Interest pursuant to § 233a AO (Fiscal Code)	11,100	3,409
Exchange rate losses	9,741	13,044
Expenses for the whole company	8,305	9,023
Expenses from services	8,172	5,706
Interest charges on old-age pension scheme	974	892
Interest charges on reinsurance operations	341	795
Payments for reimbursement of expenses	218	33
Expenses for letters of credit	111	139
Other interest and expenses	451	430
	68,466	73,285
Less: Technical interest	12,365	8,724
Total	**56,101**	**64,561**

Other information

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

The taxes relate solely to the profit or loss on ordinary activities.

The average number of employees was 261 in the year under review, of whom 105 were male and 156 female.

The emoluments paid to the Supervisory Board in the year under review totalled EUR 285 thousand, those to the Advisory Board EUR 131 thousand, those to the Executive Board EUR 1,346 thousand and those to former members of the Executive Board EUR 215 thousand. Pension payments to former members of the Executive Board and their surviving dependants amounted to EUR 534 thousand. The amount of EUR 5,508 thousand was shown on the liabilities side for current pensions of former members of the Executive Board; an amount of EUR 40 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 names of the members of the Supervisory Board and Executive Board are listed on pages 6 to 8.

The list of shareholdings is provided on page 50.

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.

Of the total fees paid to the auditor, EUR 398 thousand (EUR 238 thousand) related to the audit of the financial statements, EUR 86 thousand (EUR 113 thousand) to other consulting services, EUR 35 thousand (EUR 21 thousand) to tax consulting and EUR 1 thousand (EUR 18 thousand) to other services.

On the valuation of alternative investments please see page 46.

Fixed-income securities with a book value of EUR 466,721 thousand (EUR 87,221 thousand) were reclassified from current assets to fixed assets.

Of the units in unit trusts totalling EUR 90,042 thousand (EUR 186,821 thousand) shown under the “Other investments” in the item “Shares, units in unit trusts and other variable-yield securities”, an amount of EUR 89,764 thousand (EUR 177,358 thousand) was allocated to fixed assets. The fair value amounts to EUR 123,817 thousand (EUR 191,581 thousand). Based on the assumption that the impairments will not be permanent, write-downs of EUR 262 thousand (EUR 8,181 thousand) were not taken on a portfolio with a book value of EUR 18,172 thousand (EUR 52,517 thousand). This portfolio not written down to fair values contains exclusively unleveraged structures. In order to determine the sustainability of the book values a method was developed in which the real historical default and recovery rates derived from the market in question are considered for all individual positions within the funds. If the sustainable value of the assets established on the basis of this calculation is lower than the amortised cost, the position in question is written down to this value unless the fair value is higher than the calculated sustainable value. In this case a write-down is taken to fair value. As a result, write-downs to fair value were not taken.

Of the bearer debt securities and other fixed-income securities, securities with a book value of EUR 1,183,757 thousand (EUR 848,834 thousand) and a fair value of EUR 1,234,724 thousand (EUR 841,643 thousand) were allocated to fixed assets. Write-downs of EUR 4,672 thousand (EUR 21,953 thousand) were not taken on a portfolio with a book value of EUR 22,426 thousand (EUR 439,792 thousand) since a permanent impairment is not anticipated. These holdings that were not written down to fair value relate principally to CDOs/CLOs, comprised of both first loss positions and mezzanine tranches (hybrid products). In order to determine the sustainability of the book values, a method was developed in which the real historical default and recovery rates derived from the market in question as well as the maturities and any inherent leveraging are considered for all individual positions within the structures. If the sustainable value of the assets established on the basis of this calculation is lower than the amortised cost, the position in question is written down to this value, unless the fair value is higher than the established sustainable value. In this case a write-down to fair value is taken. As a result, no write-downs were taken on first loss positions or mezzanine tranches.

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.

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).

Outstanding capital commitments with respect to shares in affiliated companies and special investments exist in the amount of EUR 161,845 thousand (EUR 118,049 thousand).

There were no further contingent liabilities or other financial commitments that are not evident from the annual balance sheet.

Information on § 27 Paras. 3 and 4 of the Regulation on the Presentation of Insurance Company Accounts (RechVersV)

Insurance contracts with the HDI-Gerling property/casualty group are booked with a time delay of one quarter. They involve a premium volume of EUR 8.5 million and a net underwriting result of EUR 0.6 million, which is recognised after a time delay.

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 further commitments with a remaining duration of more than five years.

Events after the balance sheet date

Hannover Re has placed another participation in (natural) catastrophe risks on the capital market. The "K6" transaction launched in 2009 was increased by the maximum targeted amount of USD 152 million to a total volume of USD 329 million. We shall share in this business under the existing retrocession arrangement.

Hannover, 24 February 2010

Executive Board

Wallin	Arrago	Dr. Becke
Gräber	Dr. Pickel	Vogel

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 2009. 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, 25 February 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

Husch	Busch
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 2009 financial year the position and development of the company. We advised the Executive Board on the direction of the company and monitored the management of business on the basis of written and verbal reports from the Executive Board. The Supervisory Board held four meetings in order to adopt the necessary resolutions after appropriate discussion. In addition, the Standing Committee met on three occasions. A resolution was adopted by a written procedure with respect to one matter requiring attention at short notice. We also 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 three meetings of the Supervisory Board the Executive Board presented to us the profit expectations for the 2009 financial year. In this context the repercussions of the international financial crisis on the year-end result and the considerable elements of uncertainty still surrounding capital markets were – as had been the case in the previous year – a focus of our deliberations. Within the scope of the review of the investment guidelines, the revisions concentrated in particular on the distortions on the capital market caused by the subprime crisis and the associated fundamental revaluations of securities and investments covered by securities. The formation of a Finance and Audit Committee should also be mentioned in this connection. The operational planning for 2010 and the medium-term planning until the year 2014 were also the subject of intensive debate. The profitability of the joint underwriting arrangements with Hannover Re, the development and status of the European Embedded Value of the company's life and health reinsurance portfolio – also in comparison with competitors – and the relevance of ratings to reinsurance business were similarly discussed at length by the Supervisory Board. No audit measures pursuant to § 111 Para. 2 German Stock Corporation Act were required in the 2009 financial year.

In addition, the Supervisory Board revisited on several occasions the Rules of Procedure for the Executive Board and in this context extended the canon of measures and transactions subject to approval – for example, in connection with the agreement of "Change of Control" clauses. A duty to notify the agreement of particularly significant downgrade clauses was also implemented. With an eye to § 87 Para. 1 Sentence 1 German Stock Corporation Act as amended by the Act on the Adequacy of Management Board Remuneration, the full Supervisory Board additionally undertook for the first time a review of the fixed remuneration of individual members of the Executive Board. Furthermore, the personnel changes on the company's Executive Board in the year under review were also the subject of intense discussion.

The Chairman of the Supervisory Board was constantly advised by the Chairman of the Executive Board of major developments and impending decisions as well as of the risk situation within the company. 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 Articles of Association and Rules of Procedure.

The Supervisory Board selected the auditor for the 2009 annual financial statements; the Chairman of the Supervisory Board issued the specific audit mandate. In addition to the usual audit tasks, the auditors focused particularly on the methodology and adequacy of estimation systems on the underwriting side, the calculation and impairment of deferred taxes, risk reporting in the management report and the balance sheet recognition of the acquisition of entire insurance portfolios. 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. This audit did not give rise to any objections; an unqualified audit certificate was therefore issued. In conclusion, after the Finance and Audit Committee and the Supervisory Board had examined and discussed the annual financial statements and the management report and had received answers to a number of questions, we 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 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 2009.

There were no changes in the composition of the Supervisory Board in the year under review. On 5 August 2009 the Supervisory Board elected Mr. Haug and Dr. Querner as members of the newly formed Finance and Audit Committee for the remaining term of the existing Supervisory Board. Mr. Haas belongs to the committee ex officio by virtue of his function as Chairman of the Supervisory Board. Dr. Benedetti resigned his seat on the company's Advisory Board effective 16 February 2009. The Supervisory Board expressed its appreciation for his part in the company's development and thanked Dr. Benedetti for his many years of constructive work on the Advisory Board.

Mr. Wilhelm Zeller retired on 30 June 2009 at the age of sixty-five after leading the company for more than thirteen years as its Chief Executive Officer. The Supervisory Board thanked Mr. Zeller for his extraordinarily successful work, which had been instrumental in shaping the development of the company. At an extraordinary meeting of the Supervisory Board Mr. Ulrich Wallin was appointed as the new Chief Executive Officer of the company with effect from 1 July 2009. At the same meeting the decision was taken to terminate the mandate of Dr. Elke König as a member of the company's Executive Board on the most amicable terms effective 31 March 2009. The Supervisory Board expressed its thanks and appreciation to Dr. König for her considerable personal dedication and her successful work on behalf of the company. 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, 8 March 2010

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% to 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.

Calendar of events in 2010

3/4 February 2010

Round Table
"Personal Accident Insurance"

15 April 2010

Expert conference "Rights of Recourse of the Social Insurance Institutions. Settlement Practice in Greece, Italy and the United Kingdom"

29/30 April 2010

Reinsurance Seminar I:
Basic Reinsurance Know-how

31 May/1 June 2010

Round Table
"Property Insurance"

2 June 2010

HANNOVER FORUM

2 June 2010

Examination Concert

17/18 June 2010

Reinsurance Seminar II:
Specialist Reinsurance Topics

6/7 September 2010

Round Table
"General Liability Insurance"

16/17 September 2010

Reinsurance Seminar III:
Development of a Reinsurance Programme

8 October 2010

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