

somewhat  
different

Interim Report | **3/2008**

*hannover* **re**<sup>®</sup>

# KEY FIGURES

## of the Hannover Re Group

Figures in EUR million	2008					2007		
	1.4.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.	31.12.
<b>Results</b>								
Gross written premium	4,144.6	1.961.5	+1.4%	6.106.0	-5.0%	1,934.8	6,426.3	
Net premium earned	3,415.4	1.746.4	-2.2%	5.161.8	-6.0%	1,785.9	5,491.1	
Net underwriting result	(36.3)	(195.9)		(232.2)	+81.6%	(29.5)	(127.9)	
Net investment income	445.1	(74.7)		370.4	-56.7%	269.3	855.5	
Operating result (EBIT)	400.2	(367.7)		32.5	-95.2%	210.6	678.3	
Group net income	252.2	(395.0)		(142.8)		284.3	577.3	
<b>Balance sheet (as at the end of the quarter)</b>								
Policyholders' surplus	4,698.4			4,502.6	-15.0%			5,295.1
Total shareholders' equity	2,803.7			2,613.3	-22.0%			3,349.1
Minority interests	521.0			513.7	-10.3%			572.7
Hybrid capital	1,373.8			1,375.6	+0.2%			1,373.3
Investments (excl. funds held by ceding companies)	18,744.4			19,927.2	+0.6%			19,815.3
Total assets	37,247.0			38,683.5	+4.4%			37,068.4
<b>Share</b>								
Earnings per share (diluted) in EUR	2.09	(3.27)		(1.18)		2.36	4.79	
Book value per share in EUR	23.25			21.67	-22.0%		26.64	27.77
Dividend	–	–		–		–	–	277.4
Dividend per share in EUR	–	–		–		–	–	1.80+0.50 <sup>1)</sup>
Share price at the end of the period in EUR	31.35	25.71	(27.7%)	25.71	-27.7%	35.58	35.58	31.55
Market capitalisation at the end of the period	3,780.7			3,100.6	-27.7%		4,290.8	3,804.8
<b>Ratios</b>								
Combined ratio (non-life reinsurance) <sup>2)</sup>	98.4%	114.2%		103.6%		98.1%	100.9%	
Large losses as percentage of net premium earned (non-life reinsurance) <sup>3)</sup>	6.2%	23.8%		14.3%		3.4%	7.6%	
Retention	89.5%	87.2%		88.8%		87.9%	86.4%	
Return on investment (incl. funds held by ceding companies)	3.7%	-1.3%		2.0%		4.4%	4.7%	
EBIT margin <sup>4)</sup>	11.7%	-21.1%		0.6%		11.8%	12.4%	
Return on equity (annualised)	16.4%	-58.3%		-6.4%		36.8%	25.2%	

<sup>1)</sup> Bonus

<sup>2)</sup> Including expenses on funds withheld and contract deposits

<sup>3)</sup> Natural catastrophes and other major losses in excess of EUR 5 million gross for the Hannover Re Group's share

<sup>4)</sup> Operating profit (EBIT)/net premium earned



Wilhelm Zeller  
Chairman of the  
Executive Board

*Dear shareholders,  
Ladies and gentlemen,*

The crisis on international capital markets intensified in the third quarter on a previously undreamt-of scale. Difficulties at high-profile banks caused confidence in the financial markets to plummet; the markets were also rocked by the steps that had to be taken to rescue the largest insurance group in the United States. The relief packages assembled by governments in the major industrialised nations to restore lost confidence have hitherto enjoyed only limited success.

What are the implications of this global crisis for your company? Unlike the banks, Hannover Re is not faced with any liquidity or refinancing problems. However, as a major investor with an asset volume of some EUR 20 billion – around 8 percent of which was held in stocks up until 30 September – we too are of course impacted by the current turmoil on equity markets. Despite our conservative investment strategy – all companies belonging to the Hannover Re Group are governed by investment guidelines that limit exposure to individual issuers – we were compelled to take further significant write-downs in the third quarter, specifically on equity holdings. As a result, our investment income was more than halved. Since losses incurred on equities are not tax-deductible, the result for the first nine months is negative. We have provided you with advance information in this regard.

What does this mean for the full 2008 financial year? As you are aware, the conditions set for attainment of our profit target were twofold: firstly, that capital markets rally and, secondly, that the burden of catastrophe losses and major claims does not significantly exceed the expected level of 10 percent of net premium in non-life reinsurance. Neither of these conditions has been met: not only did capital markets fail to recover during the third quarter, they experienced another sharp deterioration; what is more, our burden of catastrophe losses is higher than expected. Consequently, we have indicated in an ad hoc announcement that on account of the current environment we shall not be able to achieve our originally envisaged profit target. For the fourth quarter – given a normal catastrophe loss experience – we consider a break-even result to be attainable.

That the long-term financial strength of your company remains robust despite the decline in earnings is also confirmed by the rating agency Standard & Poor's, which reaffirmed our very good rating of "AA-" with stable outlook after we had issued the profits warning.

With this in mind, we are well poised to profit from positive developments on the reinsurance markets. For it is the case that the crisis on capital markets also opens up opportunities for our company, as a reinsurer: the capital depletion suffered by primary insurers will lead to rising demand for reinsurance. Consequently, the market should bottom out more quickly than previously anticipated. Overall, we are looking to stable or slightly higher rates for our company. In certain subsegments we even anticipate price increases.

We are, incidentally, not the only ones to believe that your company is well positioned: in September Hannover Re was crowned "Reinsurance Company of the Year" by the highly respected UK trade magazine "The Review". Following on from 1998, 2001 und 2004, we are thus the only reinsurer to have received this distinction on four occasions.

I digress, however, and would like to turn my attention back to operational business in the third quarter: we are satisfied with the development of our *non-life reinsurance* business group – even though the burden of catastrophe losses, especially due to the severe hurricane "Ike", came in sharply higher than expected. Through targeted underwriting we are continuously extending the already broad diversification of our portfolio. We continue to transact non-life reinsurance business on an opportunistic basis guided solely by profitability considerations. The maxim of "Profit before volume" remains the overriding principle governing our actions.

The development of our second business group – *life and health reinsurance* – was also satisfactory from an underwriting standpoint, although premium growth fell short of expectations – not least due to the restraining effects of currency movements in the first half-year. In the medium term, however, we are standing by our ambitious goal of generating double-digit growth in the original currencies: the demographic trend in industrial nations as well as the growing urban middle class in threshold markets offer a good foundation for dynamic growth. We are maintaining our active involvement in product development for seniors, a customer group whose importance is still underestimated in Germany. In addition, we are superbly positioned in our largest market – the United Kingdom – with our long-term orientation towards enhanced annuities as well as the reinsurance of pension funds. In the United States, too, business with health covers for seniors is faring very well. The growth markets of Asia also continue to be attractive for our company.

As I reported at the outset, our *investment income* of course reflects the upheavals on international capital markets. Substantial falls in share prices necessitated significant write-downs in the third quarter, while losses on fixed-income securities remained within manageable bounds. This was due not least to the broad diversification and high quality of the portfolio. In view of the prevailing market conditions, net investment income nevertheless contracted sharply.

The enormous turmoil on the international capital markets did not leave the Hannover Re share unscathed in the third quarter. Having stood its ground very well in the second quarter, it lost value particularly heavily in September. In October too, after massive liquidity problems came to light at a German bank, all financial stocks – hence including the Hannover Re share – were extremely hard hit. Following a period of recovery the share lost further ground due to our profits warning. In spite of everything, it is my expectation that when equity markets regain their composure the profit potential inherent in your company will again be appropriately recognised.

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

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'W. Zeller', is positioned above the printed name.

Wilhelm Zeller  
Chairman of the Executive Board

# BOARDS AND OFFICERS

## of Hannover Re

### Supervisory Board (Aufsichtsrat)

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

### Executive Board (Vorstand)

Wilhelm Zeller Burgwedel	Chairman
André Arrago Hannover	
Dr. Wolf Becke Hannover	
Jürgen Gräber Ronnenberg	
Dr. Elke König Hannover	
Dr. Michael Pickel Isernhagen	
Ulrich Wallin Hannover	

<sup>1)</sup> Member of the Standing Committee  
<sup>2)</sup> Member of the Balance Sheet Committee  
<sup>3)</sup> Member of the Nomination Committee  
<sup>4)</sup> Staff representative

## Business development

The underwriting experience in non-life reinsurance business as at 30 September 2008 was adversely affected by an above-average burden of catastrophe losses. In addition, the crisis on financial markets led to a sharp drop in the market value of investments – including those held in our portfolio.

Prompted by the withdrawal from specialty business effective 31 May 2007 and weak exchange rates, especially affecting the US dollar and pound sterling in the first half-year, gross written premium in total business contracted by 5.0% as at 30 September 2008 to EUR 6.1 billion (EUR 6.4 billion). At constant exchange rates the premium volume would have declined by 1.3%. The level of retained premium increased to 88.8% (86.4%) as a consequence of considerable savings on the costs of our own protection covers as well as reduced proportional cessions; net premium earned decreased by 6.0% to EUR 5.2 billion (EUR 5.5 billion).

The present turmoil on the international capital markets – especially the significant falls in share prices – has taken an appreciable toll on our investment income. The inflow of cash from the technical account, however, more than made up for the price declines, and the volume of assets under own management therefore showed modest growth. Ordinary income remained almost unchanged at EUR 627.5 million (EUR 635.3 million). Interest on deposits was also roughly on a par with the comparable period of the previous

year at EUR 161.8 million (EUR 166.6 million). Investment income nevertheless suffered a clearly adverse impact, especially due to write-downs on equities totalling EUR 355.3 million. Further write-downs of EUR 77.3 million were taken on fixed-income securities. Realised gains of EUR 77.0 million on balance have so far failed to match up to the previous year (EUR 104.2 million). Overall, net investment income therefore fell sharply to EUR 370.4 million (EUR 855.5 million).

The operating profit (EBIT) consequently contracted by 95.2% as at 30 September 2008 to EUR 32.5 million (EUR 678.3 million). Group net income fell by 124.7% to EUR -142.8 million (EUR 577.3 million); it should, however, be borne in mind that the comparable period of the previous year was assisted by a positive special effect from corporate tax reform amounting to EUR 179.0 million. The performance as at 30 September 2008 was also adversely impacted by the fact that losses on equities are not tax-deductible and a tax load in excess of EUR 100 million was incurred – even though the pre-tax result was negative. Earnings per share came in at EUR -1.18 (EUR 4.79).

Shareholders' equity decreased by EUR 735.8 million compared to the level of 31 December 2007 to stand at EUR 2.6 billion. The book value per share consequently also slipped by 22.0% to EUR 21.67. The policyholders' surplus, comprised of shareholders' equity, minority interests and hybrid capital, totalled EUR 4.5 billion (EUR 5.3 billion).

## Non-life reinsurance

The development of our non-life reinsurance business was satisfactory overall. Although softening tendencies were still apparent on some major markets, conditions are largely acceptable and in most instances we obtained prices that were commensurate with the risks.

Active cycle management and a profit-oriented underwriting policy continue to be the hallmarks of our underwriting, and accordingly we focus on those segments that offer the highest profitability – rather than the largest volume. We scaled back business that no longer satisfied these profit-

ability standards and reshuffled our portfolio in favour of other segments – such as German business, the worldwide credit and surety line and niche areas such as agricultural covers.

Having reduced our North American casualty business in recent years due to the marked pressure on rates, we have now been able to obtain rate increases running into the double digits in some subsegments – hence prompting us to step up our involvement again. Prices for catastrophe risks remain adequate.

Our so-called retakaful business continues to fare well: having already got off to a good start in 2007, our Bahrain-based subsidiary can look forward to even brighter business prospects in 2008. The vigorous economic growth in South-east Asia and the Near East is fostering consistent growth in demand for Sharia-compliant products.

We are similarly satisfied with developments on the Latin American insurance market. In the area of agricultural risks our strategy is geared to acquiring additional market shares.

Curtailed by exchange rate movements, particularly in the first half-year, the gross premium income booked by our

non-life reinsurance business group contracted to EUR 3.8 billion (EUR 4.1 billion) as at 30 September 2008, a fall of 7.6% compared to the same period of the previous year. At constant exchange rates, especially against the US dollar, the decline would have been 1.7%. The withdrawal from specialty business was another factor in the lower premium volume. The level of retained premium increased from 83.9% to 88.4% as a consequence of significant savings on our own protection covers as well as reduced proportional cessions. Net premium earned fell by 8.5% to EUR 3.1 billion (EUR 3.4 billion).

#### Key figures for non-life reinsurance

Figures in EUR million	2008			2007			
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	2,656.2	1,135.7	-0.2%	3,791.9	-7.6%	1,137.8	4,102.3
Net premium earned	2,082.6	1,020.6	-4.0%	3,103.2	-8.5%	1,062.9	3,391.3
Underwriting result	23.6	(154.8)		(131.2)		5.8	(50.3)
Net investment income	270.4	(127.3)		143.1	-75.6%	174.1	586.0
Operating result (EBIT)	288.2	(374.2)		(86.0)		120.7	442.2
Group net income	195.7	(373.7)		(178.0)		141.5	382.9
Earnings per share in EUR	1.62	(3.10)		(1.48)		1.17	3.17
Retention	89.4%	86.1%		88.4%		85.4%	83.9%
Combined ratio <sup>1)</sup>	98.4%	114.2%		103.6%		98.1%	100.9%

<sup>1)</sup> Including expenses on funds withheld and contract deposits

On the claims side the third quarter was especially notable for the repercussions of hurricane "Ike", which produced a net strain for our company of EUR 220.9 million; hurricane "Gustav", on the other hand, took a net toll of just EUR 31.6 million on our account. Further losses of altogether EUR 64.3 million were incurred from two hailstorm events in Germany in the second quarter. Amounting to EUR 444.9 million, the total net burden of catastrophe losses and major claims therefore clearly surpassed the comparable period of the previous year (EUR 259.2 million). This is equivalent to 14.3 % of net premium in non-life reinsur-

ance, hence exceeding the expected level of 10%. As a result, the combined ratio reached 103.6% (100.9%).

The net underwriting result in non-life reinsurance deteriorated to EUR -131.2 million after EUR -50.3 million in the corresponding period of the previous year. Owing to the decline in investment income, the operating result (EBIT) fell by a substantial 119.4% to EUR -86.0 million (EUR 442.2 million). Group net income contracted sharply to EUR -178.0 million (EUR 382.9 million). Earnings per share stood at EUR -1.48 (EUR 3.17).



## Life and health reinsurance

Our product range in life and health reinsurance encompasses five business segments: financial solutions, banc-assurance, new markets, multinational insurance clients and conventional risk-oriented reinsurance. These five pillars ensure that we enjoy a diversified portfolio – with respect to both regions and products – and vigorous organic growth over the medium term.

With an eye to the demographic trend in industrialised nations, the retirement of the US baby boomer generation and the rapid emergence of an urban middle class in many developing and threshold countries, we continue to take a favourable view of the business prospects in life and health reinsurance.

The United Kingdom – the second-largest reinsurance market in the world – retains its exceptional importance for

our company: it accounts for around a third of our total premium volume in life and health reinsurance. Risk-oriented reinsurance covers in this market remain fiercely competitive, and we have therefore scaled back our acceptances of such products. We continue to regard ourselves as the market-leading reinsurer for new business in the area of enhanced annuities. In this subsegment, as with the reinsurance of pension funds, we still see very good opportunities for further profitable expansion.

We also have a close eye on the high-growth markets of China and South Korea, where we opened local branches this year in Shanghai and Seoul respectively. In the promising Indian market, too, we are well positioned through our cooperation with the leading domestic reinsurer.

### Key figures for life and health reinsurance

Figures in EUR million	2008			2007			
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	1,490.1	825.3	+3.0%	2,315.4	-0.8%	801.4	2,333.7
Net premium earned	1,332.8	725.8	+0.4%	2,058.6	-2.0%	723.0	2,099.7
Net investment income	154.8	51.5	-38.5%	206.3	-13.8%	83.7	239.2
Operating profit (EBIT)	87.2	5.9	-92.5%	93.2	-55.4%	79.6	208.9
Group net income	65.0	(3.5)		61.4	-69.7%	112.7	202.6
Earnings per share in EUR	0.54	(0.03)		0.51	-69.7%	0.93	1.68
Retention	89.6%	88.8%		89.3%		90.9%	90.5%
EBIT margin <sup>1)</sup>	6.5%	0.8%		4.5%		11.0%	9.9%

<sup>1)</sup> Operating result (EBIT)/net premium earned

Structurally induced premium stagnation is the hallmark of the German market; the impetus injected in the current year by the final step increase for Riester pensions will be of limited duration. Our product development activities are geared heavily towards the coverage needs of senior citizens, a financially strong sector of the population still neglected by the insurance industry.

We also remain actively involved in the development of the Islamic insurance markets: not only do we support our clients with the design of insurance products according to Islamic principles, we also advise them on marketing and sales methods. Through our subsidiary Hannover ReTakaful in Bahrain we are able to cover the entire range of "family takaful" products.

Owing to the restraining effects of exchange rate movements, gross written premium contracted by 0.8% as at 30 September 2008 to EUR 2.3 billion (EUR 2.3 billion); at constant exchange rates we would have reported growth of 6.1%. The level of retained premium slipped marginally to 89.3% (90.5%); net premium earned decreased by 2.0% to EUR 2.1 billion (EUR 2.1 billion).

The sharp decline of 55.4% in the operating result (EBIT) as at 30 September 2008 to EUR 93.2 million (EUR 208.9 million) resulted largely from non-recurring positive special

effects in the corresponding period of the previous year – attributable to the release of reserves that were no longer required – as well as from the required fair value measurement of investments deposited with clients.

The EBIT margin of 4.5% is therefore currently below the target corridor of 6.5% to 7.5%. In view of the aforementioned factors Group net income shrank by 69.7% to EUR 61.4 million (EUR 202.6 million), equivalent to earnings per share of EUR 0.51 (EUR 1.68).

## Investments

After the sharp falls in value already seen on international stock markets in the first half of the year, the downward slide continued – most strikingly in September – and indeed gathered pace. The deteriorating situation was attributable

to the liquidity and capital crunch triggered in the banking sector by developments on the US real estate market as well as the associated crisis in confidence on financial markets.

### Net investment income

Figures in EUR million	2008					2007	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Ordinary investment income <sup>1)</sup>	407.9	219.7	+0.1%	627.5	-1.2%	219.5	635.3
Results from participation in associated companies	4.1	0.3	-91.5%	4.4	-33.0%	3.1	6.6
Realised gains/losses	102.3	(25.3)		77.0	-26.1%	6.6	104.2
Impairments on investments <sup>2)</sup>	130.6	(302.4)		433.0		12.8	13.4
Unrealised gains/losses <sup>3)</sup>	(15.1)	(18.3)		(33.4)		(3.0)	(3.1)
Investment expenses	25.8	8.1	37.2%	33.9	-16.6%	12.8	40.6
Net investment income from assets under own management	342.8	(134.1)	-166.8%	208.6	-69.7%	200.7	688.9
Net investment income from funds withheld	102.3	59.5	-13.3%	161.8	-2.9%	68.6	166.6
Net investment income	445.1	(74.7)	-127.7%	370.4	-56.7%	269.3	855.5

<sup>1)</sup> Excluding expenses on funds withheld and contract deposits

<sup>2)</sup> Including regular depreciation/impairments on real estate

<sup>3)</sup> Portfolio at fair value through profit or loss and trading

Both European government bonds and US Treasury securities saw appreciable yield decreases over a one-year time-frame. The change witnessed in the third quarter on the

European market was significant in our preferred duration ranges. On the US market, by contrast, the decline in yields slowed.

Unfortunately, the increasingly dramatic upheavals on capital markets in the third quarter also left a clear mark on our investment income. Thanks to a positive cash flow from the technical account, it is nevertheless gratifying to report that the portfolio of assets under own management grew to EUR 19.9 billion, a figure slightly higher than the level as at 31 December 2007 (EUR 19.8 billion). Ordinary income excluding interest on deposits remained almost unchanged at EUR 627.5 million (EUR 635.3 million), a testament to the fact that we are correct in pursuing an investment policy geared to generating stable ordinary income.

Although movements on bond markets led to a decrease in unrealised losses in our available-for-sale portfolio of fixed-income securities in the third quarter relative to the first half-year, total unrealised losses of EUR 283.9 million (EUR 103.4 million) remained. Unrealised gains on equities stood at EUR 7.3 million (EUR 191.0 million) due to the large volume of write-downs that had to be taken. A large portion of the realised gains of EUR 204.3 million (EUR 164.3 mil-

lion) can be attributed to the tactical shortening of durations in the US Dollar portfolios in the first quarter. This contrasted with realised losses of EUR 127.2 million (EUR 60.1 million). The considerable write-downs of altogether EUR 432.6 million (EUR 13.0 million) were due in very large measure to movements on the stock markets. Of the total write-downs that had to be taken, the equity portfolio alone accounted for an amount of EUR 355.3 million. The hedges on around one-fifth of our portfolio – which had similarly been put in place in the first quarter – nevertheless prevented even more extensive write-downs.

Primarily as a consequence of the aforementioned write-downs, net income from total investments decreased by 56.7% to EUR 370.4 million (EUR 855.5 million). This figure includes income from interest on deposits, which at EUR 161.8 million was somewhat lower than in the comparable period of the previous year (EUR 166.6 million) owing to exchange rate effects.

## Risk report

### Overall assessment of the risk situation

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

Despite these tools the global crisis on the international capital markets has adversely impacted Hannover Re's investment income. Overall, though, the write-downs taken on fixed-income securities – which make up by far the bulk of the asset portfolio – have remained relatively modest. Hannover Re has, however, been affected by the dramatic slump in share prices, and the extent to which it can decouple itself from these global developments – e.g. through the already implemented reduction in the equity allocation – is limited. Principally due to hurricanes "Gustav" and "Ike", the burden of catastrophe losses and major claims is also significantly higher than our expected level of 10% of net

premium in non-life reinsurance. In view of the depletion of capital resources – which has also made itself felt throughout the insurance industry – Hannover Re nevertheless expects to see rising demand for insurance protection and hence hardening of the markets.

Based on our currently available insights arrived at from a holistic analysis of the risk situation, we cannot discern any risks that could jeopardise the continued existence of our company in the short or medium term or have a significant, lasting effect on our assets, financial position or net income. Our fundamental remarks on risk management at Hannover Re contained in the Annual Report as at 31 December 2007 remain valid and provide detailed insights into organisational aspects and further risk management activities. Supplementary information on our risk management system, and in particular quantitative data on individual risks, is provided in Section 5 of the Notes to this report, "Management of technical and financial risks".

## Outlook

In *non-life reinsurance* prices and conditions are largely acceptable and commensurate with the risks. While the treaty renewals that took place as recently as July in the United States pointed to a softening market, the present crisis on financial markets should usher in a trend reversal in view of the worsening state of insurers' capital resources: rates back then were still falling by up to 10% in casualty business, whereas now double-digit percentage increases will probably be seen in the directors' and officers' (D&O) and product liability lines. In industrial property business, too, prices are likely to move higher.

In Germany major loss events – specifically winter storm "Emma" and hailstorms such as "Hilal" – will prompt increased demand for catastrophe covers. Rates in other catastrophe business remain adequate.

All in all, the situation on reinsurance markets is likely to improve appreciably, and it may therefore be assumed that the soft market has bottomed out. We do not expect to see any further softening of insurance terms and conditions. On account of our profit-oriented underwriting policy and very good diversification and thanks to our excellent rating, we are poised to profit disproportionately strongly from these upturns.

Our net premium in non-life reinsurance is expected to contract slightly due to the restraining effects of exchange rate movements.

Our business prospects in *life and health reinsurance* remain favourable. The increasing size of the upper levels of the age pyramid in industrial nations will continue to drive growth in annuity and health insurance for many years to come. Based on our superb worldwide positioning and diversification, we expect sustained favourable profitability; growth in premium volume will, however, be heavily dependent on exchange rate movements affecting the currencies of greatest relevance to our business, such as the pound sterling, US dollar and Australian dollar. With this in mind, we anticipate double-digit growth in the original currencies for 2008.

Traditional life reinsurance in the United Kingdom will face special challenges over the coming 12 to 18 months owing to the faltering real estate market; we do, however, see opportunities for innovative morbidity products such as critical illness covers with a graduated benefit. UK enhanced annuity policies remain a vital core business with considerable growth potential over the medium term.

In the United States we anticipate further attractive market opportunities going forward in the areas of block assumption transactions and health insurance for seniors. Our main focus in Germany is on products aimed at senior citizens and unit-linked policies, with above all long-term care annuities likely to enjoy growing popularity.

The so-called BRICK markets, i.e. Brazil, Russia, India, China and Korea, promise to deliver further positive growth stimuli going forward. By establishing new branches and offices in these countries we now enjoy even greater customer intimacy and are thus better able to act on market opportunities.

We expect the net premium volume booked by the Group in the current financial year to come in roughly on the level of the previous year.

In spite of our conservatively oriented asset portfolio, *investment income* will fall significantly short of the previous year in view of the crisis affecting markets all around the world. In light of the turmoil on equity markets we realised losses of around EUR 200 million in October so as to minimise our equity exposure. This leaves only a modest share portfolio, the bulk of which is hedged; as things currently stand, then, we can no longer be affected by the historically unprecedented volatility. The volume of investments should remain on a par with the previous year due to the sustained positive cash flow from the technical account and the strengthening US dollar.

For the fourth quarter, given a normal catastrophe loss experience, we consider a break-even result after tax to be attainable. This assessment makes no allowance for the use of accounting policy options or flexibility with respect to valuation measurements.

# QUARTERLY FINANCIAL REPORT

of the Hannover Re Group

# CONSOLIDATED BALANCE SHEET

as at 30 September 2008

Figures in EUR thousand	2008	2007
	30.9.	31.12.
<b>Assets</b>		
Fixed-income securities – held to maturity	1,488,220	1,488,816
Fixed-income securities – loans and receivables	1,642,819	1,537,889
Fixed-income securities – available for sale	12,760,406	12,477,055
Fixed-income securities – at fair value through profit or loss	202,887	158,740
Equity securities – available for sale	1,504,580	2,000,390
Other financial assets – at fair value through profit or loss	74,729	20,385
Real estate	14,699	16,962
Investments in associated companies	161,542	170,839
Other invested assets	778,761	677,957
Short-term investments	986,501	930,821
Cash	312,017	335,422
<b>Total investments and cash under own management</b>	<b>19,927,161</b>	<b>19,815,276</b>
Funds held	9,855,951	8,610,554
Contract deposits	359,291	616,134
<b>Total investments</b>	<b>30,142,403</b>	<b>29,041,964</b>
Reinsurance recoverables on unpaid claims	2,292,268	2,471,585
Reinsurance recoverables on benefit reserve	166,606	255,076
Prepaid reinsurance premium	98,655	92,322
Reinsurance recoverables on other technical reserves	12,563	5,574
Deferred acquisition costs	1,875,774	1,807,143
Accounts receivable	3,053,401	2,525,871
Goodwill	43,510	45,438
Deferred tax assets	664,170	577,731
Other assets	328,611	244,278
Accrued interest and rent	5,587	1,425
	<b>38,683,548</b>	<b>37,068,407</b>

Figures in EUR thousand	2008	2007
<b>Liabilities</b>	<b>30.9.</b>	<b>31.12.</b>
Loss and loss adjustment expense reserve	17,168,634	16,553,888
Benefit reserve	6,205,107	6,143,460
Unearned premium reserve	1,458,828	1,186,382
Provisions for contingent commissions	194,404	183,725
Funds held	661,732	956,912
Contract deposits	5,147,811	3,668,825
Reinsurance payable	1,316,960	1,141,067
Provisions for pensions	69,995	67,101
Taxes	152,381	202,621
Provision for deferred taxes	1,408,999	1,350,679
Other liabilities	353,856	277,037
Long-term debt and subordinated capital	1,417,891	1,414,877
<b>Total liabilities</b>	<b>35,556,598</b>	<b>33,146,574</b>
Shareholders' equity		
Common shares	120,597	120,597
Nominal value 120,597		
Authorised capital 60,299		
Additional paid-in capital	724,562	724,562
Common shares and additional paid-in capital	845,159	845,159
Cumulative other comprehensive income		
Unrealised gains and losses on investments	(131,196)	181,395
Cumulative foreign currency translation adjustment	(205,635)	(213,117)
Other changes in cumulative other comprehensive income	6,768	6,482
Total other comprehensive income	(330,062)	(25,240)
Retained earnings	2,098,164	2,529,170
Shareholders' equity before minorities	2,613,260	3,349,089
Minority interests	513,690	572,744
<b>Total shareholders' equity</b>	<b>3,126,950</b>	<b>3,921,833</b>
	<b>38,683,548</b>	<b>37,068,407</b>

# CONSOLIDATED STATEMENT OF INCOME

for the period 1 January to 30 September 2008

Figures in EUR thousand	2008		2007	
	1.7.–30.9.	1.1.–30.9.	1.7.–30.9.	1.1.–30.9.
Gross written premium	1,961,460	6,106,019	1,934,780	6,426,348
Ceded written premium	250,806	685,323	235,054	874,075
Change in gross unearned premium	38,866	(265,285)	135,519	91,627
Change in ceded unearned premium	(3,117)	6,348	(49,336)	(152,818)
<b>Net premium earned</b>	<b>1,746,403</b>	<b>5,161,759</b>	<b>1,785,909</b>	<b>5,491,082</b>
Ordinary investment income	219,656	627,510	219,528	635,272
Profit/loss from investments in associated companies	264	4,413	3,111	6,584
Income/expense on funds withheld and contract deposits	59,469	161,769	68,619	166,570
Realised gains on investments	32,906	204,259	29,984	164,304
Realised losses on investments	58,176	127,230	23,368	60,105
Unrealised gains and losses on investments	(18,279)	(33,428)	(2,965)	(3,106)
Total depreciation, impairments and appreciation of investments	302,447	432,998	12,795	13,412
Other investment expenses	8,054	33,878	12,817	40,615
<b>Net investment income</b>	<b>(74,661)</b>	<b>370,417</b>	<b>269,297</b>	<b>855,492</b>
Other technical income	256	2,032	234	1,509
<b>Total revenues</b>	<b>1,671,998</b>	<b>5,534,208</b>	<b>2,055,440</b>	<b>6,348,083</b>
Claims and claims expenses	1,348,035	3,652,603	1,324,185	3,869,227
Change in benefit reserve	102,936	272,952	86,225	300,717
Commission and brokerage, change in deferred acquisition costs	434,433	1,286,848	354,099	1,281,436
Other acquisition costs	1,639	9,960	1,864	10,029
Other technical expenses	2,472	7,835	1,652	10,830
Administrative expenses	53,017	165,756	47,628	148,215
<b>Total technical expenses</b>	<b>1,942,532</b>	<b>5,395,954</b>	<b>1,815,653</b>	<b>5,620,454</b>
Other income and expenses	(97,156)	(105,730)	(29,225)	(49,368)
<b>Operating profit/loss (EBIT)</b>	<b>(367,690)</b>	<b>32,524</b>	<b>210,562</b>	<b>678,261</b>
Interest on hybrid capital	19,435	57,944	19,552	58,069
<b>Net income before taxes</b>	<b>(387,125)</b>	<b>(25,420)</b>	<b>191,010</b>	<b>620,192</b>
Taxes	15,541	114,437	(142,835)	(2,971)
<b>Net income from continuing operations</b>	<b>(402,666)</b>	<b>(139,857)</b>	<b>333,845</b>	<b>623,163</b>
<b>Net income from discontinued operations</b>	<b>–</b>	<b>–</b>	<b>(356)</b>	<b>30,356</b>
<b>Net income</b>	<b>(402,666)</b>	<b>(139,857)</b>	<b>333,489</b>	<b>653,519</b>
thereof				
Minority interest in profit and loss	(7,649)	2,936	49,168	76,227
Group net income	(395,017)	(142,793)	284,321	577,292
<b>Earnings per share</b>				
Earnings per share in EUR	-3.27	-1.18	2.36	4.79
from continuing operations in EUR	-3.27	-1.18	2.36	4.54
from discontinued operations in EUR	–	–	–	0.25



# CONSOLIDATED STATEMENT

## of changes in shareholders' equity 2008

Figures in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)			Retained earnings	Minority interests	Shareholders' equity
			Currency translation	Unrealised gains/ losses	Other			
<b>Balance as at 1.1.2007</b>	120,597	724,562	(71,518)	144,199	(1,526)	1,981,521	608,551	3,506,386
Capital repayments							(52)	(52)
Income and expenses directly recognised in equity			(97,514)	31,115	(277)	(4,552)	(101,009)	(172,237)
Tax effects on income and expen- ses directly recognised in equity			(902)	2,510	102			1,710
Dividend paid						(192,955)	(32,505)	(225,460)
Net income						577,292	76,227	653,519
<b>Balance as at 30.9.2007</b>	120,597	724,562	(169,934)	177,824	(1,701)	2,361,306	551,212	3,763,866
<b>Balance as at 1.1.2008</b>	120,597	724,562	(213,117)	181,395	6,482	2,529,170	572,744	3,921,833
Capital increases/additions							39	39
Capital repayments							(168)	(168)
Income and expenses directly recognised in equity			12,692	(355,858)	466	(10,840)	(20,684)	(374,224)
Tax effects on income and expenses directly recognised in equity			(5,210)	43,267	(180)			37,877
Dividends paid						(277,373)	(41,177)	(318,550)
Net income						(142,793)	2,936	(139,857)
<b>Balance as at 30.9.2008</b>	120,597	724,562	(205,635)	(131,196)	6,768	2,098,164	513,690	3,126,950

# CONSOLIDATED CASH FLOW STATEMENT

as at 30 September 2008

Figures in EUR thousand	2008	2007
	1.1.–30.9.	1.1.–30.9.
<b>I. Cash flow from operating activities</b>		
Net income	(139,857)	653,519
Appreciation/depreciation	450,291	61,049
Net realised gains and losses on investments	(77,029)	(104,199)
Net realised gains and losses on disposal of discontinued operations	–	(84,919)
Amortisation of investments	(14,420)	(6,038)
Changes in funds held	(1,475,810)	(778,359)
Net changes in contract deposits	1,552,625	105,586
Changes in prepaid reinsurance premium (net)	259,253	61,258
Changes in tax assets/provisions for taxes	(79,961)	(47,887)
Changes in benefit reserve (net)	312,326	496,069
Changes in claims reserves (net)	769,453	515,040
Changes in deferred acquisition costs	(88,801)	62,106
Changes in other technical provisions	3,954	14,993
Changes in clearing balances	(374,501)	(380,565)
Changes in other assets and liabilities (net)	97,642	(121,594)
<b>Cash flow from operating activities</b>	<b>1,195,165</b>	<b>446,059</b>
<b>II. Cash flow from investing activities</b>		
Fixed-income securities – held to maturity		
Maturities	11,305	79,510
Purchases	–	(36,848)
Fixed-income securities – loans and receivables		
Maturities, sales	57,907	95,934
Purchases	(149,774)	(413,691)
Fixed-income securities – available for sale		
Maturities, sales	7,351,007	4,397,729
Purchases	(7,870,794)	(4,250,407)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	28,671	15,932
Purchases	(40,242)	(14,222)
Equity securities – available for sale		
Sales	894,951	932,842
Purchases	(956,538)	(1,055,117)

Figures in EUR thousand	2008	2007
	1.1.–30.9.	1.1.–30.9.
Equity securities – at fair value through profit or loss		
Sales	–	20,340
Purchases	–	(10,207)
Other financial instruments – at fair value through profit or loss		
Sales	63,244	(2,295)
Purchases	(69,012)	(3,623)
Other invested assets		
Sales	16,008	84,198
Purchases	(122,990)	(86,607)
Affiliated companies and participating interests		
Sales	586	599,432
Purchases	(3,600)	(989)
Real estate		
Sales	(119)	(10)
Short-term investments		
Changes	(99,944)	(510,562)
Other changes (net)	(28,002)	(20,352)
<b>Cash flow from investing activities</b>	<b>(917,336)</b>	<b>(179,013)</b>
<b>III. Cash flow from financing activities</b>		
Contribution from capital measures	2,599	–
Payment on capital measures	–	(52)
Structural change without loss of control	14,134	(108,156)
Dividends paid	(318,550)	(225,461)
Proceeds from long-term debts	35	–
Repayment of long-term debts	(432)	(10,021)
Other changes	–	6,234
<b>Cash flow from financing activities</b>	<b>(302,214)</b>	<b>(337,456)</b>
<b>IV. Exchange rate differences on cash</b>	<b>980</b>	<b>(10,405)</b>
<b>Change in cash and cash equivalents (I.+II.+III.+IV.)</b>	<b>(23,405)</b>	<b>(80,815)</b>
Cash and cash equivalents at the beginning of the period	335,422	351,776
Change in cash and cash equivalents according to cash flow statement	(23,405)	(80,815)
<b>Cash and cash equivalents at the end of the period</b>	<b>312,017</b>	<b>270,961</b>
Income taxes	(109,298)	(57,601)
Interest paid	(81,540)	(132,297)

# SEGMENTAL REPORT

as at 30 September 2008

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

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

## Segmentation of assets

Figures in EUR thousand	Non-life reinsurance	
	2008	2007
	30.9.	31.12.
<b>Assets</b>		
Held to maturity	1,272,038	1,262,619
Loans and receivables	1,377,041	1,263,764
Available for sale	11,048,366	11,387,469
At fair value through profit or loss	166,478	118,573
Other invested assets	890,269	808,047
Short-term investments	757,326	587,455
Cash	241,136	241,812
Total investments and cash under own management	15,752,654	15,669,739
Funds held by ceding companies	788,936	870,892
Contract deposits	–	137
<b>Total investments</b>	16,541,590	16,540,768
Reinsurance recoverables on unpaid claims	2,178,729	2,371,387
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	91,768	86,217
Reinsurance recoverables on other reserves	12,408	3,031
Deferred acquisition costs	312,409	262,176
Accounts receivable	2,085,581	1,373,824
Other assets in the segment	1,331,700	1,287,379
<b>Total</b>	22,554,185	21,924,782

Life and health reinsurance		Consolidation		Total	
2008	2007	2008	2007	2008	2007
30.9.	31.12.	30.9.	31.12.	30.9.	31.12.
44,287	52,071	171,895	174,126	1,488,220	1,488,816
107,072	116,567	158,706	157,558	1,642,819	1,537,889
2,615,103	2,496,286	601,517	593,690	14,264,986	14,477,445
60,688	35,227	50,450	25,325	277,616	179,125
64,733	57,711	–	–	955,002	865,758
212,133	146,952	17,042	196,414	986,501	930,821
54,436	88,295	16,445	5,315	312,017	335,422
3,158,452	2,993,109	1,016,055	1,152,428	19,927,161	19,815,276
9,069,263	7,741,902	(2,248)	(2,240)	9,855,951	8,610,554
359,291	615,997	–	–	359,291	616,134
12,587,006	11,351,008	1,013,807	1,150,188	30,142,403	29,041,964
113,857	101,629	(318)	(1,431)	2,292,268	2,471,585
166,606	255,076	–	–	166,606	255,076
6,887	6,105	–	–	98,655	92,322
155	2,543	–	–	12,563	5,574
1,563,365	1,544,967	–	–	1,875,774	1,807,143
967,943	1,152,705	(123)	(658)	3,053,401	2,525,871
417,072	304,312	(706,894)	(722,819)	1,041,878	868,872
15,822,891	14,718,345	306,472	425,280	38,683,548	37,068,407

# SEGMENTAL REPORT

as at 30 September 2008

## Segmentation of technical and other liabilities

Figures in EUR thousand	Non-life reinsurance	
	2008	2007
	30.9.	31.12.
<b>Liabilities</b>		
Loss and loss adjustment expense reserve	15,568,854	15,114,553
Benefit reserve	–	–
Unearned premium reserve	1,410,724	1,148,723
Provisions for contingent commissions	159,213	146,638
Funds held under reinsurance contracts	184,409	186,802
Contract deposits	148,381	156,829
Reinsurance payable	956,317	427,552
Long-term liabilities	42,243	41,583
Other liabilities in the segment	1,247,135	1,239,046
<b>Total</b>	<b>19,717,276</b>	<b>18,461,726</b>

Life and health reinsurance		Consolidation		Total	
2008	2007	2008	2007	2008	2007
30.9.	31.12.	30.9.	31.12.	30.9.	31.12.
1,600,139	1,440,774	(359)	(1,439)	17,168,634	16,553,888
6,205,107	6,143,460	–	–	6,205,107	6,143,460
48,104	37,659	–	–	1,458,828	1,186,382
35,191	37,087	–	–	194,404	183,725
479,639	772,352	(2,316)	(2,242)	661,732	956,912
4,999,430	3,511,996	–	–	5,147,811	3,668,825
361,391	714,857	(748)	(1,342)	1,316,960	1,141,067
–	–	1,375,648	1,373,294	1,417,891	1,414,877
1,437,737	1,283,393	(699,641)	(625,001)	1,985,231	1,897,438
15,166,738	13,941,578	672,584	743,270	35,556,598	33,146,574

# SEGMENTAL REPORT

as at 30 September 2008

## Segmental statement of income

Figures in EUR thousand	Non-life reinsurance	
	2008	2007
	1.1.–30.9.	1.1.–30.9.
Gross written premium	3,791,939	4,102,262
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	3,791,939	4,102,262
Net premium earned	3,103,205	3,391,347
Net investment income	143,088	585,959
Claims and claims expenses	2,419,459	2,620,762
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	699,067	713,027
Administrative expenses	115,857	107,829
Other income and expenses	(97,907)	(93,476)
<b>Operating profit/loss (EBIT)</b>	<b>(85,997)</b>	<b>442,212</b>
Interest on hybrid capital	–	–
<b>Net income before taxes</b>	<b>(85,997)</b>	<b>442,212</b>
Taxes	94,362	16,712
<b>Net income from continuing operations</b>	<b>(180,359)</b>	<b>425,500</b>
<b>Net income from discontinued operations</b>	<b>–</b>	<b>13,526</b>
<b>Net income</b>	<b>(180,359)</b>	<b>439,026</b>
thereof		
Minority interest in profit or loss	(2,355)	56,145
Group net income	(178,004)	382,881



Life and health reinsurance		Consolidation		Total	
2008	2007	2008	2007	2008	2007
1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.
2,315,438	2,333,701	(1,358)	(9,615)	6,106,019	6,426,348
1,358	9,615	(1,358)	(9,615)	–	–
2,314,080	2,324,086	–	–	6,106,019	6,426,348
2,058,554	2,099,735	–	–	5,161,759	5,491,082
206,262	239,216	21,067	30,317	370,417	855,492
1,233,759	1,248,863	(615)	(398)	3,652,603	3,869,227
272,952	300,717	–	–	272,952	300,717
608,175	592,746	(4,631)	(4,987)	1,302,611	1,300,786
51,780	43,887	(1,881)	(3,501)	165,756	148,215
(4,998)	56,116	(2,825)	(12,008)	(105,730)	(49,368)
93,152	208,854	25,369	27,195	32,524	678,261
–	–	57,944	58,069	57,944	58,069
93,152	208,854	(32,575)	(30,874)	(25,420)	620,192
26,422	(13,828)	(6,347)	(5,855)	114,437	(2,971)
66,730	222,682	(26,228)	(25,019)	(139,857)	623,163
–	–	–	16,830	–	30,356
66,730	222,682	(26,228)	(8,189)	(139,857)	653,519
5,291	20,082	–	–	2,936	76,227
61,439	202,600	(26,228)	(8,189)	(142,793)	577,292

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

#### Investments<sup>1)</sup>

Figures in EUR thousand	2008	2007
	30.9.	31.12.
Investments		
Germany	5,811,650	6,252,371
United Kingdom	1,223,702	1,187,499
France	1,254,563	1,117,610
Other	3,379,627	3,251,338
Europe	11,669,542	11,808,818
USA	5,923,855	5,909,163
Other	719,524	589,295
North America	6,643,379	6,498,458
Asia	428,363	384,628
Australia	673,425	659,006
Australasia	1,101,788	1,043,634
Africa	280,766	276,441
Other	231,686	187,925
<b>Total</b>	<b>19,927,161</b>	<b>19,815,276</b>

#### Gross written premium<sup>1)</sup>

Figures in EUR thousand	2008	2007
	1.1.–30.9.	1.1.–30.9.
Gross written premium		
Germany	995,187	1,096,406
United Kingdom	1,075,557	1,176,377
France	298,873	310,876
Other	968,125	899,714
Europe	3,337,742	3,483,373
USA	1,282,129	1,511,554
Other	269,336	301,553
North America	1,551,465	1,813,107
Asia	464,197	356,204
Australia	331,109	362,253
Australasia	795,306	718,457
Africa	184,252	204,152
Other	237,254	207,259
<b>Total</b>	<b>6,106,019</b>	<b>6,426,348</b>

<sup>1)</sup> After elimination of internal transactions within the Group across segments

## 1. General reporting principles

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

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

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

## 2. Accounting principles including major accounting policies

The quarterly accounts of the consolidated companies included in the consolidated financial statement were drawn up as at 30 September 2008.

All standards adopted by the IASB as at 30 September 2008 with binding effect for the reporting period have been observed in the consolidated financial statement.

In the present quarterly financial report as at 30 September 2008 we have included a self-contained, condensed risk report in the interim management report as well as further explanatory remarks in Section 5 "Management of technical and financial risks". In combination with the outlook for the full 2008 financial year, the intention is to thereby further improve the reporting on major opportunities and risks in the financial year.

In January 2008 the IASB issued revised versions of IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements". The revisions primarily encompass the accounting treatment of minority interests, measurement issues relating to step acquisition, changes in the level of investment with and without loss of control as well as adjustments to acquisition costs depending on future events and their implications for goodwill. It remains the case that IFRS 3 does not cover business combinations involving entities under common control. The revisions are to be applied to financial years beginning on or after 1 July 2009. Both revised versions had still to be ratified by the European Union as at the balance sheet date.

With effect from the second quarter of 2008 we made use of the option provided for in the currently applicable version of IFRS 3 to recognise directly in equity changes of interest in fully consolidated Group companies without a change of control status.

As at 30 September of the previous year this change resulted in a profit reduction of EUR 12.0 million attributable to changes of interest in E+S Rück. A reclassification in the same amount was to be made within retained earnings in the Group shareholders' equity of the previous year. The amount was reclassified from the net income recognised in shareholders' equity to the item "Income and expenses recognised directly in equity". The figures for the corresponding quarter of the previous year have been adjusted retrospectively for comparative purposes as required by IAS 8.

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", effective 28 December 2007 a group of reinsurance contracts involving guarantees given by Talanx AG was to be classified as financial instruments with the character of loans and receivables and measured at amortised cost (so-called "investment contracts"). We have retrospectively adjusted the figures for the comparative period of the previous year as required by IAS 8. Consequently, income of EUR 7.9 million was reallocated from the reinsurance underwriting result to ordinary investment income for the third quarter of 2007. This reclassification, which affected the non-life reinsurance and life and health reinsurance business groups, did not have any implications for the premium, operating profit (EBIT) or net income or the shareholders' equity.

On 13 October 2008, in response to the turmoil on international capital markets, the IASB approved and published the "IAS 39 & IFRS 7 Amendments Reclassification of Financial Assets". The European Commission adopted the amendments in European law on 15 October 2008 under Commission Regulation (EC) No. 1004/2008. The amendments contained in IAS 39 open up the possibility of reclassifying and remeasuring selected financial instruments. Hannover Re has examined the implications of the changes and, since there is scarcely any scope to apply them, it did not make use of the facilities associated with the amendments as at the balance sheet date.

We would also refer to the relevant information in the consolidated financial statement as at 31 December 2007.

### 3. Consolidated companies and consolidation principles

#### Consolidated companies

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

Effective 1 January 2008 the company name of Hannover Rückversicherung AG Succursale Française pour la Réassurance Vie, a branch of Hannover Re, was changed to Hannover Rückversicherung AG Succursale Française and the object of its business was expanded to include non-life reinsurance activities for the markets of France, Belgium and Luxembourg.

Effective 1 January 2008 Hannover Re and E+S Rück, which were equal partners in GbR Hannover Rückversicherung AG/ E+S Rückversicherung AG-Grundstücksgesellschaft (GbR), liquidated the company. The partnership assets of GbR were divided between the former partners by way of de facto splitting. The transaction had no implications for the consolidated quarterly financial statement as at 30 September 2008.

Effective 3 March 2008 Hannover Rück Beteiligung Verwaltungs-GmbH (HRBV), which is wholly owned by Hannover Re, reached agreement with a third party outside the Group on the sale of a further 1% of its stake in E+S Rück – by way of a share reduction without a change of control status – in order to intensify the business relations. Upon closing of the transaction HRBV held an interest of 62.78% in E+S Rück. This transaction was recognised directly in equity in the capital consolidation as at the balance sheet date. Please see our explanatory remarks in Section 2 "Accounting principles including major accounting policies".

In the 2007 financial year Hannover Re acquired the 50% stake held by E+S Rück in Hannover Life Re of Australasia Ltd., Sydney, Australia, and thus holds all shares in the company; full allowance was made for transaction costs. All inter-company profits arising out of this transaction were eliminated. Effective 31 March 2008 Hannover Re transferred its shares

in the company at book value by way of a capital increase for a non-cash contribution to the former Zweite Hannover Rück Beteiligung Verwaltungs-GmbH, all shares of which are held by Hannover Re. Effective 1 July 2008 Zweite Hannover Rück Beteiligung Verwaltungs-GmbH was converted to Hannover Life Re AG, the registered office of which is in Hannover. The change in corporate form came into effect upon entry in the commercial register on 7 August 2008.

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

In the second quarter of 2008 Hannover Re for the first time included the Shanghai-based Hannover Rückversicherung AG Shanghai Branch – which is charged with writing life and health reinsurance business – in the consolidated financial statement. The branch commenced business operations on 19 May 2008.

In the second quarter of 2008 Hannover Re for the first time included the Seoul-based Hannover Rückversicherung AG Korea Branch – which is charged with writing life and health reinsurance business – in the consolidated financial statement. The branch commenced business operations on 23 May 2008.

In the course of the second and third quarters Hannover Re participated as the first investor in Secquaero ILS Fund Ltd. The fund in question is a so-called "Seed Money Fund", the business object of which is to underwrite, hold and sell insurance-linked securitisations. As at the balance sheet date Hannover Re had invested USD 40 million in this fund. The remaining USD 10 million was paid in under another capital call on 1 October 2008, as a consequence of which no further contribution requirement remains. Hannover Re will consolidate this fund until such time as other investors hold the majority stake in the fund.

## Capital consolidation

The capital consolidation complies with the standards of IAS 27 "Consolidated and Separate Financial Statements". Subsidiaries are consolidated as soon as Hannover Re acquires a majority voting interest or de facto controlling influence. The capital consolidation is based on the revaluation method. Under the "purchase accounting" method the purchase costs of the parent company are netted with the proportionate shareholders' equity of the subsidiary at the time when it is first included in the consolidated financial statement after the revaluation of all assets and liabilities. After recognition of all acquired intangible assets that in accordance with IFRS 3 "Business Combinations" are to be accounted for separately from goodwill, the difference between the revalued shareholders' equity of the subsidiary and the purchase price is recognised as goodwill. Under IFRS 3 scheduled amortisation is not taken on goodwill. Instead, unscheduled amortisation is taken where necessary on the basis of regular impairment tests. Immaterial and negative goodwill are recognised in the statement of income in the year of their occurrence.

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

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

The minority interest in the result is a component of net income and is shown separately as a "thereof" note following net income. As at 30 September 2008 it amounted to EUR 2.9 million (EUR 76.2 million).

### Debt consolidation

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

### Consolidation of expenses and profit

The effects of business transactions within the Group were eliminated.

### Consolidation of special purpose entities

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

As a means of transferring peak exposures deriving from natural disasters to the capital market, Hannover Re issued a catastrophe ("CAT") bond that can be traded on a secondary market. The CAT bond with a volume of USD 150 million was placed with institutional investors from Europe and North America by Eurus Ltd., a special purpose entity domiciled in the Cayman Islands. Hannover Re does not exercise a controlling influence over the special purpose entity. Under IFRS this transaction is to be recognised as a financial instrument. Pursuant to IAS 39.9 the contract gives rise to a derivative, the fair value of which as at 30 September 2008 was EUR 0.5 million (-EUR 2.9 million) and which we recognised under other invested assets as at the balance sheet date.

Effective 1 January 2008 Hannover Re again drew on the capital market to obtain underwriting capacity for catastrophe risks by increasing the volume of its "K5" risk transaction, which had been boosted to USD 530.0 million in the previous year, by a further USD 10.0 million. The securitisation was placed with investors in North America, Europe and Asia. The additional capital was provided by both new and existing investors. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, was used for the transaction. The planned term of the transaction runs until 31 December 2008. Pursuant to SIC-12 Kaith Re Ltd. has been included in the consolidated financial statement.

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

Also in the previous year, the Hannover Re Group transferred risks from reinsurance recoverables to the capital market. By means of this securitisation, which has a term of five years, the default risk associated with reinsurance recoverables is reduced. The portfolio of recoverables underlying the transaction has a nominal value of EUR 1.0 billion and is comprised of exposures to retrocessionaires. The securities serving as collateral are issued through the special purpose entity Merlin CDO I B.V. A payment to Hannover Re is triggered by the insolvency of one or more retrocessionaires as soon as Hannover Re's contractually defined cumulative deductible of EUR 60.0 million over the term of the contract is exceeded. Hannover Re does not derive the majority of the economic benefits or risks arising out of the special purpose entity's activities through any of its business relations. Pursuant to IAS 39.9 the transaction gives rise to a derivative,

the fair value of which as at 30 September 2008 was EUR 14.1 million (EUR 5.8 million) and which we recognised under other financial assets at fair value through profit or loss.

In June 2008 Hannover Re completed the first transaction as part of its extended Insurance-Linked Securities (ILS) activities. Property catastrophe risks of a number of US cedants were pooled and transferred to the capital market in several tranches. A special purpose entity named Globe Re was established in Bermuda for this transaction; it is capitalised at USD 133 million. Globe Re is funded through the issue of an equity tranche of USD 33 million and a further USD 100 million in bonds split into various rating categories. The term of the transaction is one year. Hannover Re has a stake of USD 5 million – or 15.2% – in the equity tranche. Hannover Re does not exercise a controlling influence over the special purpose entity through any of its business relations. Pursuant to IAS 28 "Investments in Associates" Globe Re is to be carried as an investment at cost or amortised cost and is therefore recognized under other invested assets.

## 4. Discontinued operations

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

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

### Major items in the statement of income of the discontinued operations

Figures in EUR thousand	2008	2007
	1.1.–30.9.	1.1.–30.9.
Gross written premium	–	275,409
Ceded written premium	–	(42,368)
Net change in gross unearned premium	–	(12,372)
<b>Net premium earned</b>	–	305,405
Net investment income	–	20,447
Net underwriting result	–	24,880
Other income and expenses	–	(11,209)
<b>Operating profit/loss (EBIT)</b>	–	34,118
Interest on hybrid capital	–	2,329
<b>Net income before taxes</b>	–	31,789
Taxes	–	5,799
Acquirer's share of current income from discontinued operations	–	13,091
Group share of current income from discontinued operations	–	12,899
Income/loss from deconsolidation (after taxes)	–	17,457
<b>Net income</b>	–	30,356

### Statement of cash flows from the discontinued operations

Figures in EUR thousand	2008	2007
	1.1.–30.9.	1.1.–30.9.
Cash flow from operating activities	–	176,313
Cash flow from investing activities	–	(18,490)
<b>Change in cash and cash equivalents</b>	–	157,823



## 5. Management of technical and financial risks

### 5.1 Technical risks

Risks on the underwriting side can be subdivided into risks of random fluctuation, risks of error and risks of change.

In life and health reinsurance we calculate the reserves in accordance with actuarial principles using secure biometric actuarial bases and with the aid of portfolio information provided by our clients. In this area biometric risks are of primary importance for our company. This term refers to all risks directly connected with the life of an insured person, such as miscalculation of mortality, life expectancy and the probability of disability. We reduce these potential risks with a broad range of risk management measures.

A significant technical risk is the risk of underreserving. In non-life reinsurance we similarly calculate our loss reserves on an actuarial basis. The point of departure here is always the information provided by our cedants, where necessary supplemented by additional reserves that may seem appropriate on the basis of our own loss estimations. Furthermore, we constitute an IBNR (incurred but not reported) reserve for losses that have already occurred but have not yet been reported to us.

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

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

Figures in %	Q3 2008	2007	2006	2005	2004	2003 <sup>1)</sup>	2002 <sup>1)</sup>	2001 <sup>1)</sup>	2000 <sup>1)</sup>	1999 <sup>1)</sup>	1998 <sup>1)</sup>
Combined ratio	103.6	99.7	100.8	112.8	97.2	96.0	96.3	116.5	107.8	111.1	108.1
thereof catastrophe losses <sup>2)</sup>	14.3	6.3	2.3	26.3	8.3	1.5	5.2	23.0	3.7	11.4	3.5

<sup>1)</sup> On a US GAAP basis

<sup>2)</sup> Natural catastrophes and other man-made major losses > EUR 5 million gross for the share of the Hannover Re Group as a percentage of net premium earned

Bad debt risks are of relevance to our company because the business that we accept is not always fully retained, but instead portions are retroceded as necessary. Our retrocession partners are therefore carefully selected in light of credit considerations.

In terms of the Hannover Re Group's major companies, EUR 227.5 million (8.0%) of our accounts receivable from reinsurance business in an amount of EUR 2,834.8 million were older than 90 days as at the balance sheet date. The average default rate over the past three years was 0.5%.

## 5.2 Investment risks

Risks in the investment sector consist primarily of market, credit and liquidity risks. Market price risks include share price, interest rate and currency risks. The "value at risk" (VaR) is a vital tool used for managing market price risks. For further explanatory remarks please see our comments on investment risks in the 2007 Group annual financial report.

Currency risks are of considerable importance to an internationally operating reinsurance enterprise that writes a significant proportion of its business in foreign currencies. These risks are, however, largely neutralised since we systematically adhere to the principle of matching currency coverage. Interest rate risks refer to an unfavourable change in the value of financial assets held in the portfolio due to changes in the market interest rate level. Declining market yields lead to increases and rising market yields to decreases in the fair value of fixed-income securities portfolios. One of the central objectives of our strategy in this regard is to match cash flows on the assets and liabilities sides as closely as possible. Quantitative support for this strategy is provided by our dynamic financial analysis model as well as a broad diversity of value at risk calculations. In addition, tightly defined tactical duration ranges are in place, within which asset managers can position themselves opportunistically according to their market expectations. The parameters for these ranges are directly linked to the risk-carrying capacity of the Hannover Re Group. Share price risks derive from unfavourable changes in the value of equities and equity or index derivatives held in the portfolio due, for example, to downward movements on particular stock indices. We spread these risks through systematic diversification across various sectors and regions.

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

Portfolio	Scenario	Portfolio change based on fair value in EUR million
Fixed-income securities	Yield increase +50 basis points	(302.7)
	Yield increase +100 basis points	(584.1)
	Yield decrease -50 basis points	294.7
	Yield decrease -100 basis points	610.7
	Fair value as at 30.9.2008	16,060.7

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

Portfolio	Scenario	Portfolio change based on fair value in EUR million
Equity securities	Share prices -10%	(124.4)
	Share prices -20%	(244.4)
	Share prices +10%	126.0
	Share prices +20%	244.6
	Fair value as at 30.9.2008	1,504.6

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

## Rating structure of our fixed-income securities<sup>1)</sup>

	Government bonds		Securities issued by semi-governmental entities		Corporate bonds		Asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	88.5	3,601.5	58.9	2,482.4	4.9	238.3	79.4	2,372.5
AA	2.5	102.6	34.4	1,451.9	25.6	1,231.5	14.4	431.1
A	6.2	250.5	6.1	258.8	50.9	2,455.1	0.9	28.6
BBB	2.8	112.2	0.4	16.6	12.6	606.5	2.4	71.4
< BBB	–	–	0.2	7.4	6.0	289.7	2.9	85.7
Total	100.0	4,066.8	100.0	4,217.1	100.0	4,821.1	100.0	2,989.3

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

The liquidity risk refers to the risk that it may not be possible to sell holdings or close open positions due to the illiquidity of the markets – or to do so only with delays or price markdowns – as well as the risk that the traded volumes influence the markets in question. Regular liquidity planning and a liquid asset structure ensure that Hannover Re is able to make the necessary payments at all times. We manage the liquidity risk inter alia by allocating a liquidity code to every security. The spread of investments across the various liquidity classes is specified in the monthly investment reports and controlled by limits.

## Weighting of major asset classes<sup>1)</sup>

Figures in %	Parameter as per investment guidelines	30.9.2008
Bonds (direct holdings and investment funds)	at least 50.0	81.1
Listed equities (direct holdings and investment funds)	at most 17.5	7.6
Real estate	at most 5.0	0.1

<sup>1)</sup> Calculated on a fair value basis

Hannover Re was impacted by the turmoil on global stock markets in the first nine months of the year under review. As at 30 September 2008 write-downs of EUR 355.3 million (EUR 8.4 million) were therefore taken on equities. Further write-downs of EUR 77.3 million were recognised on fixed-income securities owing to the upheavals on interest and credit markets. These losses contrasted with a net profit of EUR 77.0 million (EUR 104.2 million) from realised gains and losses on investments. Principally due to these write-downs, investment income shrank by 56.7 % as at the balance sheet date to EUR 370.4 million (EUR 855.5 million). Hannover Re significantly reduced its equity allocation – which stood at 7.6 % as at the balance sheet date – in October on account of capital considerations associated with its risk management. The reader is referred to our remarks in Section 8.2 "Events after the end of the quarter". The assets under own management increased to EUR 19,927.2 million (EUR 19,815.3 million) as at 30 September 2008 thanks to a positive cash flow from the technical account.

For further explanatory remarks please see the risk report, page 9f of the present quarterly financial report as well as our comments in the Group Annual Report 2007.

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

### 6.1 Investments including income and expenses

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

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

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

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

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

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

For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2007.

## Maturities of the fixed-income and variable-yield securities

Figures in EUR thousand	2008		2007	
	Cost or amortised cost	Fair value	Cost or amortised cost	Fair value
	30.9.	30.9.	31.12.	31.12.
<b>Held to maturity</b>				
due in one year	12,239	11,282	34,241	32,885
due after one through two years	50,146	49,874	1,705	1,662
due after two through three years	99,579	98,086	34,779	34,363
due after three through four years	229,451	228,882	194,052	195,724
due after four through five years	283,248	280,255	251,385	254,908
due after five through ten years	803,164	820,678	962,695	966,897
due after ten years	10,393	11,067	9,959	10,396
<b>Total</b>	<b>1,488,220</b>	<b>1,500,124</b>	<b>1,488,816</b>	<b>1,496,835</b>
<b>Loans and receivables</b>				
due in one year	59,373	58,727	32,710	33,086
due after one through two years	161,311	158,452	68,132	67,068
due after two through three years	70,450	68,086	131,788	127,981
due after three through four years	24,286	24,356	113,524	109,759
due after four through five years	67,890	65,032	19,496	19,417
due after five through ten years	1,094,533	1,056,963	1,037,707	1,002,324
due after ten years	164,976	165,618	134,532	136,201
<b>Total</b>	<b>1,642,819</b>	<b>1,597,234</b>	<b>1,537,889</b>	<b>1,495,836</b>
<b>Available for sale</b>				
due in one year <sup>1)</sup>	3,420,568	3,406,561	2,921,871	2,917,572
due after one through two years	1,788,303	1,778,303	1,407,784	1,403,733
due after two through three years	1,426,895	1,415,615	1,214,907	1,196,631
due after three through four years	1,124,270	1,104,294	1,273,380	1,276,467
due after four through five years	1,495,084	1,478,852	1,377,471	1,372,244
due after five through ten years	3,160,698	3,034,294	3,854,813	3,813,167
due after ten years	1,927,033	1,841,005	1,796,485	1,763,484
<b>Total</b>	<b>14,342,851</b>	<b>14,058,924</b>	<b>13,846,711</b>	<b>13,743,298</b>
<b>Financial assets at fair value through profit or loss</b>				
due in one year	55,995	55,976	66,784	66,784
due after one through two years	21,456	21,467	29,087	29,087
due after two through three years	16,592	16,472	–	–
due after three through four years	2,407	2,115	–	–
due after four through five years	48,951	48,951	–	–
due after five through ten years	37,512	37,145	34,133	35,089
due after ten years	22,466	20,761	27,187	27,780
<b>Total</b>	<b>205,379</b>	<b>202,887</b>	<b>157,191</b>	<b>158,740</b>

<sup>1)</sup> Including short-term investments and cash

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

Floating-rate bonds (also known as "floaters") are shown under the maturities due in one year and constitute our interest-related, within-the-year reinvestment risk.

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

30.9.2008					
Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
<b>Investments held to maturity</b>					
Fixed-income securities					
Government debt securities of EU member states	46,865	164	143	219	47,105
US treasury notes	332,736	33,309	–	4,482	370,527
Other foreign government debt securities	15,786	345	74	100	16,157
Debt securities issued by semi-governmental entities	430,364	10,241	2,734	7,121	444,992
Corporate securities	406,003	911	17,541	7,156	396,529
Asset-backed securities	234,164	–	12,574	3,224	224,814
<b>Total</b>	<b>1,465,918</b>	<b>44,970</b>	<b>33,066</b>	<b>22,302</b>	<b>1,500,124</b>
31.12.2007					
Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
<b>Investments held to maturity</b>					
Fixed-income securities					
Government debt securities of EU member states	49,589	–	827	760	49,522
US treasury notes	322,776	20,604	–	2,628	346,008
Other foreign government debt securities	18,315	121	52	26	18,410
Debt securities issued by semi-governmental entities	426,857	9,617	2,887	8,694	442,281
Corporate securities	410,476	3,595	12,911	10,562	411,722
Asset-backed securities	232,997	–	9,241	5,136	228,892
<b>Total</b>	<b>1,461,010</b>	<b>33,937</b>	<b>25,918</b>	<b>27,806</b>	<b>1,496,835</b>

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

**30.9.2008**

Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
<b>Loans and receivables</b>					
Government debt securities of EU member states	29,390	49	930	485	28,994
Debt securities issued by semi-governmental entities	292,359	1,153	11,069	4,725	287,168
Corporate securities	556,248	1,098	21,474	13,306	549,178
Asset-backed securities	483,453	1,777	16,189	7,863	476,904
Other	211,324	–	–	43,666	254,990
<b>Total</b>	<b>1,572,774</b>	<b>4,077</b>	<b>49,662</b>	<b>70,045</b>	<b>1,597,234</b>

**31.12.2007**

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

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

30.9.2008					
Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
<b>Available for sale</b>					
Fixed-income securities					
Government debt securities of EU member states	1,056,045	5,807	3,994	15,199	1,073,057
US treasury notes	1,658,861	29,413	241	10,315	1,698,348
Other foreign government debt securities	465,582	7,672	1,549	3,804	475,509
Debt securities of semi-governmental entities	3,401,711	37,793	21,842	56,338	3,474,000
Corporate securities	3,214,008	24,924	244,452	61,653	3,056,133
Asset-backed securities	2,280,287	10,223	96,550	37,588	2,231,548
From investment funds	770,349	15,349	46,480	12,593	751,811
	12,846,843	131,181	415,108	197,490	12,760,406
Equity securities					
Shares	567,415	42,581	22,502	–	587,494
From investment funds	929,861	24,777	37,552	–	917,086
	1,497,276	67,358	60,054	–	1,504,580
Short-term investments	985,679	–	–	822	986,501
<b>Total</b>	15,329,798	198,539	475,162	198,312	15,251,487



31.12.2007					
Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
<b>Available for sale</b>					
Fixed-income securities					
Government debt securities of EU member states	901,704	4,112	5,851	16,732	916,697
US treasury notes	1,526,131	46,316	175	17,660	1,589,932
Other foreign government debt securities	376,357	2,266	2,471	3,265	379,417
Debt securities of semi-governmental entities	3,148,956	37,330	31,213	50,896	3,205,969
Corporate securities	3,384,791	26,302	117,316	64,942	3,358,719
Asset-backed securities	2,201,889	18,982	49,708	36,101	2,207,264
From investment funds	842,933	13,547	45,534	8,111	819,057
	12,382,761	148,855	252,268	197,707	12,477,055
Equity securities					
Shares	701,961	84,757	23,583	–	763,135
From investment funds	1,107,388	129,867	–	–	1,237,255
	1,809,349	214,624	23,583	–	2,000,390
Short-term investments	929,976	–	–	845	930,821
<b>Total</b>	<b>15,122,086</b>	<b>363,479</b>	<b>275,851</b>	<b>198,552</b>	<b>15,408,266</b>

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

<b>30.9.2008</b>			
<b>Figures in EUR thousand</b>	<b>Fair value before accrued interest</b>	<b>Accrued interest</b>	<b>Fair value</b>
<b>Financial assets at fair value through profit or loss</b>			
Debt securities of semi-governmental entities	8,403	232	8,635
Corporate securities	172,691	1,777	174,468
Asset-backed securities	19,678	106	19,784
	200,772	2,115	202,887
<b>Other financial assets</b>			
Derivatives	74,729	–	74,729
<b>Total</b>	<b>275,501</b>	<b>2,115</b>	<b>277,616</b>

  

<b>31.12.2007</b>			
<b>Figures in EUR thousand</b>	<b>Fair value before accrued interest</b>	<b>Accrued interest</b>	<b>Fair value</b>
<b>Financial assets at fair value through profit or loss</b>			
Debt securities of semi-governmental entities	9,844	331	10,175
Corporate securities	146,280	1,631	147,911
Asset-backed securities	654	–	654
	156,778	1,962	158,740
<b>Other financial assets</b>			
Derivatives	20,385	–	20,385
<b>Total</b>	<b>177,163</b>	<b>1,962</b>	<b>179,125</b>

#### Derivative financial instruments

As at 30 September 2008 Hannover Re recognised under this item put options acquired in the reporting period on the Dax and EuroStoxx 50 indices with a fair value of EUR 48.1 million (31 December 2007: EUR 1.9 million). Short sales of call options on the aforementioned indices with a fair value of EUR 0.4 million (31 December 2007: none) were recognised under other liabilities as at the balance sheet date.

In addition, Hannover Re reported as financial assets at fair value through profit or loss technical derivatives in an amount of EUR 26.6 million as at 30 September 2008 (31 December 2007: EUR 18.5 million) that were separated from the underlying transaction and measured at fair value.

In addition, liabilities from derivatives in connection with the technical account totalling EUR 47.3 million (31 December 2007: EUR 15.9 million) were recognised under other liabilities as at the balance sheet date. Of this amount, fair values of EUR 45.2 million as at the balance sheet date (31 December 2007: EUR 13.0 million) were attributable to derivatives embedded in "modified coinsurance" and "coinsurance funds withheld" (Modco) reinsurance treaties. The charge to investment income from the Modco derivatives amounted to EUR 30.0 million before taxes as at 30 September 2008 (30 September 2007: EUR 4.6 million). Within the scope of the accounting of Modco reinsurance treaties, under which securities deposits are held by the ceding companies and payments rendered on the basis of the income from certain securities of the ceding company, the interest-rate risk elements are clearly and closely related to the underlying reinsurance arrangements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio. Hannover Re calculates the fair value of the embedded derivatives in Modco treaties using the market information available on the valuation date on the basis of a "credit spread" method. Under this method the derivative is valued at zero on the date when the contract commences and its value then fluctuates over time according to changes in the credit spreads of the securities.

### Investment income

Figures in EUR thousand	2008	2007
	<b>30.9.</b>	<b>30.9.</b>
Real estate	1,051	1,255
Dividends	41,505	32,844
Interest income on investments	536,655	565,042
Other income	48,299	36,131
<b>Ordinary investment income</b>	<b>627,510</b>	<b>635,272</b>
Profit or loss on shares in associated companies	4,413	6,584
Realised gains on investments	204,259	164,304
Realised losses on investments	127,230	60,105
Unrealised gains and losses on investments	(33,428)	(3,106)
Depreciation on real estate	365	413
Impairments/depreciation on equity securities	355,329	8,363
Impairments on fixed-income securities	77,304	4,636
Other investment expenses	33,878	40,615
<b>Net income from assets under own management</b>	<b>208,648</b>	<b>688,922</b>
Interest income on funds withheld and contract deposits	197,785	194,584
Interest expense on funds withheld and contract deposits	36,016	28,014
<b>Total investment income</b>	<b>370,417</b>	<b>855,492</b>

Unscheduled impairments of EUR 432.6 million were attributable entirely to assets classified as available for sale. Impairments of EUR 77.3 million taken on fixed-income securities related predominantly to structured products. Of this amount, altogether EUR 12.0 million was attributable to further write-downs directly associated with the crisis on the US housing market in respect of which Hannover Re identified a risk of default. In addition, an impairment of EUR 355.3 million was recognised on equities whose fair value had fallen significantly, i.e. by at least 20%, or for a prolonged period, i.e. at least nine months, below acquisition cost.

## Interest income on investments

Figures in EUR thousand	2008	2007
	30.9.	30.9.
Fixed-income securities – held to maturity	43,137	50,260
Fixed-income securities – loans and receivables	38,291	39,952
Fixed-income securities – available for sale	400,898	429,464
Financial assets – at fair value through profit or loss	5,753	4,949
Other	48,576	40,417
<b>Total</b>	<b>536,655</b>	<b>565,042</b>

## 6.2 Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group was 1,785 (31 December 2007: 1,922).

As at the balance sheet date altogether 1,790 (1,825) staff were employed by the Hannover Re Group, with 952 (907) employed in Germany and 838 (918) working for the consolidated Group companies abroad.

## 6.3 Shareholders' equity and minority interests

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

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

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

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

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

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

## 6.4 Treasury shares

IAS 1 requires separate disclosure of treasury shares in shareholders' equity. By a resolution of the Annual General Meeting of Hannover Rückversicherung AG adopted on 6 May 2008, the company was authorised until 31 October 2009 to acquire treasury shares of up to 10% of the share capital existing on the date of the resolution. The company did not hold treasury shares at any time during the reporting period.

## 6.5 Earnings per share

### Basic and fully diluted earnings per share

	2008			2007		
	1.1.–30.9.			1.1.–30.9.		
	Result (in EUR thousand)	No. of shares	Per share (in EUR)	Result (in EUR thousand)	No. of shares	Per share (in EUR)
Group net income	(142,793)	–	–	577,292	–	–
Weighted average of issued shares	–	120,597,134	–	–	120,597,134	–
Earnings per share	(142,793)	120,597,134	(1.18)	577,292	120,597,134	4.79
from continuing operations	(142,793)	120,597,134	(1.18)	546,936	120,597,134	4.54
from discontinued operations	–	120,597,134	–	30,356	120,597,134	0.25

Due to the reduction of the interest in E+S Rück retrospectively recognised directly in equity in the third quarter of the 2007 financial year, the Group net income for the comparable period of the previous year was reduced by an amount of altogether EUR 12.0 million. Both the earnings per share and the earnings per share from continuing operations for the previous period therefore had to be reduced retrospectively by EUR 0.10 per share. For further explanatory notes please see our remarks in Section 2 "Accounting principles including major accounting policies".

Neither in the reporting period nor in the previous period were there any dilutive effects or other extraordinary components of income which should have been recognised or disclosed separately in the calculation of the earnings per share.

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

## 7. Transactions with related parties

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

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

The Hannover Re Group provides reinsurance protection for the HDI Group. To this extent, numerous underwriting business relations exist with related parties in Germany and abroad that are not included in Hannover Re's consolidation. This includes business both assumed and ceded at usual market conditions. Protection Reinsurance Intermediaries AG grants Hannover Re and E+S Rück a preferential position as reinsurers of ceding companies within the Talanx Group. In addition, Hannover Re and E+S Rück are able to participate in the protection covers on the retention of Group cedants and share in the protection afforded by them.

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

#### Business assumed and ceded in Germany and abroad

Figures in EUR thousand	2008	
Related parties	Premium	Underwriting result
	<b>30.9.</b>	<b>30.9.</b>
<b>Business assumed</b>		
ASPECTA Assurance International AG	15,280	2,297
ASPECTA Assurance International Luxembourg S.A.	25,944	2,934
ASPECTA Lebensversicherung AG	88,404	8,475
CiV Lebensversicherung AG	31,180	(3,602)
CiV Versicherung AG	11,365	4,449
HDI Asekuracja Towarzystwo Ubezpieczen S.A.	19,633	12,201
HDI Assicurazioni S.p.A.	11,739	4,965
HDI Direkt Versicherung AG	241	(4,910)
HDI-Gerling Firmen und Privat Versicherung AG	8,602	(2,455)
HDI-Gerling Industrie Versicherung AG	138,076	(15,254)
HDI-Gerling Lebensversicherung AG	11,350	(2,901)
HDI-Gerling Verzekeringen N.V.	24,921	(560)
HDI HANNOVER International España, Cia. de Seguros y Reaseguros S.A.	14,902	3,466
HDI Versicherung AG	8,854	(2,792)
HDI Sigorta A.S.	19,563	(4,382)
Magyar Posta Biztosító Részvénytársaság	5,805	(2,889)
Postbank Lebensversicherung AG	37,370	(1,099)
Other companies	10,368	4,316
	<b>483,597</b>	<b>2,259</b>
<b>Business ceded</b>		
HDI-Gerling Industrie Versicherung AG	(579)	(7,096)
Other companies	–	7
<b>Total</b>	<b>483,018</b>	<b>(4,830)</b>

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

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

Companies belonging to the Talanx Group granted the Hannover Re Group insurance protection inter alia in the areas of public liability, fire, group accident and business travel collision insurance. In addition, Talanx AG billed Hannover Re and E+S Rück pro rata for the directors' and officers' (D&O) insurance of the Talanx Group. Divisions of Talanx AG also performed services for us in the areas of taxes and general administration. All transactions were effected at usual market conditions.

## 8. Other notes

### 8.1 Contingent liabilities and commitments

Hannover Re has secured by subordinated guarantee a subordinated debt in the amount of USD 400.0 million issued in the 1999 financial year by Hannover Finance, Inc., Wilmington/USA. In February 2004 and May 2005 Hannover Re bought back portions of the subordinated debt in amounts of USD 370.0 million and USD 10.0 million respectively, leaving an amount of USD 20.0 million still secured by the guarantee. In the 2007 financial year the issuer bought back the debt from Hannover Re in an amount of USD 380.0 million for the purpose of cancelling the debt, which was subsequently cancelled. For further details please see the information on debt and subordinated capital in the consolidated financial statement as at 31 December 2007.

Hannover Re has placed three subordinated debts on the European capital markets through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured by subordinated guarantee both the debt issued in 2001, the volume of which now stands at EUR 138.1 million, and the debts from financial years 2004 and 2005 in amounts of EUR 750.0 million and EUR 500.0 million respectively. For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2007.

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

In July 2004 Hannover Re and the other shareholders sold the participation that they held through Willy Vogel Beteiligungsgesellschaft mbH in Willy Vogel AG. In order to secure the guarantees assumed under the purchase agreement, Hannover Re and the other shareholders jointly gave the purchaser a directly enforceable guarantee for a period until 2009 limited to a total amount of EUR 7.1 million. Furthermore, in the event of a call being made on the guarantee Hannover Re and the other shareholders agreed that settlement would be based upon the ratio of participatory interests.

As security for technical liabilities to our US clients, we have established a master trust in the USA. As at the balance sheet date this master trust amounted to EUR 2,170.7 million (31 December 2007: EUR 2,088.3 million). In addition, we extended further collateral to our cedants in an amount of EUR 247.9 million (31 December 2007: EUR 328.7 million) through so-called "single trust funds".

As part of our business activities we hold collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the Group's major companies was EUR 1,516.2 million (31 December 2007: EUR 1,235.1 million) as at the balance sheet date.

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

As security for our technical liabilities, various financial institutions have furnished guarantees for our company in the form of letters of credit. The total amount as at the balance sheet date was EUR 2,116.3 million (31 December 2007: EUR 2,150.0 million).

Outstanding capital commitments with respect to special investments exist on the part of the Group in the amount of EUR 244.0 million (31 December 2007: EUR 235.2 million). These primarily involve as yet unfulfilled payment obligations from participations entered into in private equity funds and venture capital firms.

Within the scope of a novation agreement regarding a life insurance contract we assumed contingent reinsurance commitments with respect to due date and amount. The financing phase was terminated effective 31 December 2004 as per the agreement. The level of Hannover Re's liability as at the date of novation (31 December 2011) in relation to future balance sheet dates may change due to fluctuations in the EURIBOR and discrepancies between the actual settlements and the projections. The estimated amount of the reinsurance commitments as at the balance sheet date was unchanged at EUR 10.3 million.

## 8.2 Events after the end of the quarter

In response to the turmoil on international capital markets we decided to dispose of the available-for-sale portfolio of equities and equity funds – with the exception of a volume of some EUR 300 million – in the period from 1 to 13 October 2008. The loss on disposal of these securities classified as available for sale amounted to altogether EUR 206 million. The remaining volume of equities and equity funds is to a large extent hedged by exchange-traded put options.

E+S Rück expects to participate in a counter-guarantee given by the insurance industry for the guarantee put up by the Federal Republic of Germany as part of a rescue package for Hypo Real Estate Holding AG, Munich, and its subsidiaries ("HRE Group"). In this connection the Federal Republic of Germany shall guarantee repayment of capital and interest to the German Bundesbank, which is to extend a loan to the HRE Group, as well as to the holders of newly issued debentures, through which further funds are to be made available to the HRE Group. The insurance industry will assume a portion of this guarantee amount put up by the federal government through the aforementioned counter-guarantee. E+S Rück's interest in this counter-guarantee will be limited to a nominal amount of EUR 11.1 million (rounded). The counter-guarantee agreement is due to be signed in the first half of November.



## Key exchange rates

1 EUR corresponds to:	Mean rate of exchange on the balance sheet date		Average rate of exchange	
	2008	2007	2008	2007
	30.9.	31.12.	1.1.–30.9.	1.1.–30.9.
AUD	1.7814	1.6775	1.6761	1.6389
BHD	0.5420	0.5530	0.5732	0.5078
CAD	1.5010	1.4440	1.5371	1.4819
CNY	9.8350	10.7400	10.6338	10.3184
GBP	0.7961	0.7346	0.7800	0.6773
HKD	11.1426	11.4760	11.8544	10.5147
KRW	1,735.0000	1,377.0000	1,550.3000	1,253.4000
MYR	4.9411	4.8652	4.9692	4.6629
SEK	9.7930	9.4350	9.4508	9.2189
USD	1.4340	1.4716	1.5211	1.3472
ZAR	11.9221	10.0300	11.6326	9.5963



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