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Company Article
Hannover Rueckversicherung AG

FSR: **AA-/Stable/--** FSR Last Reviewed: 20-May-08 Germany

CCR: **AA-/Stable/--** CCR Last Reviewed: 20-May-08 Sector: Reinsurance

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Please note that the ratings covered by this full analysis apply only to core entities of the group, which are listed below. These ratings do not apply to any noncore or unrated entities of the group. Ratings assigned to noncore entities of the group are published individually.

Operating Company Covered By This Report

Financial Strength Rating

Local Currency
AA-/Stable/--

Major Rating Factors

Strengths:
- Very strong operating performance
- Strong enterprise risk management
- Very strong competitive position
- Effective management team with clear, consistent strategy and successful execution track record

Weaknesses:
- Moderate group capital quality
- Limited financial flexibility due to restricted access to equity markets

Rationale

The ratings on Germany-based reinsurer Hannover Rückversicherung AG and other core members of the Hannover Re group (collectively referred to as Hannover Re; see table 6 below) reflect the group's very strong operating performance, strong enterprise risk management (ERM), and very strong competitive position, combined with effective management strategies. These strengths are partially offset by the group's limited financial flexibility, stemming from its restricted access to equity markets and moderate group capital quality.

Hannover Re's operating performance is very strong. The group has a better, and less volatile, earnings track record than many of its peers because of its diverse portfolio and cost leadership. That said, the group has a less transparent policy on financial disclosure than its major competitors, and partly achieved its greater earnings stability through its conservative management of loss reserve confidence levels during the hard market.

Hannover Re's ERM is strong, and should prevent the group from experiencing losses significantly greater than its risk tolerance. A long-standing culture of risk management has ensured the development over time of strong risk controls for the group's main risks.

Hannover Re's competitive position is very strong, based on its established brand and diversified portfolio. In particular, the group's life and health operations are not significantly correlated to its property/casualty operations, and so provide meaningful diversification.

Management is a positive rating factor, reflecting the clarity of strategy, strong operational controls, and a track record of successful strategy execution--in particular, superior underwriting cycle management.

The quality of capital remains a negative rating factor, due to the group's high (albeit substantially reduced) reliance on equity substitutes such as hybrid debt, securitization, and retrocession. Reduced availability of one or more of these sources would have profound implications for the group's business model and therefore its competitive position. In addition, the loss reserve discount constitutes a material, less tangible component of total adjusted capital. The group's very strong capital adequacy supports its capitalization, however.

The group's financial flexibility is strong, but limited, in our view. Compared with highly rated peers, Hannover Re demonstrates greater reliance on third-party capital--for example, hybrid issues, retrocession, and securitization--to finance growth. Its access to equity markets is restricted by the reluctance of its majority shareholder Talanx AG to support further capital injections, other than in a stress scenario, or to dilute ownership. Nevertheless, to date, our concerns regarding the continued availability of external funding have not been realized.

Outlook

The stable outlook reflects our expectation that Hannover Re will maintain its very strong operating performance throughout the cycle. The group's profitability, adjusted for its conservatism regarding loss reserve confidence levels, should be at least in line with peers of the same financial strength. In particular, we expect the non-life combined ratio to remain below 100% throughout the cycle and the operating return on embedded value in life and health reinsurance to reach about 12%. In addition, the group should post a consolidated return on equity (ROE) of close to 15%. The retrocession utilization ratio should not exceed 15%.

The ratings could come under pressure if the group fails to achieve these targets. We consider an outlook revision to positive remote over the rating horizon.

We also expect capitalization to remain strong, with the capital adequacy remaining at the currently very strong level. Hannover Re should benefit from the support of its intermediate parent, Talanx AG (A-/Stable/--), if a stress scenario occurs. Hannover Re is core to Talanx, although we consider that Talanx remains reluctant to provide additional capital to finance Hannover Re's business growth.

Corporate Profile: Significant Global Reinsurer, Core To Talanx

HDI Haftpflichtverband der Deutschen Industrie VaG (HDI; A+/Stable/--) is Hannover Re's ultimate majority shareholder. It has a 50.2% stake in the group through intermediate holding company Talanx. Some 49.8% of the group's shares are in free float and German institutions and individuals hold the largest portion of them.

Despite its operational independence, Standard & Poor's considers Hannover Re core to Talanx on account of its strategic role and size. The ratings on Hannover Re are therefore underpinned by the financial strength of the core primary insurance entities of the Talanx group (core operating entities are rated A+/Stable). The combination of Hannover Re's core status and its relative operating independence means that the ratings on Hannover Re will not fall below those on the core operating entities of the Talanx group, and could be up to two notches higher.

Hannover Re is the fourth-largest reinsurer globally. It agreed to sell its U.S. subsidiary Praetorian Financial Group, Inc. to the Australian QBE Insurance Group Ltd. in December 2006 and the transaction became effective on May 31, 2007. Separate financial reporting on the financial reinsurance segment ceased with effect from Jan. 1, 2007. In 2007, the breakdown of gross premiums written (GPW) by segment was as follows: property/casualty reinsurance, including financial reinsurance and the run-off of the U.S. specialty business (63%), and life and health reinsurance (37%). GPW by region across all lines derived from North America (27%), Europe excluding Germany (37%), Germany (17%), Australasia (13%), and other (6%). Access to the German market is assisted by a majority shareholding in E+S Rückversicherung AG (AA-/Stable/--).

Competitive Position: Sustainable Competitive Advantage Through Diversification By Geography And Product Line

Hannover Re Group/Business Statistics					
	--Year ended Dec. 31--				
(Mil. €)	**2007**	**2006**	**2005**	**2004**	**2003**
Consolidated					
Total gross premiums written	8,258.9	9,289.3	9,668.5	9,566.6	11,342.9
Annual change (%)	(11.1)	(0.3)	1.1	(15.7)	(9.0)
Total net premiums written	7,222.0	7,090.0	7,760.8	7,423.7	8,159.4
Annual change (%)	1.9	(3.9)	4.5	(9.0)	0.3
Total revenue	8,240.2	8,013.8	8,625.2	8,465.5	8,990.6
Non-life (%)	62.8	66.7	71.2	74.8	77.5
Life/health (%)	37.7	33.3	27.2	25.9	23.4
Other (%)	0.3	0.1	(0.5)	(0.7)	(1.0)
EBITDA	856.4	602.4	(33.1)	368.9	582.8
Non-life (%)	65.6	77.8	494.1	77.5	91.1
Life/health (%)	29.3	21.8	(274.6)	17.8	8.9
Other (%)	5.1	0.4	(54.5)	N.A.	N.A.
Gross premiums written by line of business (%):					
Non-life	62.8	69.9	76.7	77.0	80.0
Property/casualty reinsurance	N.A.	N.A.	48.8	43.0	42.0
Specialty insurance	N.A.	N.A.	18.3	22.0	23.0
Financial reinsurance	N.A.	N.A.	9.6	12.0	15.0
Life and health	37.3	30.1	25.1	23.0	20.0
Life and health business					
Gross premiums written	3,082.9	2,793.6	2,425.1	2,176.5	2,276.3
Annual change (%)	10.4	15.2	11.4	(4.4)	(7.9)
Net premiums earned	2,795.3	2,373.4	2,257.6	1,956.3	1,936.3
Annual change (%)	17.8	5.1	15.4	1.0	(9.6)
Gross premiums written by line of business (%):					
Life	74.0	77.0	79.0	80.0	66.0
Health	10.0	12.0	13.0	15.0	20.0
Personal accident	2.0	2.0	1.0	3.0	1.0

Annuity	14.0	9.0	7.0	2.0	13.0
Non-life business					
Gross premiums written	5,189.5	6,495.7	7,415.1	7,390.0	9,066.5
Annual change (%)	(20.1)	(12.4)	0.3	(18.5)	(9.3)
Net premiums earned	4,497.6	4,718.7	5,497.1	5,619.1	6,219.3
Annual change (%)	(4.7)	(14.2)	(2.2)	(9.7)	12.1
Thereof					
Property/casualty reinsurance*					
Gross premiums written	N.A.	4,619.7	4,716.8	4,100.0	4,787.1
Annual change (%)	N.A.	(0.4)	15.0	(14.4)	(20.5)
Net premiums earned	N.A.	3,913.8	3,920.0	3,471.7	3,500.0
Annual change (%)	N.A.	(0.2)	12.9	(0.8)	(0.1)
Gross premiums written by line of business (%):					
Property	N.A.	35.0	34.0	37.0	35.0
Casualty	N.A.	40.0	40.0	35.0	36.0
Marine/aviation	N.A.	15.0	17.0	18.0	20.0
Credit/surety	N.A.	7.0	6.0	7.0	6.0
Other	N.A.	3.0	3.0	3.0	3.0
Specialty insurance*					
Gross premiums written	N.A.	1,047.7	1,774.1	2,108.2	2,646.7
Annual change (%)	N.A.	(28.2)	(15.8)	(20.3)	(3.0)
Net premiums earned	N.A.	108.6	743.3	942.7	1,155.9
Annual change (%)	N.A.	(78.1)	(21.2)	(18.4)	38.8
Gross premiums written by line of business (%):					
Property	N.A.	12.0	12.0	49.0	N.A.
Motor third-party liability	N.A.	31.0	32.0	29.0	N.A.
General liability	N.A.	39.0	44.0	12.0	N.A.
Health	N.A.	1.0	3.0	5.0	N.A.
Marine	N.A.	17.0	9.0	5.0	N.A.
Financial reinsurance*					
Gross premiums written	N.A.	878.5	924.1	1,181.8	1,632.7
Annual change (%)	N.A.	(4.9)	(21.8)	(27.6)	31.4
Net premiums earned	N.A.	698.3	833.8	1,204.7	1,563.4
Annual change (%)	N.A.	(16.2)	(30.8)	(22.9)	29.1
*From 2007, property/casualty reinsurance, specialty insurance and financial reinsurance are included in the non-life segment. N.A.--Not available.					

Hannover Re's competitive position is very strong, based on its established brand and diversified portfolio. In particular, the group's life and health operations provide meaningful diversification as they are not significantly correlated to its property/casualty division.

Hannover Re's market credentials are very well established. Its competitive position is primarily founded on its established brand, perceived financial security, and the quality of the core underwriting and claims service it provides to brokers and clients. Active cycle management supports the competitive position, as does selective withdrawal from non-life reinsurance business where it does not meet the group's risk based return targets.

Property/casualty reinsurance

This is Hannover Re's largest core division. The group follows an opportunistic strategy, facilitated by predominantly broker distribution, and does not generally compete head-to-head with larger peers. The division's portfolio is diverse in terms of geography and line of business. In 2007, gross premium income decreased partly because of adverse currency movements but also because of the withdrawal from business with insufficient rates, for example, directors' and officers' liability insurance within the U.S. casualty business.

Life and health reinsurance

Hannover Re is among the five largest life and health reinsurers globally. We consider this division to be the least correlated to the core property/casualty segment, so it offers significant diversification benefits. The group concentrates on operating directly with a select number of target markets and customers. GPW increased by 10.4% to €3.1 billion in 2007. Traditional risk-oriented reinsurance business accounted for 40% of GPW. Of the 2007 GPW, stochastic partnership business and business with multinational clients represented 26%, bancassurance 14%, and business from new markets and products 20%. Value growth in 2007 mainly stemmed from traditional risk reassurance; 22.2% of 2007 value of new business (VNB) and 35.5% of present value of future profits (PVFP). In 2007, Europe generated 58% of life and health reinsurance GPW, while North America generated 21%. We expect the division's GPW to grow by between 10% and 15% in 2008.

Financial reinsurance

Hannover Re exploits its competitive advantages as a leading property/casualty reinsurer to access this business. The group has leading positions in its chosen niche markets of whole-account excess of loss (XL), spread loss, and surplus relief contracts, where it is one of the top three players. In 2007, the group sourced about half of its gross premium income from financial reinsurance from North America. Prospectively, Hannover Re is seeking to build its position in Europe, Latin America, and Asia, and to write business with a higher risk-transfer element and, therefore, a higher return.

Standard & Poor's considers that Hannover Re's competitive position demonstrates greater reliance on third-party capital than that of its highly rated peers. This is particularly reflected in its higher use of retrocession and securitization. The February 2006 sidecar transaction with Kaith Re (K5) provided $540 million of capacity support for nonproportional reinsurance treaties in the property, catastrophe, aviation, and marine (including offshore) lines in 2007. In addition, Hannover Re placed an aggregate XL cover of $200 million on its worldwide natural catastrophe business in the capital markets (Kepler transaction) and issued a securitization for European windstorm covering $510 million (EURUS transaction). We expect that Hannover Re will maintain extensive protection of its equity base in 2008 and that reduced retrocession costs will partly compensate for losses in GPW arising from rate declines in softening markets.

The long-term future of traditional retrocession sources is unclear, and Standard & Poor's questions whether current investors in nontraditional solutions are truly long-term partners. Standard & Poor's believes a significant reduction in one or both sources would have negative implications for the group's competitive position and future earnings. Nevertheless, we acknowledge that the group has a long track record of successfully placing its reinsurance through soft and hard market cycles alike. Furthermore, Hannover Re's dependence on retrocession has reduced significantly following the sale of the U.S. specialty insurance operations.

Relatively low barriers to entry affect Hannover Re's competitive position in its core property/casualty reinsurance segment, particularly in short-tail lines. Classes such as property catastrophe reinsurance have increasingly proven to be commodity-like and they remain open to price-led competition. High and enduring barriers to entry (for the reinsurance industry) are to be found, however, within the financial and life and health reinsurance markets.

Management And Corporate Strategy: Continues To Be Viewed Positively

Management is a positive rating factor, reflecting the clarity of strategy, strong operational controls, and a track record of successful execution--in particular, superior underwriting cycle management.

Strategy

With the exception of the specialty insurance segment, there has been strong continuity and consistency in Hannover Re's strategy, the execution of which has benefited from stable management. As the group stated, the central strategic objective is "to generate value-based growth as an optimally diversified and economically independent reinsurance group of above-average profitability." Key elements of this objective include:

- The flexible allocation of capital to those business groups, regions, and lines that offer the highest potential returns. As a result, management actively manages underwriting cycles. In property/casualty reinsurance, for example, it operates opportunistically, focusing heavily on the broker market and the nonproportional sector.
- Self-funding of primarily organic growth. Currently, it would only contemplate acquisitions within the life and health reinsurance business.
- Maintaining its position as one of the top three most profitable reinsurers in terms of ROE and annual growth in earnings per share. Hannover Re has been focusing on shareholder value creation for longer than some of its peers. Although the pursuit of shareholder value is not in itself a benefit to financial strength, we consider the related focus on long-term profitability, capital management, and the extensive use of risk-based capital hurdle rates to be strengths.

Operational management

Hannover Re has avoided many of the operational pitfalls experienced by some of its peers, enabling the management team to create a solid track record of credibility in the insurance broker and investor communities. The group has not needed to strengthen reserves materially in recent years and has avoided other industry issues such as asbestos and pollution. Hannover Re has also not been materially affected by the recent subprime mortgage crisis.

Financial management

With limited volatility, Hannover Re aims to achieve a minimum ROE of 750 basis points above the risk-free rate (that is, the five-year average yield of 10-year government bonds), as well as double-digit growth in operating profit (EBIT), earnings per share, and book value per share.

The group has met its ROE target almost every year since it introduced the target in 1995; the exceptions being 2001, due to the events of Sept. 11, 2001, and 2005, due to hurricanes Katrina, Rita, and Wilma (KRW).

Capital management is more aggressive than for some peers as the group seeks to provide attractive shareholder returns. For example, to keep the cost of capital as low as possible, the group has made significant use of hybrid equity instruments.

Enterprise Risk Management: Strong: Based On A Long-Standing Culture

Of Risk Management

Hannover Re's ERM is considered strong, and should prevent the group from experiencing losses significantly greater than its risk tolerance. In our view, the importance of ERM to the ratings on Hannover Re is very high. The group operates in complex business lines (many of which are exposed to extreme financial volatility) and we also consider it to be more operationally leveraged than peers. Against this background, Hannover Re has set itself the task of delivering demanding operating performance targets with limited volatility. The major factors supporting the overall assessment are a strong risk management culture, and strong underwriting, reinsurance, reserve, and strategic risk controls. These strengths are partially offset by only adequate controls in operational and emerging risks. In addition, the implementation of a holistic ERM approach across all business units and management levels of the organization is quite recent, and the efficacy has yet to be tested over a longer period of time.

Hannover Re's risk management culture is strong and well developed. It is characterized by central coordination of group risk management combined with local responsibility. A group risk committee (a subcommittee of the executive board) has been implemented, and senior management has demonstrated strong commitment by clearly articulating the importance of ERM for operating within the reinsurance industry.

We view investment risk controls, including credit risk, as strong, with multiple measures, clear limits, benchmarks, and minimum standards. These guidelines are set both at group and legal entity level.

Underwriting risk-related controls are strong. In general, the group exerts strong central control over the property/casualty reinsurance underwriting process--for example, calculation of a "technical price" per treaty, and centralized modeling and pricing. By contrast, it runs the life reinsurance operations locally, supported by internal reviews of peers. Although this may reflect the importance of local relationships to the life reinsurance business model, it may mean that it has fewer central controls in place.

As with all large global reinsurance organizations, Hannover Re strives to ensure that the quality of its underwriting is consistently high within all divisions and at all locations.

Catastrophe risk-related controls are strong. They are based on clear risk tolerances and include central catastrophe model and risk accumulation controls through group risk management. The group's performance in the 2005 hurricane season highlighted some catastrophe risk control deficiencies that appeared to be common to the reinsurance and insurance industries. Management action in the intervening period has sought to address highlighted weaknesses, including upgrading modeling capabilities. In light of the benign catastrophe activity since 2005, the effectiveness of these actions has yet to be tested.

Reinsurance (retrocession) risk-related controls are strong. Hannover Re has traditionally been a significant user of retrocession. The group undertakes group retrocession purchasing and management centrally within the risk tolerances set by the executive board. Comprehensive systems are in place to allow actual group retrocession exposure to be monitored against assigned limits. Furthermore, Hannover Re transferred €1 billion credit risk stemming from retrocession recoverables to the capital markets (Merlin transaction).

Reserve risk-related controls are strong and are the responsibility of group risk management, which is in charge of groupwide determination of reserves. In addition, third parties perform regular external reviews as a second line of defense. Unlike many peers, Hannover has consistently reported positive developments in its overall prior-year loss reserves. Wherever management has identified weaknesses in the process, it has taken action to further improve the process.

Hannover Re's strategic risk management is strong. The group has very clear financial goals and has met its ROE target every year since it was introduced in 1995, with the exception of 2001 (Sept. 11) and 2005 (KRW). The group has a clear view of risk-adjusted minimum profit targets and a well-established methodology for allocating capital to business segments. These controls, together with the detailed indexing and monitoring of premium rates, allow it to actively manage the reinsurance cycle.

Operational risk-related controls are adequate. The group has recently upgraded its business continuity management capabilities and is implementing actions to mitigate information technology risks. Like many of its peers, however, Hannover Re receives a variable quality of data from cedents. The group is actively working to improve the quality of the data it receives.

Emerging risk-related controls are adequate. The group is implementing a project to formalize the current processes for identifying and assessing emerging risks.

Accounting: Reporting Under International Financial Reporting Standards And Market Consistent Embedded Value

The key adjustments made within Standard & Poor's risk-based capital model from published financial statements, produced using International Financial Reporting Standards (IFRS), are as follows:

- Credit for material, permanent differences in tax liability arising from the restatement of the group members' German statutory accounts under IFRS in respect of equalization reserves;
- Recognition of loss reserve discount balances;
- Credit for life and health PVFP, calculated using market consistent embedded value (MCEV) principles; and
- Credit for hybrid equity.

Our analysis of the life insurance business has mainly been fueled by the results of the MCEV calculations. The impact on earnings of Hannover Re's conservative management of loss reserve confidence levels is not transparent. This reduces the informational value of the financial statements.

Operating Performance: Very Strong Operating Performance Expected To Be Maintained

Hannover Re Group/Operating Statistics					
	--Year ended Dec. 31--				
(Mil. €)	**2007**	**2006**	**2005**	**2004**	**2003**
Consolidated					
Total revenue	8, 240.2	8, 013.8	8, 625.2	8, 465.5	8, 990.6
EBITDA (excluding realized gains)	856.4	602.4	(33.1)	368.9	582.8
EBITDA (including realized gains)	1, 030.8	819.7	129.2	530.1	723.6
Net income	850.0	602.8	81.4	330.1	410.8
Return on adjusted equity (%)	16.5	12.5	1.8	8.5	12.8
Return on equity (%)	23.3	18.7	1.9	10.9	17.1
Return on assets (%)	2.4	1.7	0.3	1.1	1.5
Return on assets (after minority interests)(%)	2.1	1.4	0.2	0.9	1.3
Return on revenue (%)	10.4	7.5	(0.4)	4.4	6.5
Return on revenue (incl. realized gains) (%)	12.2	10.0	1.5	6.1	7.9
Realized gains/EBITDA including realized gains (%)	16.9	26.5	125.6	30.4	19.5
Administrative expense ratio (%)	3.1	3.2	3.9	3.8	3.8
Commissions expense ratio (%)	24.3	27.6	24.8	21.6	13.8

Non-life loss ratio (%)	74.7	73.7	85.6	81.6	86.8
Non-life combined ratio (%)	100.6	101.5	112.5	104.7	102.1
Net cash flow from operating activities	912.1	1, 660.4	1, 554.3	608.3	1, 844.0
Net cash flow from investing activities	(678.7)	(1, 708.1)	(1, 798.9)	(1, 745.1)	(2, 640.4)
Net cash flow from financing activities	(233.2)	(37.3)	191.5	1, 234.5	461.6
Life and health business					
Life revenue	3, 109.5	2, 670.4	2, 530.5	2, 192.0	2, 106.4
Life technical result	197.7	100.7	113.9	98.2	65.4
Return on sales (%)	7.1	4.2	5.0	5.0	3.4
Return on revenue (%)	6.4	3.8	4.5	4.5	3.1
Realized gains/technical result	89.7	3.0	5.7	3.4	6.2
Administration expense ratio (%)	2.2	2.1	2.6	2.8	2.3
Commissions expense ratio (%)	27.9	35.0	30.3	29.3	22.1
Allocated investment income	314.2	297.1	272.9	235.7	170.1
Embedded value profit	247.9	188.4	N.A.	N.A.	N.A.
Embedded value profit excl. currency movements	306.7	229.0	N.A.	N.A.	N.A.
Return on embedded value	15.3	13.3	N.A.	N.A.	N.A.
Return on embedded value excl. currency movements	18.9	16.2	N.A.	N.A.	N.A.
Value of new business/value in force	10.3	6.5	N.A.	N.A.	N.A.
New business margin -annual premuim equivalent	20.5	4.7	N.A.	N.A.	N.A.
New business margin - value of new business profit	3.2	1.3	N.A.	N.A.	N.A.
Non-life business					
Non-life revenue	5, 174.9	5, 349.1	N.A.	N.A.	N.A.
Non-life technical result	650.6	559.4	N.A.	N.A.	N.A.
Return on revenue (%)	12.6	10.5	N.A.	N.A.	N.A.
Realized gains/technical result	21.1	27.7	N.A.	N.A.	N.A.
Administrative expense ratio (%)	3.3	3.2	N.A.	N.A.	N.A.
Commissions expense ratio (%)	22.6	24.6	N.A.	N.A.	N.A.
Operating ratio (%)	85.5	88.1	N.A.	N.A.	N.A.
Non-life underwriting result	(26.7)	(71.0)	N.A.	N.A.	N.A.
Allocated investment income	677.3	630.4	N.A.	N.A.	N.A.
Thereof					
Property/casualty reinsurance*					
Property/casualty revenue	N.A.	4, 395.4	4, 283.4	3, 811.1	3, 782.2
Property/casualty technical result	N.A.	545.4	(138.7)	444.3	423.4
Return on revenue (%)	N.A.	12.4	(3.2)	11.7	11.2
Realized gains/technical result	N.A.	29.1	503.6	22.3	20.4
Administrative expense ratio (%)	N.A.	2.6	2.3	2.5	2.7
Commissions expense ratio (%)	N.A.	21.3	21.0	18.1	8.2
Loss ratio (%)	N.A.	74.5	89.5	76.3	85.1
Combined ratio (%)	N.A.	98.4	112.8	97.0	96.0
Operating ratio (%)	N.A.	86.1	103.5	87.2	87.9
Underwriting result	N.A.	63.9	(502.1)	104.9	141.1
Allocated investment income	N.A.	481.6	363.4	339.4	282.2
Specialty insurance*					
Specialty business revenue	N.A.	149.0	801.2	990.3	1,

					200.0
Specialty business technical result	N.A.	(57.8)	30.4	(88.1)	64.2
Return on revenue (%)	N.A.	(38.8)	3.8	(8.9)	5.4
Realized gains/technical result	N.A.	10.1	0.5	(8.7)	20.1
Combined ratio	N.A.	190.6	103.7	114.4	98.3
Financial reinsurance*					
Financial reinsurance revenue	N.A.	806.7	1, 053.1	1, 528.8	1, 989.1
Financial reinsurance technical result	N.A.	73.8	54.2	93.1	134.6
Return on revenue (%)	N.A.	9.1	5.1	6.1	6.8
Realized gains/technical result	N.A.	(5.9)	25.3	20.0	8.2
Combined ratio	N.A.	105.0	119.8	119.2	118.6
*From 2007, property/casualty reinsurance, specialty insurance and financial reinsurance are included in the non-life segment. N.A.--Not available.					

Hannover Re's operating performance is very strong. The group's earnings track record over a sustained period has been better and less volatile than that of many of its peers, supported by its diversity and cost leadership. The latter is particularly important during soft markets.

The group, however, has a less transparent policy on financial disclosure than its major competitors, and partly achieved its greater earnings stability through its conservative management of loss reserve confidence levels during the hard market. Hannover Re's five-year average ROE of 14.7% compares with a 9.7% peer group average.

Property/casualty reinsurance

Reinsurance market conditions in property/casualty reinsurance remained strong up to 2007 and allowed Hannover Re to restructure its portfolio and embed a higher loading for natural catastrophe losses within its pricing. The 2008 renewals were characterized by a softening market with rates having come under pressure, although to a lesser extent than in the primary insurance market. Negative effects on the group's earnings will remain limited in 2008 because there is time lag before rate reductions become effective. Furthermore, Hannover Re has so far managed to increase market share in more profitable segments like Germany and credit/surety. It has reduced the proportion of U.S. casualty business, in particular directors' and officers' covers, where, in the group's opinion, prices and conditions have stopped being sufficient to cover the assumed risk.

In property business, rates have slightly decreased but remained at an adequate level. Against this background, we expect that a combined ratio of less than 100% (99.7% in 2007) and a return on revenue of about 10% (12.6 % in 2007) should be achievable in 2008 in the absence of major insured catastrophes. Hannover Re's higher combined ratio in 2007, relative to major peers, reflects additional costs due to higher retrocession usage and the higher portion of XL casualty business, largely German motor business, in the group's portfolio. In addition, the impact of improvements in loss reserve confidence levels and of run-off results from prior-year reserves on the combined ratio is not transparent from the financial disclosure.

Life and health reinsurance

We expect this division to maintain its current positive trend of value creation (12.3% MCEV growth and 50.9% operating embedded value earnings growth during 2007). Key drivers of value growth are likely to be financing treaties, block assumption transactions, and bancassurance. In 2007, the division reported a strong increase in VNB, by 65.7% to €106.4 million. This almost achieved the goals set for 2008--that is, VNB in excess of €110 million (€64.2 million in 2006). The new business margin improved to 3.2% of present value of new business premiums from 1.3% in 2006. Going forward, we expect an operating return on embedded value of about 12% and a continuously increasing contribution of VNB to the value in force.

Consolidated group

Overall, Hannover Re's operating performance should remain very strong, reflected in a consolidated ROE of about 15%. It should be at least in line with peers of similar financial strength.

Investments: Conservative Investment Stance

Hannover Re Group/Investment Statistics					
	--Year ended Dec. 31--				
(Mil. €)	**2007**	**2006**	**2005**	**2004**	**2003**
Total invested assets	28, 911.9	28, 659.7	27, 356.0	24, 777.1	22, 073.5
Reinsurance deposits (%)	29.8	30.5	29.9	36.2	34.7
Net investment income	1, 038.2	971.4	968.4	991.4	1, 040.1
Realized gains/(losses)	174.3	217.4	162.2	161.2	140.8
Unrealized gains/(losses) - including revaluation reserves	(99.3)	(126.2)	49.1	22.3	93.5
Net investment yield (%)	3.6	3.5	3.7	4.2	4.9
Net investment yield including realized gains (%)	4.2	4.2	4.3	4.9	5.6
Net investment yield including realized and unrealized gains (%)	3.9	3.8	4.5	5.0	6.0
Portfolio composition					
Real estate (%)	0.2	0.2	0.7	1.0	1.2
Shares and variable yield securities (%)	7.0	5.6	4.5	4.5	4.2
Bonds (%)	54.2	55.8	57.3	51.7	52.6
Cash and bank deposits (%)	4.4	3.7	4.5	4.2	4.3
Reinsurance deposits (%)	29.8	30.5	29.9	36.2	34.7
Other invested assets, incl. hedge funds (%)	4.5	4.1	3.1	2.5	2.9

Investments are considered very strong, but are not a significant rating factor. The group seeks to generate a return at least equal to the risk-free interest rate plus the cost of capital deriving from the asset allocation.

Hannover Re actively seeks to match its liabilities by currency, and asset duration is broadly in line with the group's liability profile. The use of derivatives is restricted to tactical asset allocation and hedging.

With the investment portfolio's heavy fixed-interest orientation, the group is significantly more exposed to rising interest rates than to falling stock markets. The group exposure to monoline insurers and subprime residential mortgage-backed securities is low, the latter representing only €50 million or 0.3% of total invested assets in 2007. Therefore, we do not expect investment results to be materially affected by write-offs.

Liquidity: Very Strong, Benefiting From Highly Liquid Investments And Strong Retained Earnings

Liquidity is considered very strong. It benefits from the group's highly liquid investment portfolio, very strong retained earnings, and a €500 million credit facility.

The legal requirement to post substantial collateral with U.S. counterparties, however, is a constraining factor.

Capitalization: Very Strong Capital Adequacy Continues To Be Affected By

Moderate Capital Quality

Hannover Re Group/Capitalization Statistics					
	--Year ended Dec. 31--				
(Mil. €)	**2007**	**2006**	**2005**	**2004**	**2003**
Consolidated					
Total assets	37, 068.4	41, 386.4	39, 789.2	35, 372.0	32, 974.7
Equity	3, 349.1	2, 897.8	2, 601.0	2, 556.7	2, 404.7
Total adjusted equity	5, 336.7	4, 935.3	4, 703.0	4, 213.0	3, 562.8
Change in adjusted equity (%)	8.1	5.3	11.6	18.2	25.5
Total capital	5, 336.7	4, 935.3	4, 703.0	4, 213.0	3, 680.4
Hybrid equity/total capital (%)	26.5	29.0	32.9	26.6	18.1
Minority interests/adjusted equity (%)	10.7	12.3	11.8	12.7	13.8
Fixed charge coverage (x)	11.0	7.7	(0.4)	5.5	10.6
Debt/total capital (%)	0.0	0.0	0.0	0.0	3.2
Debt + preferred/total capital (%)	26.5	29.0	32.9	26.6	21.3
Investment leverage (%)	53.0	47.8	45.4	43.8	41.5

Capitalization is strong, supported by very strong capital adequacy. The group's reliance on third-party capital, including retrocession, securitization, and soft components such as the loss reserve discount, is a negative factor for capitalization. We consider reserving to be adequate, as demonstrated by the absence of material loss reserve development.

Capital adequacy

Hannover Re's capital adequacy, as measured by Standard & Poor's risk-based model, is very strong and we expect it to remain so.

Quality of capital

The quality of capital is materially less strong than its adequacy. The group makes extensive use of equity substitutes such as hybrid debt, securitizations, and retrocession. Reserve discount also constitutes a material, less tangible component of total adjusted capital. In line with expectations, Hannover Re's use of retrocession fell to 12.6% in 2007 (23.7% in 2006) and further to 11.4% in the first quarter of 2008, following the sale of the U.S. specialty business in 2007.

Unsecured reinsurance recoverables are typically very high by comparison with shareholders' funds in the immediate aftermath of severe catastrophe activity, such as was seen in 2001 and 2005. Overall credit quality of recoverables continues to be high, however, with 90% rated at least 'A-'. Risk is further mitigated by the high diversification of recoverables due to the retrocessionaire concentration limitations set by the group. In 2007, Hannover Re entered into an innovative transaction with a reference amount of €1 billion (Merlin CDO) to protect against the default of some of its reinsurance recoverables.

Hannover Re Group/Reinsurance And Reserves Statistics					
	--Year ended Dec. 31--				
(Mil. €)	**2007**	**2006**	**2005**	**2004**	**2003**
Consolidated					
Reinsurance utilization ratio (%)	12.6	23.7	19.7	22.4	28.1
Non-life loss reserves/adjusted equity (%)	238.8	270.2	329.0	311.4	401.6
Loss reserves/net premiums written (%)	195.0	205.2	199.3	189.7	175.3
Liquid assets/technical reserves (%)	90.0	87.1	80.1	72.7	68.8

Non-life business reinsurance result					
Loss and LAE reserves/net premium earned (%)	282.9	282.4	260.0	173.1	164.7
Net loss and LAE reserves/gross loss and LAE reserves (%)	84.2	82.0	75.5	76.3	75.6
Net loss and LAE reserves/net loss and LAE incurred (%)	378.8	383.4	304.5	286.1	248.7
Life and health business					
Technical reserves/net earned premiums (%)	205.7	221.9	223.8	228.0	171.8
Change in reserves	481.3	214.1	699.5	1, 134.4	(218.5)
Change in reserves (%)	9.1	4.2	15.7	34.1	(6.2)
LAE--Loss adjustment expenses.					

Reserves

Property/casualty reserving is considered adequate. Unlike many peers, the group has consistently reported positive developments on its prior-year loss reserves. In our view, the confidence level in the group's loss reserves has increased significantly during the hard underwriting environment. Independent actuarial reviews provide additional comfort. The conservative management of loss reserves, which is not transparent in the financial disclosure, has contributed to a greater stability of earnings.

Reinsurance

Reinsurance (retrocession) protection is adequate, although it has been significantly reconfigured as a consequence of the contraction of traditional retrocession capacity after the KRW losses. In response, Hannover Re has:

- Altered its underwriting during recent renewals to substantially reduce assumed aggregate liability;
- Significantly increased its use of nontraditional sources of protection to support its gross underwriting (K5 and other securitizations); and
- Renewed its traditional retrocession protections.

With regard to these, the group had to bear significantly higher retentions in 2006. It has seen its sideways coverage significantly curtailed and it has purchased less broad protection. In 2007, however, the group managed to increase its traditional covers again and to completely replace structured (prefunded) retrocessions. Securitizations such as K5 and Kepler compensate for the rest of Hannover Re's retrocession needs. In line with expectations, the group's dependence on retrocession has reduced from 2007 onward due to the sale of the U.S. specialty insurance operations.

Financial Flexibility: Greater Use Of Enhanced Hybrid Tolerance Limit Than Peers

The group's financial flexibility (defined as the ability to source capital relative to capital requirements) is strong, but limited, in our view. The group's business model is highly dependent on third-party capital, like hybrid issues, retrocession, and securitization because its access to equity markets is restricted by the reluctance of its majority shareholder Talanx to support further capital injections other than in a stress scenario. That said, its financial flexibility is enhanced by the consistent delivery of target earnings to shareholders almost every year since the current target was set in 1995. Standard & Poor's does not regard the group as having any immediate major capital needs, and the disposal of the U.S. specialty insurance operations in the second quarter of 2007 has enhanced financial flexibility. Financial flexibility is not as strong as for some peers, however, as Hannover Re has more fully utilized Standard & Poor's recently enhanced tolerance limit for hybrid capital and already makes extensive use of reinsurance protection.

Standard & Poor's expects that fixed-charge coverage will remain in line with the rating category.

Hannover Re Group/Group Members
Hannover Rückversicherung AG
Hannover Re Bermuda Ltd.
E+S Rückversicherung AG
E+S Reinsurance (Ireland) Ltd.
Hannover Reinsurance (Ireland) Ltd.
Hannover Reinsurance (Dublin) Ltd.
Hannover Finance (Luxembourg) S.A.
International Insurance Co. of Hannover Ltd.
Hannover Reinsurance Africa Ltd.

Ratings Detail (As Of 11-Jun-2008)*

Operating Company Covered By This Report	
Hannover Rueckversicherung AG	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Counterparty Credit Rating	AA-/Stable/--
Subordinated	A
Domicile	Germany

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.