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**Research Update:**

# Hannover Rueckversicherung AG 'AA-' Ratings Affirmed On U.S. Life Reinsurance Transaction; Outlook Stable

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## Rationale

On Jan. 23, 2009, Standard & Poor's Rating Services affirmed its 'AA-' long-term counterparty credit and insurer financial strength ratings on Germany-based composite reinsurer Hannover Rueckversicherung AG and its core entities (collectively Hannover Re), which are majority owned by Germany-based Talanx AG (Talanx; core insurance operating entities: A+/Stable/--). The outlook is stable.

The affirmation follows an announcement by Hannover Re that it intends to acquire the ING Individual Life Reinsurance Business, a major U.S. life reinsurance portfolio from Scottish Re Group Ltd. (Scottish Re, CC/Negative/--). The portfolio primarily comprises mortality-related business in the U.S., with a total sum insured of about \$501 billion and an estimated premium volume of \$1.2 billion in 2009. As part of the transaction, Hannover Re will acquire much of Scottish Re's mortality risk infrastructure and its mortality risk operating platform in the U.S.

The transaction will not materially adversely impact Hannover Re's very strong liquidity and capital adequacy. There is no up front funding requirement and it is anticipated that negative goodwill will be generated on completion. The incremental asset and mortality risk that the Hannover Re group will assume is manageable within the context of its existing capital resources. We expect no material credit risk to Scottish Re in association with the transaction.

In our opinion the enhanced scale and client access the transaction will give Hannover Re has the potential to materially enhance its position in the highly competitive U.S. life reinsurance market. Hannover Re is likely to become one of the five leading players in the U.S. life reinsurance market with the potential to achieve a 10%-15% share of the mortality risk market over the medium term compared with its current market share of about 1%. We expect the acquired portfolio to have a modest positive impact on Hannover Re's earnings over the medium term, but new business may emerge, thereby further enhancing Hannover Re's earnings power in the life segment.

Careful structuring of the deal is expected to substantially mitigate the related risks for Hannover Re. The peak Triple X and A-Triple X funding requirements associated with the acquired portfolio are likely to be covered by collateral facilities provided by high quality counterparties rated in the 'AA' category. Asset risk will be significantly reduced by Hannover Re's intention to accept only cash and/or low risk securities. Incremental pandemic exposure associated with the transaction will be covered by retrocession or securitization if it exceeds Hannover Re's risk appetite. Since the transaction does not require external funding, financial leverage and fixed

charge coverage are not expected to be materially affected by it.

The ratings on Hannover Re reflect the group's strong enterprise risk management, and very strong competitive position, combined with effective management strategies. Despite a negative group result expected for 2008 due to significant investment write-downs and high losses from hurricane Ike, Hannover Re's prospective underlying operating performance should remain very strong. These strengths are partly offset by the group's limited financial flexibility, stemming from its restricted access to equity markets and moderate capital quality.

## Outlook

The stable outlook reflects our expectation that in 2009 and beyond, Hannover Re will maintain its very strong operating performance throughout the cycle by adhering to strict underwriting discipline and a conservative investment strategy. The group's profitability, adjusted for its conservatism regarding loss reserve confidence levels, should be at least in line with that of peers of the same financial strength. In particular, we expect the non-life combined ratio to remain less than 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 of close to 15%. The retrocession utilization ratio should not exceed 15%.

We expect capitalization to remain strong and capital adequacy to remain very strong. Hannover Re should benefit from the support of Talanx if a stress scenario occurs because it is core to the parent. However, we consider that Talanx may remain reluctant to provide additional capital to finance Hannover Re's business growth.

The ratings could come under pressure if Hannover Re fails to meet our expectations. In particular, a negative rating action could occur if capital were to erode materially through further investment losses or if pricing for risks underwritten within the non-life segment fail to reflect the more challenging operating environment that lies ahead. We consider an outlook revision to positive remote over the next 12-24 months.

## Ratings List

Ratings Affirmed

Hannover Rueckversicherung AG  
Counterparty Credit Rating AA-/Stable/--

Hannover Rueckversicherung AG  
International Insurance Co. of Hannover Ltd.  
Hannover Reinsurance (Ireland) Ltd.  
Hannover Reinsurance (Dublin) Ltd.  
Hannover Re Bermuda Ltd.  
Hannover Life Reassurance of Australasia Ltd.  
Hannover Life Reassurance Ireland Ltd.

Hannover Life Reassurance Company of America  
Hannover Life Reassurance Bermuda Ltd.  
Hannover Life Reassurance (U.K.) Ltd.  
E+S Rueckversicherung AG  
E+S Reinsurance (Ireland) Ltd.  
Financial Strength Rating  
Local Currency AA-/Stable/--

E+S Reinsurance (Ireland) Ltd.  
International Insurance Co. of Hannover Ltd.  
Hannover Reinsurance (Ireland) Ltd.  
Hannover Reinsurance (Dublin) Ltd.  
Hannover Re Bermuda Ltd.  
Hannover Life Reassurance of Australasia Ltd.  
Hannover Life Reassurance Ireland Ltd.  
Hannover Life Reassurance Company of America  
Hannover Life Reassurance Bermuda Ltd.  
Hannover Life Reassurance (U.K.) Ltd.  
E+S Rueckversicherung AG  
Counterparty Credit Rating  
Local Currency AA-/Stable/--

Hannover Finance Inc.  
Subordinated\* A

Hannover Finance (Luxembourg) S.A.  
Subordinated\* A  
Junior subordinated\* A

\*Guaranteed by Hannover Rueckversicherung AG

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