

HANNOVER RE (BERMUDA) LTD.

Financial Statements

(With Independent Auditors' Report Thereon)

Years Ended December 31, 2008 and 2007

INDEPENDENT AUDITORS' REPORT

Board of Directors
Hannover Re (Bermuda) Ltd.

We have audited the accompanying financial statements of Hannover Re (Bermuda) Ltd. ("the Company"), which comprise the balance sheets as at December 31, 2008 and 2007, and the statements of income, statements of changes in shareholder's equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audits to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2008 and 2007, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Accountants
Hamilton, Bermuda
June 29, 2009

HANNOVER RE (BERMUDA) LTD.

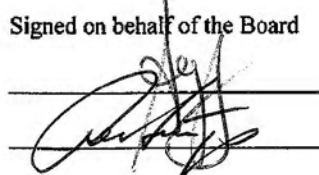
Balance Sheets

December 31, 2008 and 2007
(Expressed in thousands of Euros)

	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents (Note 5)	€ 51,043	€ 66,910
Fixed-income securities – at fair value through profit and loss (Note 6)	26,120	42,078
Fixed-income securities – available for sale (Note 6)	1,002,028	880,934
Fixed-income securities – loans and receivables (Note 6)	51,451	51,465
Fixed-income securities – held to maturity (Note 6)	94,559	94,243
Equity securities – available for sale (Note 6)	4,433	56,249
Funds withheld	3	36
Fixtures, fittings and equipment (Note 16)	193	366
Accounts receivable	80,367	57,630
Other invested assets (Notes 6 and 15)	1,383	-
Reinsurance recoverable on unpaid claims (Notes 9 and 10)	7,718	42,145
Deferred acquisition costs (Note 9)	6,604	5,460
Prepaid reinsurance premiums (Notes 9 and 10)	2,439	30,566
Other assets (Note 15)	<u>2,072</u>	<u>457</u>
Total assets	€ <u>1,330,413</u>	€ <u>1,328,539</u>
Liabilities		
Loss and loss adjustment expense reserve (Note 10)	€ 237,639	€ 212,112
Unearned premium reserve (Note 10)	79,924	70,322
Reinsurance payable (Note 7)	80,587	75,839
Other liabilities (Note 15)	-	1,036
Accounts payable and accrued expenses (Note 8)	<u>1,473</u>	<u>1,221</u>
Total liabilities	<u>399,623</u>	<u>360,530</u>
Shareholder's equity		
Authorized, issued and fully paid, 3,285,213 shares of €1 par value each (Note 13)	3,285	3,285
Contributed surplus (Note 13)	797,048	797,048
Accumulated other comprehensive income (Note 14)	(49,823)	(36,265)
Retained earnings	<u>180,280</u>	<u>203,941</u>
Total shareholder's equity	<u>930,790</u>	<u>968,009</u>
Total liabilities and shareholder's equity	€ <u>1,330,413</u>	€ <u>1,328,539</u>

The notes are an integral part of the financial statements

Signed on behalf of the Board



Director

Director

HANNOVER RE (BERMUDA) LTD.

Statements of Income

Years Ended December 31, 2008 and 2007

(Expressed in thousands of Euros)

	<u>2008</u>	<u>2007</u>
Income		
Gross written premium	€ 337,046	€ 348,127
Ceded written premium	(144,744)	(149,350)
Change in gross unearned premium	(2,065)	(1,756)
Change in ceded unearned premium	<u>(31,620)</u>	<u>6,331</u>
Net premium earned	158,617	203,352
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Ordinary investment income	54,596	49,703
Realized gains on investments	2,351	1,700
Realized losses on investments	(15,754)	(3,937)
Impairments of investments (Notes 3.16 and 6)	(27,218)	(3,064)
Net unrealized losses on investments	(1,575)	(1,159)
Other investment expenses	<u>(3,609)</u>	<u>(4,941)</u>
Net investment income (Note 6)	8,791	38,302
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Total revenue	167,408	241,654
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Expenses		
Losses and loss expenses incurred (Note 10)	63,002	71,023
Commission and brokerage, change in deferred acquisition costs	5,855	8,044
Other acquisition costs	2,642	2,719
Administrative expenses	6,954	5,710
Depreciation (Note 16)	<u>200</u>	<u>205</u>
Total technical expenses	78,653	87,701
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Other income and (expenses) (Note 17)	(2,416)	(15,301)
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Net income	€ 86,339	€ 138,652
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The notes are an integral part of the financial statements

HANNOVER RE (BERMUDA) LTD.

Statements of Changes in Shareholder's Equity

Years Ended December 31, 2008 and 2007

(Expressed in thousands of Euros)

	<u>2008</u>	<u>2007</u>
Share capital		
Balance at beginning and end of year (Note 13)	€ <u>3,285</u>	€ <u>3,285</u>
Contributed surplus		
Balance at beginning and end of year (Note 13)	<u>797,048</u>	<u>797,048</u>
Accumulated other comprehensive income		
Balance at beginning of year	(36,265)	(16,574)
Change in unrealized appreciation of investments	<u>(13,558)</u>	<u>(19,691)</u>
Balance at end of year	<u>(49,823)</u>	<u>(36,265)</u>
Retained earnings		
Balance at beginning of year	203,941	175,289
Net income	86,339	138,652
Dividends paid (Note 13)	<u>(110,000)</u>	<u>(110,000)</u>
Balance at end of year	<u>180,280</u>	<u>203,941</u>
Total shareholder's equity	€ <u><u>930,790</u></u>	€ <u><u>968,009</u></u>

The notes are an integral part of the financial statements

HANNOVER RE (BERMUDA) LTD.

Statements of Cash Flows

Years Ended December 31, 2008 and 2007

(Expressed in thousands of Euros)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Net income	€ 86,339	€ 138,652
Adjustments for non-cash items included in net income:		
Depreciation of capital assets	200	205
Net realized gains and losses on disposal of investments	13,403	2,237
Net unrealized gains and losses investments	1,575	1,159
Investment impairments	27,218	3,064
Amortization of investments	(1,029)	(953)
Changes in accrued interest	(2,320)	(567)
Effect of changes in exchange rates on non-cash balances	2,416	15,301
Net changes in non-cash balances relating to operations:		
Changes in receivables from reinsurance business	(27,147)	13,788
Changes in payables from reinsurance business	873	10,138
Changes in unearned reinsurance premium (net)	33,685	(4,575)
Changes in claims reserves (net)	61,455	1,257
Changes in deferred acquisition costs	(565)	(207)
Changes in other assets and liabilities (net)	<u>(1,236)</u>	<u>(288)</u>
 Cash flows provided by operating activities	 <u>194,867</u>	 <u>179,211</u>
 Cash flows from investing activities		
Fixed-income securities - available for sale		
Maturities and sales	314,646	492,396
Purchases	(452,036)	(471,255)
Fixed-income securities - at fair value through profit and loss		
Maturities and sales	12,030	-
Purchases	-	(4,836)
Equity securities – available for sale		
Maturities and sales	83,811	61,081
Purchases	(57,168)	(110,963)
Purchase of fixed assets	<u>(27)</u>	<u>(55)</u>
 Cash flows used in investing activities	 <u>(98,744)</u>	 <u>(33,632)</u>
 Cash flows from financing activities		
Dividends paid	<u>(110,000)</u>	<u>(110,000)</u>
 Cash flows used in financing activities	 <u>(110,000)</u>	 <u>(110,000)</u>
 Exchange rate differences on cash and cash equivalents	 <u>(1,990)</u>	 <u>46</u>
Net (decrease) increase in cash and cash equivalents	(15,867)	35,625
Cash and cash equivalents at beginning of year	<u>66,910</u>	<u>31,285</u>
Cash and cash equivalents at end of year	<u>€ 51,043</u>	<u>€ 66,910</u>

The notes are an integral part of the financial statements

HANNOVER RE (BERMUDA) LTD.

Notes to Financial Statements

December 31, 2008 and 2007

(Expressed in thousands of Euros)

1. **Company information**

Hannover Re (Bermuda) Ltd. (the “Company”) is a wholly owned subsidiary of Hannover Rükversicherung AG (“Hannover Re AG” or “the parent”). The ultimate parent company of Hannover Re AG is HDI Haftpflichtverband der Deutschen Industrie V.a.G. (“HDI”). The Company is incorporated in Bermuda and its registered office is located at Victoria Place, 31 Victoria Street, Hamilton, Bermuda. The Company was formerly named Clarendon Insurance Company (Bermuda) Ltd. and was re-named in March 2001. At the same time the Company’s existing share capital was re-denominated from US dollars to Euros and the Company received additional paid in capital of €247,000 in cash. Effective March 30, 2001, the Company was re-licensed from a Class 2 reinsurer as a Class 4 reinsurer under the Insurance Act, 1978 of Bermuda and related regulations to write all classes of property and casualty business. The Company commenced writing reinsurance business in June 2001.

The Company writes property catastrophe reinsurance contracts substantially on an excess of loss basis. Property catastrophe reinsurance covers unpredictable events such as hurricanes, windstorms, hailstorms, earthquakes, freezes, riots and other man-made or natural disasters. Every property catastrophe excess of loss contract written by the Company provides for aggregate limits and attachment points. The Company also assumes workers compensation, personal accident and terrorism contracts, on an excess of loss basis.

2. **Basis of presentation**

2.1 **Statement of compliance**

These financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations issued by the International Financial Reporting Interpretations Committee. These are the Company’s first financial statements to be prepared by the Company in accordance with IFRS and IFRS 1 has been applied. However since 2004, the Company’s financial information has been included in the consolidated financial statements of Hannover Re AG which were prepared in accordance with IFRS.

The present financial statement was examined by the Board of Directors, adopted at the meeting of the Board of Directors held on June 29, 2009 and hence released for publication.

2.2 **Basis of measurement**

The financial statements have been prepared on the historical cost basis. See Note 3 for the exceptions to this.

2.3 **Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the ‘functional currency’). The financial statements are presented in Euros, which is also the Company’s functional currency.

2.4 **Use of estimates and judgements**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The area involving a higher degree of judgment and where estimates are significant to the financial statements is the technical reserves. This is disclosed further in Note 3.11 and 10 of these financial statements.

HANNOVER RE (BERMUDA) LTD.

Notes to Financial Statements

December 31, 2008 and 2007

(Expressed in thousands of Euros)

3. Summary of significant accounting policies

In the Company's efforts to meet international disclosure standards and to meet the requirements of the local regulators, the Company has prepared financial statements in accordance with International Financial Reporting Standards.

The financial statements reflect all IFRSs in force as at December 31, 2008 as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), application of which was mandatory for the 2008 financial year.

Since 2002 the standards adopted by the International Accounting Standards Board (IASB) have been referred to as "International Financial Reporting Standards (IFRS)"; the standards dating from earlier years still bear the name "International Accounting Standards (IAS)". Standards are cited in our Notes accordingly; in cases where the Notes do not make explicit reference to a particular standard, the term IFRS is used.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

New accounting principles

On 13 October 2008, in response to the turmoil on international capital markets, the IASB adopted and published the amendments to "IAS 39 & IFRS 7 Reclassification of Financial Assets". By way of the Regulation (EC) No. 1004/2008 the European Commission adopted the amendments in European law on 15 October 2008. The amendments permit, in particular circumstances, reclassifications of (1.) non-derivative financial assets out of the fair value through profit or loss category and (2.) financial assets classified in the available-for-sale category to the loans and receivables category, and provide for additional disclosures in this regard. The Company investigated the implications of the amendments and in view of the scarcely available scope for application did not avail itself of the facilities associated with the amendments as at the balance sheet date.

Standards or changes in standards that have not yet entered into force or are not yet applicable

The IASB has issued the following standards, interpretations and amendments to existing standards with possible implications for the financial statement of the Company, application of which is not yet mandatory for the year under review and which are not being applied early by the Company:

In September 2007, the IASB issued a revised IAS 1 "Presentation of Financial Statements". The revision is aimed at improving users' ability to analyse and compare the information given in financial statements. IAS 1 defines the basic principles for the presentation and structure of the annual financial statement. It also contains minimum requirements for the content of an annual financial statement. The revised standard is applicable to financial years beginning on or after 1 January 2009; early adoption is permitted.

3.1 Reinsurance contracts

In March 2004, the IASB published IFRS 4 "Insurance Contracts". The first standard governing the accounting of insurance contracts, it divides the "Insurance Contracts" project into two phases. IFRS 4 represents the outcome of Phase I and serves as a transitional arrangement until the IASB defines the measurement of insurance contracts after completion of Phase II. Underwriting business is to be subdivided into insurance or so-called "investment contracts". Contracts with a significant insurance risk are considered to be insurance contracts, while contracts without significant insurance risk are to be classified as investment contracts. The standard is also applicable to reinsurance contracts. IFRS 4 contains fundamental rules governing specific circumstances, such as the separation of embedded derivatives and unbundling of deposit components. In conformity with these basic rules of IFRS 4 and the IFRS Framework, the Company is availing itself of the option of retaining the previously used accounting policies for underwriting items (US GAAP).

HANNOVER RE (BERMUDA) LTD.

Notes to Financial Statements

December 31, 2008 and 2007

(Expressed in thousands of Euros)

3. Summary of significant accounting policies (continued)

3.1 Reinsurance contracts (continued)

(a) Premiums earned

Premiums assumed are estimated based on information received from ceding companies and reinsurance intermediaries and are included in income on a straight-line basis over the period of underlying coverage with the unearned portion deferred in the balance sheet. Reinsurance premiums ceded are similarly pro-rated over the terms of the treaties with the unearned portion being deferred in the balance sheet as prepaid reinsurance premiums. Adjustments to premium estimates are recorded when updated information is reported by the ceding companies and reinsurance intermediaries. Such adjustments could result in significantly higher or lower premiums than originally estimated by the Company. Premiums earned in 2008 increased by approximately €722 (2007 - €7,588) as a result of changes in estimates to premiums written in prior years.

(b) Reinstatement premiums

Reinstatement premiums and retroactively-rated premiums are recognized in accordance with provisions of the reinsurance contracts. Reinstatement premiums are premiums charged for the restoration of the reinsurance limit, generally coinciding with the payment of losses by the Company. Reinstatement premiums are earned on a pro-rata basis over the remaining exposure period of the contract. Retroactively-rated premiums triggered by losses are earned immediately.

Premium deficiencies are recognized in the income statement, to the extent that such deficiencies exist, in the period in which they arise.

3.2 Financial assets

As a basic principle we recognize the purchase and sale of directly held financial assets as at the settlement date.

(a) Financial assets held to maturity

Financial assets held to maturity are comprised of non-derivative assets that entail fixed or determinable payments on a defined due date and are acquired with the intent and ability to be held until maturity. They are measured at amortized cost. Payment of the corresponding premiums or discounts is spread across the duration of the instruments in the statement of income using the effective interest rate method. Depreciation is taken in the event of permanent impairment.

(b) Loans and receivables

Loans and receivables are non-derivative financial instruments that entail fixed or determinable payments on a defined due date and are not listed on an active market or sold at short notice. They are carried at amortized cost; premiums or discounts are deducted or added within the statement of income using the effective interest rate method until the amount repayable becomes due. Depreciation is taken only to the extent that repayment of a loan is no longer to be expected.

(c) Financial assets at fair value through profit or loss

Such assets consist of securities held for trading and are classified and measured at fair value through profit or loss since acquisition. In addition, all derivative financial instruments not acquired for hedging purposes are recognized here. Trading securities are carried at their fair value on the balance sheet date. Securities held for trading encompass all fixed-income and variable-yield securities that we acquired for trading purposes and with the aim of generating short-term gains. Realized and changes in unrealized gains or losses on financial assets carried at fair value through profit or loss are recognized directly in the statement of income in the period in which they occur.

HANNOVER RE (BERMUDA) LTD.

Notes to Financial Statements

December 31, 2008 and 2007

(Expressed in thousands of Euros)

3. Summary of significant accounting policies (continued)

3.2 Financial assets (continued)

(d) Financial assets classified as available for sale

Financial assets classified as available for sale are carried at fair value. Unrealized gains and losses arising out of changes in the fair value of securities held as available for sale are recognized in shareholder's equity. All financial instruments that do not satisfy the criteria for classification as held to maturity, loans and receivables, at fair value through profit or loss, or trading are allocated to the category of available for sale. Accrued interest is also recognized in this category.

The fair value of fixed-income and variable-yield securities is determined primarily by means of prices fixed on publicly quoting markets or exchanges on the basis of "bid" prices. If such financial assets are not quoted on public markets, the fair value is calculated on the basis of the acknowledged effective interest rate method or estimated using other financial assets with similar credit rating, duration and return characteristics. Under the effective interest rate method, the current market interest rate levels in the relevant fixed-interest-rate periods are always taken as a basis. The fair value of equities and equity-like financial assets is also calculated primarily on the basis of prices fixed on publicly quoting markets and exchanges. The fair values of funds are calculated using the Net Asset Values reported by the Fund Manager at year-end.

(e) Investment income

Investment income is recognized on the accrual basis and includes the amortization of premium or discount on debt securities purchased at amounts different from their par value.

(f) Netting of financial instruments

Financial assets and liabilities are netted and recognized in the appropriate net amount where expressly permitted in law (reciprocity; similarity and maturity), in other words if the intention is to offset such items on a net basis and this offsetting can be effected simultaneously.

(g) Impairment loss

Management records a write-down to fair value through net income, for any impairment in the value of securities.

3.3 Cash and cash equivalents

Cash is carried at face value. For purposes of the statements of cash flows, the Company considers all time deposits with an original maturity of ninety days or less and money market funds which can be redeemed without penalty as equivalent to cash.

3.4 Funds held

Funds held are receivables due to reinsurers from their clients in the amount of their contractually withheld cash deposits; they are recognized at acquisition cost (nominal amount). Appropriate allowance is made for credit risks.

3.5 Accounts receivable

Accounts receivable are carried at nominal value; value adjustments are made where necessary on the basis of a case-by-case analysis.

3.6 Deferred acquisition costs

Deferred acquisition costs principally consist of commissions, brokerage and other variable costs directly connected with the acquisition or renewal of existing reinsurance contracts. These acquisition costs are capitalized and amortized over the expected period of the underlying reinsurance contracts. Deferred acquisition costs are regularly tested for impairment.

HANNOVER RE (BERMUDA) LTD.

Notes to Financial Statements

December 31, 2008 and 2007

(Expressed in thousands of Euros)

3. Summary of significant accounting policies (continued)

3.7 Reinsurance recoverable on unpaid claims

Shares of our retrocessionaires in the loss and loss adjustment expense reserve are calculated according to the contractual conditions on the basis of the gross loss and loss adjustment expense reserve. Appropriate allowance is made for credit risks.

3.8 Other assets

These balances are accounted for at cost or amortized cost.

3.9 Fixtures, fittings and equipment

Fixtures, fittings and equipment are recorded at cost less accumulated depreciation calculated on a straight-line basis, over the estimated useful lives of the assets, which are as follows:

Computer equipment	3 years
Fixtures and fittings	5 years
Leasehold improvements	5 years
Motor vehicles	5 years

3.10 Loss and loss adjustment expense reserve

Loss and loss adjustment expense reserves are shown gross in the balance sheet, i.e. before deduction of the share attributable to our reinsurers. The reinsurers' portion is calculated and accounted for on the basis of the individual reinsurance contracts.

3.11 Loss and loss adjustment expense

Reserves are constituted for payment obligations from reinsurance losses that have occurred but have not yet been settled. They are subdivided into reserves for reinsurance losses reported by the balance sheet date and reserves for reinsurance losses that have already been incurred but not yet reported (IBNR) by the balance sheet date. The loss and loss adjustment expense reserves are based on estimates that may diverge from the actual amounts payable. In reinsurance business a considerable period of time may elapse between the occurrence of an insured loss, notification by the insurer and pro-rata payment of the loss by the reinsurer. For this reason the best estimate of the future settlement amount is carried. With the aid of actuarial methods, the estimate makes allowance for past experience and assumptions relating to the future development. Future payment obligations are not discounted for the time value of money.

3.12 Unearned premium

Unearned premium is premium that has already been collected but is allocated to future risk periods. In reinsurance business, flat rates are sometimes used if the data required for calculation pro rata temporis is not available.

3.13 Shareholder's equity

The items "common shares" and "contributed surplus" are comprised of the amounts paid in by the parent. In addition to the statutory reserves of the Company and the allocations from net income, the retained earnings consist of reinvested profits generated by the Company in previous periods. What is more, in the event of a retrospective change of accounting policies, the adjustment for previous periods is recognized in the opening balance sheet value of the retained earnings and comparable items of the earliest reported period. Unrealized gains and losses from the fair value measurement of financial instruments held as available for sale are carried in accumulated other comprehensive income.

HANNOVER RE (BERMUDA) LTD.

Notes to Financial Statements

December 31, 2008 and 2007

(Expressed in thousands of Euros)

3. Summary of significant accounting policies (continued)

3.14 Related party transactions

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.

All related party transactions have been recorded in accordance with IAS 24 and includes business both assumed and ceded under usual market conditions.

Please see Note 18 for further details.

3.15 Foreign Currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income for the period. Translation differences on non-monetary items, such as equities held at fair value through income, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available for sale financial assets, are recognized outside income in a separate item of shareholders' equity and only booked to income when such non-monetary items are settled.

Foreign currency assets and liabilities are translated at exchange rates in effect at the balance sheet date. Exchange differences from the translation of assets and liabilities are recognized directly in the statement of income.

3.16 Impairment of assets

(a) Financial assets carried at amortised cost

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- (i) significant financial difficulty of the issuer or debtor;
- (ii) a breach of contract, such as a default or delinquency in payments;
- (iii) it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- (iv) the disappearance of an active market for that financial asset because of financial difficulties; or
- (v) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of issuers or debtors in the group; or
 - national or local economic conditions that correlate with defaults on the assets in the group.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

HANNOVER RE (BERMUDA) LTD.

Notes to Financial Statements

December 31, 2008 and 2007

(Expressed in thousands of Euros)

3. Summary of significant accounting policies (continued)

3.16 Impairment of assets (continued)

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement for the period. If a held-to-maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Company's grading process that considers asset type industry, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement for the period.

(b) Available for sale financial assets

The Company assesses at each balance sheet date whether there is objective evidence that an available for sale financial asset is impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of income for the period. The impairment loss is reversed through the statement of income for the period, if in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

(c) Impairment of other non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

3.17 Derivative financial instruments

Derivatives are financial instruments, the fair value of which is derived from an underlying instrument such as equities, bonds, indices or currencies.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized immediately in profit or loss.

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3. Summary of significant accounting policies (continued)

3.17 Derivative financial instruments (continued)

The fair values of the derivative financial instruments were determined on the basis of the market information available at the balance sheet date and using the effective interest rate method. If the underlying transaction and the derivative are not carried as one unit, the derivative is recognised in the trading portfolio item on the balance sheet or under the other liabilities.

See Note 6 for further details.

3.18 Employee benefits

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

4. Management of technical and financial risks

4.1 General Risk Management

Due to the nature of its business, the Company expects that its claims experience will generally be characterized by low frequency and high severity claims. The Company manages its exposure to catastrophic events by limiting the amount of its exposure in each geographic zone.

The Company assumes a worldwide diversified book of business that covers exposures across various catastrophe zones and perils, certain of which are protected by retrocession programs. In 2008, the Company's geographical exposure comprised of approximately 44% US based risks (2007 - 41%), 25% European based risks (2007 - 27%), 12% Australian based risks (2007 - 13%), 11% Asian based risks (2007 - 12%) and 8% other (2007-7%). Within the U.S., risks are further diversified by state.

As part of our holistic approach to risk management, we take into account numerous relevant scenarios. In addition, we analyse extreme scenarios, determine their effect on key balance sheet variables and performance indicators, evaluate them in relation to the planned figures and identify alternative courses of action.

The following market scenarios and stress tests for natural catastrophe after retrocessions are management's best estimate of likely outcomes. Actual outcomes could potentially vary greatly.

Market scenarios

	Effect on forecast Shareholders' equity <u>2008</u>
Parallel upward shift in the overall interest rate curve of 200 basis points	€ (70,037)
Parallel upward shift in the overall interest rate curve of 100 basis points	(36,280)

Stress tests for natural catastrophes after retrocessions

100-year loss US Wind (Gulf of Mexico)	€ (99,154)
100-year loss US (California Earthquake)	(83,657)
100-year loss Europe Wind	(6,958)

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4. Management of technical and financial risks (continued)

4.2 Technical Risk

The underreserving of claims constitutes a significant technical risk. Loss reserves are determined using actuarial methods, primarily based on information provided by our cedants, and supplemented as necessary by additional reserves established on the basis of our own loss assessments. Reserves are set aside for claims that have occurred and been reported to the insurer, but in respect of which the amount is not yet known and which therefore cannot yet be paid. There are also claims that do not manifest themselves until a later stage and which are therefore only reported by the policyholder to the insurer and by the insurer to its reinsurer quite some time after their occurrence. Reserves must be established for such IBNR (incurred but not reported) claims because years or even decades often elapse until the final settlement of such losses. This is especially true of liability claims. Uncertainties in relation to reserving are therefore unavoidable, not least because the reinsurer is at the end of the information chain and ultimately dependent on the information provided by its ceding companies. The IBNR reserve is calculated on a differentiated basis according to risk categories and regions. Our own calculations of the reserves are also reviewed and quality-controlled by external actuaries.

Run-off triangles are another tool used to verify our assumptions. Such triangles show the changes over time in the reserves as a consequence of paid claims and in the recalculation of the reserves that are to be established as at each balance sheet date. Adequacy is monitored using actuarial methods.

See Note 10.2 "Net loss reserve and its run-off" for the Company's run-off triangles.

The following catastrophe losses and major claims were of relevance to our company in the financial year:

Catastrophe losses and major claims

	Catastrophe losses and major claims in 2008	
	Gross	Net
Windstorm Paula	€ 392	€ 212
Windstorm Emma	11,772	7,832
Queensland Flood	5,545	2,622
Queensland Storm	1,975	880
Chinese Winterstorms	2,602	2,602
US Tornadoes – 1Q08	894	504
US Midwest Tornadoes Cat 35	1,587	895
US Midwest Tornadoes Cat 42	918	502
Chinese earthquake	5,000	5,000
US Tornadoes – 1Q08	2,683	1,513
US flooding 2Q08	2,683	1,513
Hurricane Gustav	4,138	2,310
Hurricane Ike	137,875	84,207
Ohio Storms and Tornadoes	169	95
MW Severe Weather	179	101
Flooding in Tabasco	3,943	3,943
Personal accident writings	1,083	1,083
Workers' Comp	1,040	1,040
Hurricane Dolly	1,431	807

The combined ratio is defined as net premium earned less the sum of losses and loss expense incurred, commission and brokerage, change in deferred acquisition costs, other acquisition costs, and administrative expenses expressed as a percentage of net premium earned.

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4. Management of technical and financial risks (continued)

4.2 Technical Risk (continued)

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

Combined loss ratio over the past five years

Figures in %	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Combined ratio	49%	43%	42%	90%	66%

4.3 Market Risk

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

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

In order to monitor interest rate risks and share price risks we also use stress tests that estimate the loss potential under extreme market conditions as well as sensitivity and duration analyses that complement our range of risk management tools. 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 Hannover Re's internal capital 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 our risk-carrying capacity.

Scenarios for changes in the fair value of our securities

<u>2008</u>	<u>Scenario</u>	Portfolio change based on <u>fair value</u>
Fixed-income securities	Yield increase +50 basis points	€ (18,456)
	Yield increase +100 basis points	(36,280)
	Yield increase +200 basis points	(70,037)
	Yield decrease -50 basis points	19,074
	Yield decrease -100 basis points	38,780
	Fair value as at 31.12.2008	1,174,158

The above scenarios for changes in the fair value of our securities is management's best estimate of likely outcomes. Actual outcomes under these scenarios could be materially different.

HANNOVER RE (BERMUDA) LTD.

Notes to Financial Statements

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4. Management of technical and financial risks (continued)

4.3 Market Risk (continued)

Share price risks derive from unfavourable changes in the value of equities and equity or index derivatives due, for example, to downward movements on particular stock indices. We spread these risks through systematic diversification across various sectors and regions.

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.

Further information on the risk concentrations of our investments can be obtained from the tables on the rating structure of fixed-income securities as well as on the currencies in which investments are held in Note 6.5 and 6.6.

4.4 Credit Risks

Bad debt risks in reinsurance 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. This is also true of our broker relationships, under which risks may occur inter alia through the loss of the premium paid by the cedant to the broker or through double payments of claims. Since its inception the Company has not incurred any write-offs of bad debt expense.

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. See Note 6.5 for the Rating structure of fixed-income securities.

4.5 Liquidity Risks

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 market – 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 the Company 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. Adherence to the limits defined in our investment guidelines for each liquidity class is subject to daily control. The spread of investments across the various liquidity classes is specified in the monthly investment reports and controlled by limits.

5. Cash and cash equivalents

	<u>2008</u>	<u>2007</u>
Cash at bank	€ 45,384	€ 14,972
Time deposits	<u>5,659</u>	<u>51,938</u>
Total cash and cash equivalents	€ 51,043	€ 66,910

The average interest rate on time deposits at December 31, 2008 was 3.35% (2007 - 4.29%) and the average maturity of time deposits was 74 days (2007 - 24 days).

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*(Expressed in thousands of Euros)***6. Investments including income and expenses**

The Company classifies investments according to the following categories: held-to-maturity, loans and receivables, financial assets at fair value through profit or loss and available-for-sale. The allocation and measurement of investments are determined by the investment intent.

The investments also encompass investments in other invested assets, short-term investments, cash and funds held/contract deposits.

For further explanation see Note 3 “Summary of significant accounting policies.”

6.1 Maturities of the fixed-income securities

	2008		2007	
	Cost or Amortized cost, Including accrued interest	Fair value	Cost or amortized cost including accrued interest	Fair value
Held to maturity				
Due in one year	€ –	€ –	€ –	€ –
Due after one through two years	–	–	–	–
Due after two through three years	–	–	–	–
Due after three through four years	–	–	–	–
Due after four through five years	30,786	32,166	–	–
Due after five through ten years	63,773	62,110	94,243	91,534
Due after ten years	–	–	–	–
Total	€ 94,559	€ 94,276	€ 94,243	€ 91,534
Loans and receivables				
Due in one year	€ –	€ –	€ –	€ –
Due after one through two years	–	–	–	–
Due after two through three years	–	–	–	–
Due after three through four years	50,000	51,451	–	–
Due after four through five years	–	–	50,000	51,465
Due after five through ten years	–	–	–	–
Due after ten years	–	–	–	–
Total	€ 50,000	€ 51,451	€ 50,000	€ 51,465
Available for sale, including cash and cash equivalents				
Due in one year	€ 211,972	€ 207,879	€ 163,945	€ 162,999
Due after one through two years	161,130	161,393	106,832	105,207
Due after two through three years	132,731	133,538	112,497	109,837
Due after three through four years	125,518	118,464	103,483	101,344
Due after four through five years	91,937	87,038	150,328	142,917
Due after five through ten years	331,287	309,413	281,093	264,692
Due after ten years	47,056	35,346	65,214	60,848
Total	€ 1,101,631	€ 1,053,071	€ 983,392	€ 947,844

HANNOVER RE (BERMUDA) LTD.

Notes to Financial Statements

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6. Investments including income and expenses (continued)

6.1 Maturities of the fixed-income securities (continued)

	2008		2007	
	Cost or amortized cost, including accrued interest	Fair value	Cost or amortized cost including accrued interest	Fair value
Financial assets at fair value through profit and loss				
Due in one year	€ 26,273	€ 24,698	€ 38,411	€ 38,411
Due after one through two years	–	–	–	–
Due after two through three years	–	–	–	–
Due after three through four years	–	–	–	–
Due after four through five years	–	–	–	–
Due after five through ten years	1,422	1,422	3,667	3,667
Due after ten years	–	–	–	–
Total	€ 27,695	€ 26,120	€ 42,078	€ 42,078

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.

Variable-rate bonds (so-called "floaters") are shown under the maturities due in one year and constitute our interest-related, within-the-year reinvestment risk.

6.2 Amortized cost, unrealized gains and losses, accrued interest and fair value on the portfolio of investments

(a) Held to maturity

	2008				
	Cost or amortized cost	Unrealized		Accrued	Fair
		gains	losses	interest	value
Fixed-income securities					
Government debt securities					
of EU member states	€ 14,571	€ 972	€ –	€ 242	€ 15,785
Debt securities issued by					
semi-governmental entities	9,597	292	–	310	10,199
Corporate securities	58,739	1,401	2,704	1,260	58,696
Asset-backed securities	9,648	–	244	192	9,596
Total	€ 92,555	€ 2,665	€ 2,948	€ 2,004	€ 94,276

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*(Expressed in thousands of Euros)***6. Investments including income and expenses (continued)****6.2 Amortized cost, unrealized gains and losses, accrued interest and fair value on the portfolio of investments (continued)****(a) Held to maturity (continued)**

	2007				
	<u>Cost or amortized cost</u>	<u>Unrealized</u>		<u>Accrued</u>	<u>Fair</u>
		<u>gains</u>	<u>losses</u>	<u>interest</u>	<u>value</u>
Fixed-income securities					
Government debt securities of					
EU member states	€ 14,515	€ -	€ 484	€ 241	€ 14,272
Debt securities issued by					
semi-governmental entities	9,548	-	399	310	9,459
Corporate securities	58,580	516	1,796	1,257	58,557
Asset-backed securities	<u>9,601</u>	<u>-</u>	<u>546</u>	<u>191</u>	<u>9,246</u>
Total	<u>€ 92,244</u>	<u>€ 516</u>	<u>€ 3,225</u>	<u>€ 1,999</u>	<u>€ 91,534</u>

(b) Loans and receivables

	2008				
	<u>Cost or amortized cost</u>	<u>Unrealised</u>		<u>Accrued</u>	<u>Carrying</u>
		<u>gains</u>	<u>losses</u>	<u>interest</u>	<u>value</u>
Loans and receivables	€ 50,000	€ -	€ -	€ 1,451	€ 51,451
Total	<u>€ 50,000</u>	<u>€ -</u>	<u>€ -</u>	<u>€ 1,451</u>	<u>€ 51,451</u>

	2007				
	<u>Cost or amortized cost</u>	<u>Unrealised</u>		<u>Accrued</u>	<u>Carrying</u>
		<u>gains</u>	<u>losses</u>	<u>interest</u>	<u>value</u>
Loans and receivables	€ 50,000	€ -	€ -	€ 1,465	€ 51,465
Total	<u>€ 50,000</u>	<u>€ -</u>	<u>€ -</u>	<u>€ 1,465</u>	<u>€ 51,465</u>

HANNOVER RE (BERMUDA) LTD.

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6. Investments including income and expenses (continued)
6.2 Amortized cost, unrealized gains and losses, accrued interest and fair value on the portfolio of investments (continued)
(c) Available for sale

	2008				
	Cost or amortized cost	<u>Unrealised</u>		Accrued interest	Fair value
		<u>gains</u>	<u>losses</u>		
Fixed-income securities					
Government debt securities of					
EU member states	€ 103,188	€ 2,054	€ –	€ 1,212	€ 106,454
US Treasury notes	11,132	236	–	57	11,425
Debt securities issued by					
semi-governmental entities	169,404	4,382	614	3,398	176,570
Corporate securities	516,420	2,161	39,048	12,000	491,533
Asset-backed securities	208,655	1,880	15,586	3,888	198,837
From investment funds	<u>21,235</u>	<u>–</u>	<u>4,026</u>	<u>–</u>	<u>17,209</u>
	1,030,034	10,713	59,274	20,555	1,002,028
Equity securities					
From investment funds	<u>3,791</u>	<u>642</u>	<u>–</u>	<u>–</u>	<u>4,433</u>
Total	<u>€ 1,033,825</u>	<u>€ 11,355</u>	<u>€ 59,274</u>	<u>€ 20,555</u>	<u>€ 1,006,461</u>
	2007				
	Cost or amortized cost	<u>Unrealised</u>		Accrued interest	Fair value
		<u>gains</u>	<u>losses</u>		
Fixed-income securities					
Government debt securities of					
EU member states	€ 3,947	€ 1	€ –	€ 95	€ 4,043
US Treasury notes	13,549	–	29	40	13,560
Debt securities issued by					
semi-governmental entities	127,139	289	2,151	2,794	128,071
Corporate securities	476,296	144	25,247	9,981	461,174
Asset-backed securities	239,604	142	6,227	4,659	238,178
From investment funds	30,028	–	2,534	–	27,494
Other	<u>8,000</u>	<u>64</u>	<u>–</u>	<u>350</u>	<u>8,414</u>
	898,563	640	36,188	17,919	880,934
Equity securities					
From investment funds	<u>54,915</u>	<u>1,334</u>	<u>–</u>	<u>–</u>	<u>56,249</u>
Total	<u>€ 953,478</u>	<u>€ 1,974</u>	<u>€ 36,188</u>	<u>€ 17,919</u>	<u>€ 937,183</u>

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*(Expressed in thousands of Euros)***6. Investments including income and expenses (continued)****6.2 Amortized cost, unrealized gains and losses, accrued interest and fair value on the portfolio of investments (continued)****(d) 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**

<u>2008</u>	Fair value before accrued <u>interest</u>	Accrued <u>interest</u>	<u>Fair value</u>
Fixed-income securities			
Catastrophe bonds	€ <u>25,797</u>	€ <u>323</u>	€ <u>26,120</u>
Total	€ <u>25,797</u>	€ <u>323</u>	€ <u>26,120</u>
<u>2007</u>	Fair value before accrued <u>interest</u>	Accrued <u>interest</u>	<u>Fair value</u>
Fixed-income securities			
Catastrophe bonds	€ <u>41,449</u>	€ <u>629</u>	€ <u>42,078</u>
Total	€ <u>41,449</u>	€ <u>629</u>	€ <u>42,078</u>

6.3 Investment income

	<u>2008</u>	<u>2007</u>
Fixed-income securities – held to maturity	€ 3,909	€ 3,899
Fixed-income securities – loans and receivables	2,474	2,209
Fixed-income securities – available for sale	42,035	37,333
Fixed-income securities – at fair value through profit or loss	2,454	3,694
Equity securities – available for sale	<u>1,407</u>	<u>328</u>
Interest on investments	52,279	47,463
Amortization	1,029	954
Interest on cash balances	485	881
Short term investments	<u>803</u>	<u>405</u>
Ordinary investment Income	54,596	49,703
Realized gains on investments	2,351	1,700
Realized losses on investments	(15,754)	(3,937)
Unrealized gains and losses on investments	(1,575)	(1,159)
Impairments on fixed-income securities	(27,218)	(3,064)
Other investment expenses	<u>(3,609)</u>	<u>(4,941)</u>
Total investment income	€ <u>8,791</u>	€ <u>38,302</u>

The impairments of €27,218 (2007 - €3,064) were attributable to assets classified as ‘fixed-income securities - available for sale’ and ‘equity securities – available for sale’. These impairments were taken on structured assets and determined on a case-by-case analysis. The fair value of the underlying instruments excluding accrued interest totalled €1,570 (2007 - €1,483), and they accounted for accrued interest of €Nil (2007 - €17) at the balance sheet date.

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6. Investments including income and expenses (continued)

6.4 Net gains and losses on investments

<u>2008</u>	Ordinary investment income	Realized gains and losses	<u>Impairments</u>	Unrealized gains and losses	Net income from invested assets
Held to maturity					
Fixed-income securities	€ 3,896	€ –	€ –	€ –	€ 3,896
Loans and receivables					
Fixed-income securities	2,474	–	–	–	2,474
Available for sale					
Fixed-income securities	43,077	474	(16,576)	–	26,975
Equity securities	1,407	(13,840)	(10,642)	–	(23,075)
At fair value through profit and loss					
Fixed-income securities	2,454	(37)	–	(4,052)	(1,635)
Other	<u>1,288</u>	<u>–</u>	<u>–</u>	<u>2,477</u>	<u>3,765</u>
Total	€ 54,596	€ (13,403)	€ (27,218)	€ (1,575)	€ 12,400
<u>2007</u>					
Held to maturity					
Fixed-income securities	€ 3,878	€ –	€ –	€ –	€ 3,878
Loans and receivables					
Fixed-income securities	2,209	–	–	–	2,209
Available for sale					
Fixed-income securities	38,296	(3,480)	(3,064)	–	31,752
Equity securities	328	1,243	–	–	1,571
At fair value through profit and loss					
Fixed-income securities	3,705	–	–	24	3,729
Other	<u>1,287</u>	<u>–</u>	<u>–</u>	<u>(1,183)</u>	<u>104</u>
Total	€ 49,703	€ (2,237)	€ (3,064)	€ (1,159)	€ 43,243

The net gains and losses on the portfolio investments held to maturity, loans and receivables and the available for sale portfolio are comprised of interest income, amortization, realized gains and losses and impairments. In the case of fixed-income securities recognized at fair value through profit and loss, an allowance is also made for changes in unrealized gains and losses.

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*(Expressed in thousands of Euros)***6. Investments including income and expenses (continued)****6.5 Rating structure of fixed-income securities and other invested assets**

	2008					
	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u><BBB</u>	<u>Total</u>
Fixed-income securities held-to-maturity	€ 24,652	€ 9,907	€ 60,000	€ –	€ –	€ 94,559
Fixed-income securities loans and receivables	–	–	51,451	–	–	51,451
Fixed-income securities available for sale	392,004	179,935	286,741	121,473	21,875	1,002,028
Fixed-income securities at fair value through profit or loss	–	–	–	1,422	24,698	26,120
Total fixed-income securities	416,656	189,842	398,192	122,895	46,573	1,174,158
Other invested assets	–	–	–	–	1,383	1,383
Total invested assets	€ 416,656	€ 189,842	€ 398,192	€ 122,895	€ 47,956	€ 1,175,541
	2007					
	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u><BBB</u>	<u>Total</u>
Fixed-income securities held-to-maturity	€ 24,548	€ 9,858	€ 59,837	€ –	€ –	€ 94,243
Fixed-income securities loans and receivables	–	–	51,465	–	–	51,465
Fixed-income securities available for sale	274,073	222,083	278,671	57,402	48,705	880,934
Fixed-income securities at fair value through profit or loss	–	13,197	–	3,667	25,214	42,078
Total fixed-income securities	298,621	245,138	389,973	61,069	73,919	1,068,720
Other liabilities-derivatives	–	–	–	–	(1,036)	(1,036)
Total fixed-income securities including derivatives	€ 298,621	€ 245,138	€ 389,973	€ 61,069	€ 72,883	€ 1,067,684

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*(Expressed in thousands of Euros)***6. Investments including income and expenses (continued)****6.6 Investments were held in the following currencies**

	<u>AUD</u>		<u>EUR</u>		<u>GBP</u>		2008 <u>JPY</u>		<u>USD</u>		<u>Other</u>		<u>Total</u>	
Fixed-income securities held to-maturity	€	–	€	94,559	€	–	€	–	€	–	€	–	€	94,559
Fixed-income securities-loans and receivables		–		51,451		–		–		–		–		51,451
Fixed-income securities-available for sale		20,667		841,155		–		5,446		134,760		–		1,002,028
Fixed-income securities-at fair value through profit or loss		–		1,422		–		–		24,698		–		26,120
Equity securities-available-for-sale		–		–		–		–		4,433		–		4,433
Other invested assets		–		–		–		–		1,383		–		1,383
Short-term investment, cash		<u>3,500</u>		<u>2,659</u>		<u>4,050</u>		<u>10,389</u>		<u>23,148</u>		<u>7,297</u>		<u>51,043</u>
Total investments and cash	€	<u>24,167</u>	€	<u>991,246</u>	€	<u>4,050</u>	€	<u>15,835</u>	€	<u>188,422</u>	€	<u>7,297</u>	€	<u>1,231,017</u>

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*(Expressed in thousands of Euros)***6. Investments including income and expenses (continued)****6.6 Investments were held in the following currencies (continued)**

	<u>AUD</u>		<u>EUR</u>		<u>GBP</u>		2007 <u>JPY</u>		<u>USD</u>		<u>Other</u>		<u>Total</u>	
Fixed-income securities held to maturity	€	–	€	94,243	€	–	€	–	€	–	€	–	€	94,243
Fixed-income securities-loans and receivables		–		51,465		–		–		–		–		51,465
Fixed-income securities-available for sale		34,407		791,604		5,505		9,177		40,241		–		880,934
Fixed-income securities-at fair value through profit or loss		–		3,667		–		–		38,411		–		42,078
Equity securities-available-for-sale		–		52,423		–		–		3,826		–		56,249
Derivatives		–		–		–		–		(1,036)		–		(1,036)
Short-term investment, cash		<u>1,810</u>		<u>3,222</u>		<u>4,266</u>		<u>9,415</u>		<u>46,516</u>		<u>1,681</u>		<u>66,910</u>
Total investments and cash	€	<u>36,217</u>	€	<u>996,624</u>	€	<u>9,771</u>	€	<u>18,592</u>	€	<u>127,958</u>	€	<u>1,681</u>	€	<u>1,190,843</u>

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7. Reinsurance balances payable

	<u>2008</u>	<u>2007</u>
Balance payable to related parties	€ 33,772	€ (13)
Balance payable to third parties	<u>46,815</u>	<u>75,852</u>
	<u>€ 80,587</u>	<u>€ 75,839</u>

Accounts payable to reinsurers include amounts due for retroceded premiums netted off against amounts recoverable from retrocessionaires for their share of claims recoverable, as calculated in accordance with individual retrocession arrangements.

The carrying value of these amounts approximates fair value due to the short-term nature of the payables.

8. Accounts payable and accrued expenses

	<u>2008</u>	<u>2007</u>
Accrued expenses	€ 1,005	€ 764
Other accounts payable	432	411
Stock option provision	<u>36</u>	<u>46</u>
	<u>€ 1,473</u>	<u>€ 1,221</u>

9. Technical assets

The retrocessionaires' portions of the technical provisions are based on the contractual agreements of the underlying reinsurance treaties. For further details please refer to our remarks on the technical provisions (See Note 10).

SFAS 60 "Accounting and Reporting by Insurance Enterprises" requires that acquisition costs be capitalized as assets and amortized via the statement of income in proportion to the earned premium.

In non-life business, acquisition costs directly connected with the acquisition or renewal of contracts are deferred for the unearned portion of the premium.

Development of deferred acquisition costs

	<u>2008</u>	<u>2007</u>
Net book value at December 31 of the previous year	€ 5,460	€ 5,473
Currency translation at January 1	<u>1</u>	<u>(427)</u>
Balance at January 1 of the year under review	5,461	5,046
Additions	681	215
Amortization	(116)	(9)
Currency translation at December 31	<u>578</u>	<u>208</u>
Net book value at December 31 of the year under review	<u>€ 6,604</u>	<u>€ 5,460</u>

For further explanatory remarks, see Note 3 "Summary of significant accounting policies."

HANNOVER RE (BERMUDA) LTD.

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(Expressed in thousands of Euros)

9. Technical assets (continued)

9.1 Reinsurance

In 2008 and 2007, the Company entered into a Whole Account protection excess of loss treaty reinsurance agreement with the parent. The parent's subsidiaries are protected under the covers of the Whole Account treaty which is then ceded to third party insurers. The treaty covers specific named perils including earthquake, flood, storm and similar natural catastrophes.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, allowances are established for any amounts deemed uncollectible. At December 31, 2008, outstanding losses recoverable from reinsurers in the amount of €7,718 (2007 - €10,982) and prepaid reinsurance premiums of €2,439 (2007 - €11,656) were associated with the parent. The parent is rated A by A.M. Best and AA- by Standard & Poor's.

10. Technical reserves

In order to show the net technical provisions remaining in the retention the following table compares the gross provisions with the corresponding retrocessionaires' shares shown as assets.

	2008			2007		
	<u>Gross</u>	<u>Retroceded</u>	<u>Net</u>	<u>Gross</u>	<u>Retroceded</u>	<u>Net</u>
Loss and loss adjustment expense reserve	€ 237,639	€ 7,718	€ 229,921	€ 212,112	€ 42,145	€ 169,967
Unearned premium reserve	<u>79,924</u>	<u>2,439</u>	<u>77,485</u>	<u>70,322</u>	<u>30,566</u>	<u>39,756</u>
Total	€ 317,563	€ 10,157	€ 307,406	€ 282,434	€ 72,711	€ 209,723

The loss and loss adjustment expense reserves are in principle recorded on the basis of information supplied by the ceding companies. Additional IBNR reserves are established for losses that have been incurred but not as yet reported. This estimate is based on past experience and estimations of the future development.

The development of the loss and loss adjustment expense reserve is shown in the following table. Commencing with the gross reserve, the change in the reserve after deduction of the reinsurers' portions is shown in the year under review and the previous year.

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*(Expressed in thousands of Euros)***10. Technical reserves (continued)****10.1 Loss and loss adjustment expense reserve roll-forward**

	2008		
	<u>Gross</u>	<u>Retroceded</u>	<u>Net</u>
Net loss and loss adjustment expense reserve at December 31 of the previous year	€ 212,112	€ 42,145	€ 169,967
Currency translation at January 1	<u>(1,215)</u>	<u>2,156</u>	<u>(3,371)</u>
Reserve at January 1 of the year under review	210,897	44,301	166,596
Incurring claims and claims expense (net)			
Year under review	182,855	64,496	118,359
Previous years	<u>(69,224)</u>	<u>(13,867)</u>	<u>(55,357)</u>
	<u>113,631</u>	<u>50,629</u>	<u>63,002</u>
Claims and claims expenses paid (net)			
Year under review	(33,796)	(66,688)	32,892
Previous years	<u>(56,318)</u>	<u>(21,879)</u>	<u>(34,439)</u>
	<u>(90,114)</u>	<u>(88,567)</u>	<u>(1,547)</u>
Currency translation at December 31	<u>3,225</u>	<u>1,355</u>	<u>1,870</u>
Net loss and loss adjustment expense reserve at December 31 of the year under review	<u>€ 237,639</u>	<u>€ 7,718</u>	<u>€ 229,921</u>
	2007		
	<u>Gross</u>	<u>Retroceded</u>	<u>Net</u>
Net loss and loss adjustment expense reserve at December 31 of the previous year	€ 241,314	€ 56,943	€ 184,371
Currency translation at January 1	<u>(22,923)</u>	<u>(5,821)</u>	<u>(17,102)</u>
Reserve at January 1 of the year under review	<u>218,391</u>	<u>51,122</u>	<u>167,269</u>
Incurring claims and claims expense (net)			
Year under review	126,114	33,860	92,254
Previous years	<u>(18,020)</u>	<u>3,211</u>	<u>(21,231)</u>
	<u>108,094</u>	<u>37,071</u>	<u>71,023</u>
Claims and claims expenses paid (net)			
Year under review	(11,769)	(3,311)	(8,458)
Previous years	<u>(108,395)</u>	<u>(47,088)</u>	<u>(61,307)</u>
	<u>(120,164)</u>	<u>(50,399)</u>	<u>(69,765)</u>
Currency translation at December 31	<u>5,791</u>	<u>4,351</u>	<u>1,440</u>
Net loss and loss adjustment expense reserve at December 31 of the year under review	<u>€ 212,112</u>	<u>€ 42,145</u>	<u>€ 169,967</u>

HANNOVER RE (BERMUDA) LTD.

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(Expressed in thousands of Euros)

10. Technical reserves (continued)

10.1 Loss and loss adjustment expense reserve roll-forward (continued)

The loss and loss adjustment expense reserves are inevitably based upon estimations that entail an element of uncertainty. Owing to the fact that the period of some reinsurance treaties is not the calendar year or because they are concluded on an underwriting-year basis, it is frequently impossible in reinsurance business to make an exact allocation of claims expenditures to the current financial year and the previous year. Consequently, the development of earlier years – and especially the immediately preceding year – may be distorted. In our assessment, therefore, informative analyses can only be performed after the elapse of at least two years.

The development of the euro relative to major foreign currencies is also a significant influencing factor in this context. In particular, the decline of the US dollar against the euro compared to the previous year by 5.3% led to an appreciable reduction in the loss and loss adjustment expense reserve on a euro basis.

The run-off triangles show the run-off of the reserve established as at each balance sheet date, this reserve comprising the provisions constituted in each case for the current and preceding occurrence years. The run-off of the reserve for individual occurrence years is not shown in this regard, but rather the run-off of the reserve constituted annually in the balance sheet as at the balance sheet date.

10.2 Net loss reserve and its run-off

Insurance claims and claims expense reserve – gross at 100% year ended December 2008

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Total</u>
Estimate of ultimate claims:						
- at end of year	€ 165,931	€ 516,058	€ 23,238	€ 122,974	€ 182,855	
- one year later	162,753	520,360	15,485	63,830	–	
- two years later	161,801	513,150	11,293	–	–	
- three years later	161,772	507,015	–	–	–	
- four years later	162,212	–	–	–	–	
Current estimate of ultimate claims	162,212	507,015	11,293	63,830	182,855	927,205
Less: cumulative payments to date	(154,967)	(405,557)	(7,240)	(36,708)	(33,796)	(638,268)
Cumulative effects of currency rate changes	<u>(4,277)</u>	<u>(41,110)</u>	<u>(2,734)</u>	<u>(6,632)</u>	<u>3,394</u>	<u>(51,359)</u>
Total	2,968	60,348	1,319	20,490	152,453	237,578
Liability in respect of prior years						<u>61</u>
Liability recognized in the balance sheet						€ 237,639

HANNOVER RE (BERMUDA) LTD.

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*(Expressed in thousands of Euros)***10. Technical reserves** (continued)**10.2 Net loss reserve and its run-off** (continued)**Insurance claims and claims expense reserve – net at 100% year ended December 2008**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Total</u>
Estimate of ultimate claims:						
- at end of year	€ 111,689	€ 195,559	€ 19,853	€ 89,114	€ 118,179	
- one year later	91,449	230,171	12,341	44,553	–	
- two years later	88,650	219,205	8,957	–	–	
- three years later	88,926	211,726	–	–	–	
- four years later	89,185	–	–	–	–	
Current estimate of ultimate claims	89,185	211,726	8,957	44,553	118,179	472,600
Less: cumulative payments to date	(84,892)	(136,320)	(5,104)	(16,518)	32,893	(209,941)
Cumulative effects of currency rate changes	<u>(4,317)</u>	<u>(19,784)</u>	<u>(2,534)</u>	<u>(7,545)</u>	<u>1,381</u>	<u>(32,799)</u>
Total	(24)	55,622	1,319	20,490	152,453	229,860
Liability in respect of prior years						<u>61</u>
Net liability recognized in the balance sheet						€ 229,921

Duration of the technical reserves

IFRS 4.38 in conjunction with 4.39(d) requires information which helps to clarify the amount and timing of cash flows expected from reinsurance contracts. In the following tables we have shown the future maturities of the technical reserves and broken them down by the expected remaining durations. As part of our duration analysis we have directly deducted the deposits put up as security for these reserves, since the cash inflows and outflows from these deposits are to be allocated directly to the ceding companies. For further explanation of the recognition and measurement of the reserves please see Note 3 “Summary of significant accounting policies.”

Maturities of the technical reserves

	<u>Loss and loss adjustment expense reserves</u>					
	<u>2008</u>			<u>2007</u>		
	<u>Gross</u>	<u>Retroceded</u>	<u>Net</u>	<u>Gross</u>	<u>Retroceded</u>	<u>Net</u>
Due in one year	€ 102,202	€ 4,249	€ 97,953	€ 85,784	€ 26,869	€ 58,915
Due between one and five years	110,611	3,469	107,142	124,853	15,276	109,577
Due between five and ten years	<u>24,826</u>	<u>–</u>	<u>24,826</u>	<u>1,475</u>	<u>–</u>	<u>1,475</u>
	€ 237,639	€ 7,718	€ 229,921	€ 212,112	€ 42,145	€ 169,967

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(Expressed in thousands of Euros)

10. Technical reserves (continued)

10.2 Net loss reserve and its run-off (continued)

The average duration of the loss and loss adjustment expense reserves was 2.45 years (2007 - 1.73 years) after allowance for the corresponding retrocession shares.

The average duration of the reserves is determined using projections of the expected future payments based on the historical payment pattern.

The payment patterns are determined with the aid of estimation methods and adjusted to reflect changes in payment behaviour and outside influences. The payment patterns used can be compared year for year by contrasting the projected payments with the actual amounts realized.

Liabilities in property business are generally settled within 10 years.

The unearned premium reserve derives from the deferral of gross written premium. The unearned premium is determined by the period during which the risk is carried and established in accordance with the information supplied by the ceding companies. In cases where no information was received, the unearned premium was estimated using suitable methods. Premium paid for periods subsequent to the date of the balance sheet was deferred from recognition within the statement of income.

10.3 Development of unearned premium reserve

	2008		
	Gross	Retroceded	Net
Net book value at December 31 of the previous year	€ 70,322	€ 30,566	€ 39,756
Currency translation at January 1	<u>1,531</u>	<u>1,000</u>	<u>531</u>
Reserve at January 1 of the year under review	71,853	31,566	40,287
Allocations	8,818	(22,403)	31,221
Withdrawals	(6,753)	(9,217)	2,464
Currency translation at December 31	<u>6,006</u>	<u>2,493</u>	<u>3,513</u>
Net book value at December 31 of the year under review	€ <u>79,924</u>	€ <u>2,439</u>	€ <u>77,485</u>
	2007		
	Gross	Retroceded	Net
Net book value at December 31 of the previous year	€ 70,680	€ 26,040	€ 44,640
Currency translation at January 1	<u>(4,832)</u>	<u>(1,642)</u>	<u>(3,190)</u>
Reserve at January 1 of the year under review	65,848	24,398	41,450
Allocations	6,391	6,331	60
Withdrawals	(4,635)	-	(4,635)
Currency translation at December 31	<u>2,718</u>	<u>(163)</u>	<u>2,881</u>
Net book value at December 31 of the year under review	€ <u>70,322</u>	€ <u>30,566</u>	€ <u>39,756</u>

The adequacy of the technical liabilities arising out of our reinsurance treaties is reviewed as at each balance sheet date. As part of the adequacy test for technical liabilities the anticipated future contractual payment obligations are compared with the anticipated future income. Hannover Re (Bermuda) Ltd. adopts the "loss recognition" method set out under US GAAP. Should the result of the test indicate that the anticipated future income will not be sufficient to fund future payments, the entire shortfall is recognized in income by first writing off capitalized acquisition costs corresponding to the shortfall. Any remaining difference is constituted as an additional provision.

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11. Taxes

Under current Bermuda law the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed the Company will be exempted from taxation until the year 2016.

12. Staff and expenditures on personnel

12.1 Staff

The average number of staff at the Company is 22 (2007 - 21).

12.2 Key management compensation

	<u>2008</u>	<u>2007</u>
Salaries and other short-term employee benefits	€ 910	€ 803
Post-employment benefits	<u>109</u>	<u>104</u>
Total	€ 1,019	€ 907

12.3 Defined contribution plans

Hannover Re (Bermuda) Ltd. has a defined contribution plan that is based on length of service and the employee's income or level of contributions. The expense recognized for these obligations in the year under review in accordance with IAS 19.46 amounted to €194 (2007 - €183).

13. Shareholder's equity

Shareholder's 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 shareholder's 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 recognized in the statement of income.

The 3,285,213 common shares of €1 par value represent the total authorized, issued and fully paid share capital of the Company. Each share carries an equal voting right and an equal dividend settlement.

There has been no change in the number of authorized, issued or fully paid shares of the Company in either 2008 or 2007.

13.1 Contributed surplus

Contributed surplus represents cash contributed by the shareholder in excess of the issued share capital, as described in Note 3.

13.2 Dividends

The dividends declared and paid in 2008 and 2007 were €10,000 (€3.48 per share) and €10,000 (€3.48 per share) respectively.

HANNOVER RE (BERMUDA) LTD.

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14. Other comprehensive income

Cumulative other comprehensive income amounted to €(49,823) (2007 - €(36,265)). It resulted primarily from the recognition of unrealized gains and losses on investments at year-end.

15. Other assets and liabilities

15.1 Other assets

	<u>2008</u>	<u>2007</u>
Other receivables	€ 982	€ 357
Prepaid expenses	<u>1,090</u>	<u>100</u>
Total	<u>€ 2,072</u>	<u>€ 457</u>

15.2 Other liabilities and other invested assets

Derivative financial instruments

A small number of treaties meet criteria which require the application of the prescriptions in IFRS 4.7 to 4.9 governing embedded derivatives. These standards require that certain derivatives embedded in reinsurance contracts be separated from the underlying insurance contract (“host contract”), reported separately at fair value in accordance with IAS 39 and recognized under investments. Fluctuations in the fair value of the derivative components are to be recognised in income in subsequent periods.

Within the scope of the accounting of “modified coinsurance” and “coinsurance funds withheld” 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.

Pursuant to IAS 39.9 the Eurus transaction gives rise to a derivative, the fair value of which as at December 31, 2008 was an asset of €1,383 (2007 - a liability of €1,036). Measurement resulted in a charge to investment income of €2,477 (2007 - €1,184) in the year under review.

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*(Expressed in thousands of Euros)***16. Development of fixtures, fittings and equipment**

	<u>Leasehold improvements</u>	<u>Motor vehicles</u>	<u>Fixtures and fittings</u>	<u>Computer equipment</u>	<u>Total</u>
Cost					
As at January 1, 2007	€ 525	€ 32	€ 534	€ 203	€ 1,294
Additions	-	-	50	5	55
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At December 31, 2007	525	32	584	208	1,349
Additions	2	-	24	1	27
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At December 31, 2008	<u>€ 527</u>	<u>€ 32</u>	<u>€ 608</u>	<u>€ 209</u>	<u>€ 1,376</u>
Accumulated depreciation					
As at January 1, 2007	€ 257	€ 21	€ 321	€ 179	€ 778
Depreciation	103	3	83	16	205
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At December 31, 2007	360	24	404	195	983
Depreciation	109	4	76	11	200
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At December 31, 2008	<u>€ 469</u>	<u>€ 28</u>	<u>€ 480</u>	<u>€ 206</u>	<u>€ 1,183</u>
Carrying amount					
At December 31, 2007	<u>€ 165</u>	<u>€ 8</u>	<u>€ 180</u>	<u>€ 13</u>	<u>€ 366</u>
At December 31, 2008	<u>€ 58</u>	<u>€ 4</u>	<u>€ 128</u>	<u>€ 3</u>	<u>€ 193</u>

With regard to the measurement of fixtures, fittings and equipment, refer to our explanatory notes on the other assets in Section 3 "Summary of significant accounting policies."

17. Other income and expenses**Foreign exchange loss**

	<u>2008</u>	<u>2007</u>
Investment revaluation	€ (12,305)	€ 10,767
Loss and loss expense adjustment expense reserve revaluation	2,010	(17,132)
Reinsurance recoverable on unpaid claims revaluation	(3,511)	1,471
Accounts Receivable revaluation	4,198	16,183
Reinsurance Payable revaluation	3,875	6,008
Other revaluation	<u>8,149</u>	<u>(1,996)</u>
Total	<u>€ 2,416</u>	<u>€ 15,301</u>

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18. Related party disclosures

18.1 Loans to related parties

Included in the balance sheet under fixed-income securities – loans and receivables, is a €1,451 (2007 - €1,465) loan (including accrued interest of €1,451 (2007 - €1,465)) to Talanx AG, a company related through common control. Talanx AG, a subsidiary of HDI, is rated A- (2007 - A-) by Standard and Poor's. At the option of the borrower, the loan may be prepaid without penalty at any time in whole or in part. During 2007 the loan was renewed until May 31, 2012 with an interest rate of 4.976% per annum.

During the year, interest income of €2,474 (2007 - €2,209) was earned on these loans and is included within investment income in the accompanying statements of operations and comprehensive income.

18.2 Other related party transactions and balances

Underwriting transactions with related parties

	<u>2008</u>	<u>2007</u>
Income statement		
Reinsurance premiums assumed		
Hannover Re AG	€ –	€ (33)
Companies related through common control	22,372	35,684
Premiums ceded		
Hannover Re AG	38,727	53,785
Commission income		
Hannover Re AG	174	(108)
Acquisition and other underwriting expenses		
Hannover Re AG	1,922	7,274
Companies related through common control	463	401
Losses and loss expenses incurred		
Companies related through common control	267	486
Reinsurance recoveries		
Hannover Re AG	1,526	3,451
Balance sheet		
Funds withheld by ceding company		
Companies related through common control	–	35
Premiums receivable		
Hannover Re AG	–	(7,016)
Companies related through common control	9,978	13,572
Profit commission receivable		
Hannover Re AG	–	93
Deferred acquisition expenses		
Companies related through common control	218	240
Prepaid reinsurance premiums		
Hannover Re AG	2,439	11,656

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18. Related party disclosures (continued)

18.2 Other related party transactions and balances (continued)

Underwriting transactions with related parties

Balance sheet

	<u>2008</u>	<u>2007</u>
Outstanding losses recoverable from reinsurers Hannover Re AG	€ 7,718	€ 10,982
Unearned premiums Companies related through common control	11,578	15,438
Outstanding losses and loss expenses Companies related through common control	323	700
Reinsurance balances payable Hannover Re AG	33,772	–

Debt security which has been classified as a held-to-maturity investment

The Company has an investment in a bond issued by a company related through common control with amortized cost of €30,785 (2007 - €30,783) at December 31, 2008. This investment is rated A by Standard Poor's Corporation and represents approximately 2.6% (2007 - 2.7%) of the total fair value of investments at December 31, 2008. Interest income of €1,631 was earned in 2008 on this bond (2007 - €1,627), and is included in investment income in the accompanying statements of income.

Other investment expenses

The Company has an investment management agreement in place with a related party to manage the Company's investment portfolio. Investment management fees incurred during the year amounted to €1,019 (2007 - €1,454) of which €60 (2007 - €61) was payable at year-end.

19. Statutory requirements

The Company is required by its license to maintain capital and surplus greater than a minimum statutory amount determined as the greatest of US\$100,000, a percentage of outstanding losses or a given fraction of net written premiums. At December 31, 2008, the Company is required to maintain a minimum statutory capital and surplus of €126,392 or US\$176,658 at the year-end exchange rate. Actual statutory capital and surplus at the year-end is approximately €20,539 or US\$1,286,637 at the year-end exchange rate and accordingly there is no restriction on the amount of retained earnings available for the payment of dividends to the shareholder.

Actual statutory capital and surplus, as determined using statutory accounting principles, is as follows:

	<u>2008</u>	<u>2007</u>
Total shareholder's equity	€ 930,790	€ 968,009
Less non-admitted assets:		
Deferred acquisition expenses	(6,604)	(5,460)
Other non-admitted assets	<u>(3,647)</u>	<u>213</u>
Statutory capital and surplus	<u>€ 920,539</u>	<u>€ 962,762</u>

HANNOVER RE (BERMUDA) LTD.

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19. Statutory requirements (continued)

The Company is also required to maintain a minimum liquidity ratio, whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and cash equivalents, accrued interest receivable, premiums receivable, funds withheld by ceding company, debt securities available-for-sale and fixed interest securities held-to-maturity. Certain categories of assets do not qualify as relevant assets under the statute. The relevant liabilities are total general business insurance reserves (net of reinsurance recoverable) and total other liabilities, less sundry liabilities.

At December 31, 2008, the Company was required to maintain relevant assets of approximately €92,099 (2007 - €15,087). At that date relevant assets were approximately €1,260,004 (2007 - €1,199,545) and the minimum liquidity ratio was therefore met.

20. Capital Management

The preservation and consistent enhancement of its capital is a key strategic objective for Hannover Re (Bermuda) Ltd. The Company satisfies the capital expectations of the rating agencies that assess its financial strength. The Company met the applicable local minimum capital requirements in the year under review. The parent company ensures that the local minimum capital requirements applicable to subsidiaries are always satisfied in accordance with the official requirements defined by insurance regulators.

21. Other notes

21.1 Letters of credit

The Company's bankers issued letters of credit in the amount of €172,225 (2007 - €1,476) in favour of U.S. ceding companies. The parent company has pledged assets as security for these letters of credit.

21.2 Operating Lease

Future minimum rentals payable under non-cancellable operating leases as at December 31 are as follows:

	<u>2008</u>	<u>2007</u>
Less than one year	€ 622	€ 128
Between one and five years	2,486	257
More than five years	<u>3,108</u>	<u>-</u>
Total	€ 6,216	€ 385

The Company leases its building and as such this leased asset is not recognized on the Company's balance sheet. The lease runs for a period of 10 years, with an option to renew the lease after that date for the same period. Lease payments are reviewed every three years to reflect changes in a local price index. The Company is also liable to pay a portion of the maintenance expenses calculated according to the square footage of the premises.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. During the year ended December 31, 2008, €148 (2007 - €136) was recognised as an expense in the income statement in respect of operating leases. Contingent rent recognised as an expense amounted to €28 (2007 - €41).

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(Expressed in thousands of Euros)

22. Other currency translation

Key exchange rates

1 EUR corresponds to:

	Exchange rate on the balance sheet date		Average rate of exchange	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
AUD	2.0257	1.6775	1.7492	1.6361
BMD	1.3977	1.4716	1.4741	1.3790
CAD	1.7160	1.4440	1.5655	1.4651
CHF	1.4860	1.6557	1.5786	1.6461
DKK	7.4518	7.4581	7.4556	7.4511
EUR	1.0000	1.0000	1.0000	1.0000
GBP	0.9600	0.7346	0.8038	0.6873
JPY	126.4000	165.0000	151.4825	162.0433
NOK	9.7900	7.9650	8.2841	8.0027
SEK	10.9150	9.4350	9.6855	9.2628
USD	1.3977	1.4716	1.4741	1.3790

23. Fee paid to the auditor

Total fees of €326 (2007 - €233) were incurred for accountants' services for the Company in the year under review. They were principally comprised of auditing and review fees.