

Annual Report | **2007**

CALENDAR OF EVENTS

2008

7 February 2008	Round Table "Personal Accident Insurance"
9 April 2008	Expert conference "Rome II. Europe on the Road to Harmonised Tort Law. The Settlement of Bodily Injury Claims in Italy, Austria and the United Kingdom"
17/18 April 2008	Reinsurance Seminar I: Basic Reinsurance Know-how
10 June 2008	Hannover Forum "Homeowners' Insurance"
10 June 2008	Examination Concert held by E+S Rückversicherung AG
19/20 June 2008	Reinsurance Seminar II: Specialist Reinsurance Topics
9 September 2008	Round Table "General Casualty Insurance"
11/12 September 2008	Reinsurance Seminar III: Workshop: "Development of a Reinsurance Programme"
8 October 2008	Expert conference "Run-Off and Solvent Schemes of Arrangement as Run-Off Tools – Implications for National Markets"
9/10 October 2008	Reinsurance Seminar IV: Reinsurance of Natural Hazards

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KEY FIGURES

of E+S Rückversicherung AG

Figures in EUR million	2007	+/- previous year	2006	2005	2004	2003
Gross written premium	2,370.7	-2.7%	2,437.7	2,213.7	2,149.5	2,232.9
Net premium earned	1,780.4	-3.3%	1,841.3	1,370.5	1,327.9	1,464.3
Underwriting result ¹⁾	7.2	-79.7%	35.5	(56.3)	40.3	147.5
Change in the equalisation reserve and similar provisions	(13.7)	-116.3%	84.3	86.1	86.1	201.9
Investment result	365.3	+32.1%	276.5	277.9	229.1	189.6
Pre-tax profit	280.0	+179.4%	100.2	31.8	87.5	80.8
Profit or loss for the financial year	180.0	+155.7%	70.4	22.0	44.0	39.0
Investments	7,983.2	+3.2%	7,737.2	7,231.4	6,179.9	4,283.4
Capital and reserves	490.3	+16.7%	420.3	420.3	420.3	461.2 ²⁾
Equalisation reserve and similar provisions	741.3	-1.8%	755.0	670.6	584.6	498.5
Net technical provisions	6,032.7	+2.7%	5,875.5	5,556.5	4,998.3	3,533.8
Total capital, reserves and technical provisions	7,264.3	+3.0%	7,050.8	6,647.4	6,003.2	4,493.5
Number of employees	247	+12	235	229	227	220
Retention	75.3%		75.1%	62.4%	61.7%	65.8%
Loss ratio ¹⁾³⁾	80.8%		74.8%	76.7%	71.3%	72.2%
Expense ratio ³⁾	24.5%		21.3%	26.1%	20.9%	17.1%
Combined ratio ¹⁾³⁾	105.3%		96.1%	102.8%	92.2%	89.3%

¹⁾ From the 2006 financial year onwards the option of including special allocations to the provisions for outstanding claims in the non-technical account rather than the technical account will no longer be exercised. The figures for the previous year have been adjusted accordingly for the sake of improved comparability.

²⁾ Incl. surplus debenture (Genusssrechtskapital)

³⁾ Excluding life reinsurance



Wilhelm Zeller
Chairman of the
Executive Board

Dear clients and shareholders,

Once again we can look back on a fascinating and eventful financial year; as early as the middle of January 2007 Europe was impacted by winter storm "Kyrill", one of the most expensive windstorm events in recent decades. In this respect the German insurance industry demonstrated its ability to shoulder even losses of this size quickly and professionally. Similarly, E+S Rück – as one of the most prominent reinsurers serving the German market – incurred one of its largest losses in years at EUR 49.2 million for net account. The fact that we nevertheless posted the best business performance in company history underscores the solid foundation on which our company stands.

The competitive pressure in the German primary insurance sector increased appreciably as the year progressed, although the reinsurance market continued to enjoy adequate rates and conditions. In the year under review E+S Rück was once again able to secure improvements in conditions, tap into attractive business opportunities and thereby extend both its market share and its role as one of the leading reinsurers in the German market. With our robust financial strength rating it remains important for us to stress our position as the preferred specialist reinsurer for Germany.

The development of conditions in the non-life reinsurance business group was gratifying in 2007. Although the hard market here has now passed its peak, the rate level remained broadly stable with just a few exceptions.

Life and health reinsurance again developed highly favourably. This business group has long since evolved from a rising star – as we liked to describe it – into a shining star. Both in Germany and on the international market the business prospects continue to be excellent: we generated particularly good growth in the area of annuity products and the bancassurance sector. In the Asian markets a number of steps were taken so as to optimally exploit the growth potential for life and health insurance in this region.

We can be similarly satisfied with the performance of our investments. The US credit crunch and real estate crisis scarcely affected our conservatively oriented, diversified portfolio. Ordinary income showed double-digit growth as a consequence of higher average returns in the portfolios. The net investment result was thus boosted by 32.1% to EUR 365.3 million, in part also due to the profitable sale of the participating interest held by E+S Rück in the Australian subsidiary Hannover Life Re of Australasia Ltd.

Despite the strains associated with winter storm "Kyrill" we are pleased to be able to present another record result in this year, too! Needless to say, we again intend to enable our shareholders to share in the profit for the year of EUR 180.0 million (EUR 70.4 million) with a particularly attractive dividend.

We would like to thank our clients and shareholders for their trusting cooperation. Going forward, as in the past, we shall do everything in our power to equip E+S Rück to handle the opportunities and risks in the years ahead. Backed by your confidence and the dedication of our highly motivated staff we are superbly placed to enjoy a successful future.

Yours sincerely,



Wilhelm Zeller
Chairman of the Executive Board

BOARDS AND OFFICERS

of E+S Rückversicherung AG

Supervisory Board (Aufsichtsrat)

Herbert K. Haas Burgwedel Chairman	Chairman of the Executive Board Talanx AG HDI Haftpflichtverband der Deutschen Industrie V.a.G.
Gerd Kettler Münster Deputy Chairman	Former Chairman of the Executive Board LVM Landwirtschaftlicher Versicherungsverein Münster a.G.
Benita Bierstedt* Hannover (since 17 April 2007)	
Dr. Heinrich Dickmann Freiburg	Former Chairman of the Executive Board VHV Vereinigte Hannoversche Versicherung V.a.G.
Dr. Heiner Feldhaus Hannover Member of the Supervisory Board (until 12 March 2007) Member of the Advisory Board (since 12 March 2007)	Chairman of the Executive Board CONCORDIA Versicherungs-Gesellschaft a.G.
Hans-Joachim Haug Stuttgart Member of the Advisory Board (until 12 March 2007) Member of the Supervisory Board (since 12 March 2007)	Chairman of the Executive Board Württembergische Gemeinde-Versicherung a.G.
Frauke Heitmüller* Hannover	
Ass. jur. Tilman Hess* Hannover	
Marga Hetzel* Wedemark (until 12 March 2007)	
Rolf-Peter Hoenen Coburg	Speaker of the Executive Boards HUK-COBURG Versicherungsgruppe
Dr. Immo Querner Ehlershausen	Member of the Executive Board Talanx AG Gerling Beteiligungs-GmbH HDI Haftpflichtverband der Deutschen Industrie V.a.G.

*Staff representative

Advisory Board (Beirat)

<p>Wolf-Dieter Baumgartl Berg</p>	<p>Chairman of the Supervisory Board Talanx AG HDI Haftpflichtverband der Deutschen Industrie V.a.G.</p>
<p>Dr. Edo Benedetti Trento</p>	<p>President ITAS Mutua, Trento, Italy</p>
<p>Dr. h. c. Josef Beutelmann Wuppertal</p>	<p>Chairman of the Executive Boards Barmenia Versicherungen</p>
<p>Wolfgang Bitter Itzehoe</p>	<p>Chairman of the Executive Board Itzehoer Versicherung/ Brandgilde von 1691 Versicherungsverein a.G.</p>
<p>Dr. Heiner Feldhaus Hannover Member of the Supervisory Board (until 12 March 2007) Member of the Advisory Board (since 12 March 2007)</p>	<p>Chairman of the Executive Board CONCORDIA Versicherungs-Gesellschaft a.G.</p>
<p>Hans-Joachim Haug Stuttgart Member of the Advisory Board (until 12 March 2007) Member of the Supervisory Board (since 12 March 2007)</p>	<p>Chairman of the Executive Board Württembergische Gemeinde-Versicherung a.G.</p>

EXECUTIVE BOARD

of E+S Rück



Ulrich Wallin

Specialty Division (worldwide Facultative Business in Casualty and Property Lines; worldwide Treaty and Facultative Business Marine, Aviation and Space); Non-Life Treaty Reinsurance – Great Britain and Ireland; Retrocessions, Insurance-linked Securities

Dr. Michael Pickel

Non-Life Treaty Reinsurance – Germany, Austria, Switzerland and Italy; Credit, Surety & Political Risk worldwide; Group Legal Services, Compliance; Run Off Solutions

Wilhelm Zeller Chairman

Controlling, Internal Auditing; Risk Management; Investor Relations, Public Relations; Corporate Development; Human Resources Management



Dr. Elke König

Finance and Accounting;
Asset Management;
Information Technology;
Facility Management

André Arrago

Non-Life Treaty
Reinsurance – Arab,
European Romance and
Latin American countries,
Northern and Eastern
Europe, Asia and
Australasia

Dr. Wolf Becke

Life and Health
markets worldwide

Jürgen Gräber

Coordination of entire
Non-Life Reinsurance;
Quotations Non-Life
Reinsurance; Non-Life
Treaty Reinsurance –
North America and
English-speaking Africa;
Structured Products
worldwide

Active management of customer satisfaction as the key to sustained business success

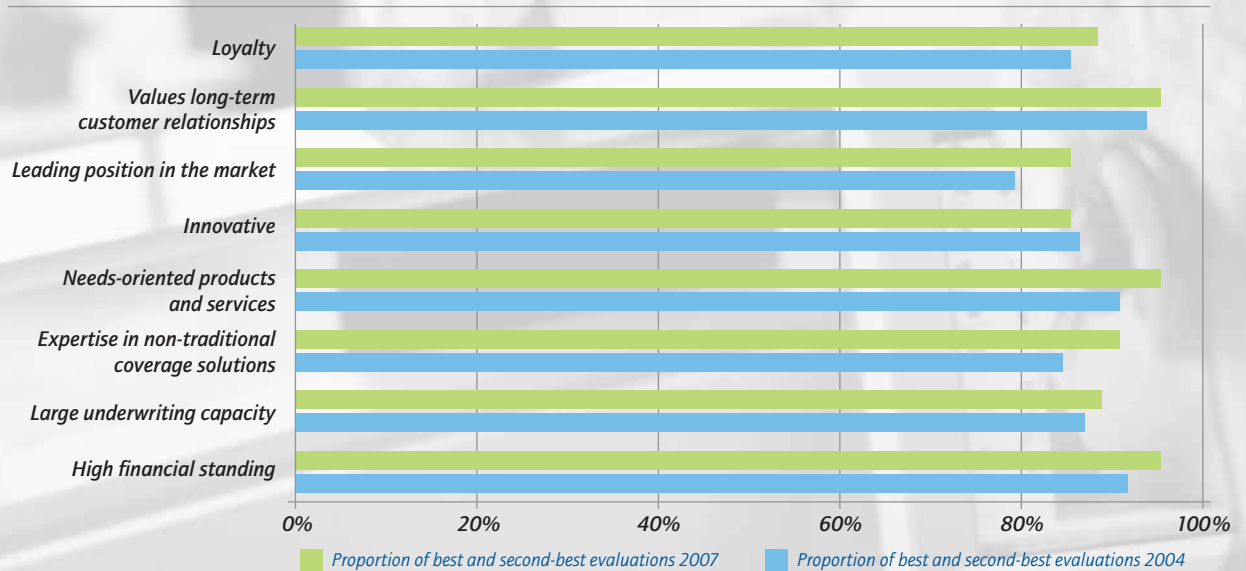
Only satisfied customers come back – this insight has long been a maxim of successful merchants. As Robert Bosch noted: "Better to lose money than trust". Acquiring a new client costs six times as much as keeping an already existing one. This insight is not new either, yet over time it has lost none of its significance for the striving to maintain a service-minded approach. Ultimately, those companies that recognise and utilise customer satisfaction as one of the most important pillars in their commercial success are also the most successful over the long term.

E+S Rück, as a specialist reinsurer for the German market, has actively monitored the satisfaction of its clients for many years with a view to asserting its position as one of the most profitable companies in the reinsurance market in the long and not just the short term. Our overriding objective is a continuous partnership with our ceding companies. More than ten years ago, therefore, we launched the precursor to our current Performance Excellence management system. One of the key pillars of the model, then as now, is customer satisfaction.

With a view to quantifying this factor E+S Rück and Hannover Re jointly developed a special survey concept – known as the "Client Monitor" – that provides regular insights into the satisfaction of its business partners. The findings are generated by an interview outline that is specially tailored to our clients' needs: on this basis all points of interaction with our cedants – from acquisition through underwriting and portfolio management to claims settlement – are evaluated. Back in 2000, with the support of a major German market research institute, we conducted an initial Germany-wide survey that was used to determine our status and formed the platform for our further activities in the field of customer satisfaction management.

Time passes between the evaluation of the results, the development and implementation of measures to leverage customer satisfaction and finally their appreciation by our business partners. It was for this reason that we decided on a period of three to four years as a sensible interval from one survey to the next so as to be able to

Comparison of individual image aspects



reliably pinpoint changes in our clients' perception of our company, identify trends and react accordingly. Based on our experiences, we refined our original concept and followed up with further surveys in 2004 and 2007.

The third survey conducted in the spring of last year confirmed that E+S Rück's clients consistently assess our company as "positive" or even "very positive". The considerable willingness in all quarters to participate in this survey was in itself striking: contrary to the originally planned four weeks, more than 180 telephone interviews were already in the books after just 10 days. This impressive response may be considered an indicator of the strong interest in the products and services offered by E+S Rück, as the subsequent findings have now confirmed.

Around 98 percent of the customers surveyed stated that they have had positive experiences with E+S Rück as a specialist reinsurer for the German market – compared to the 95 percent achieved in 2004 this further increase could scarcely have been considered possible.



We thus feel strengthened in our conviction that ceding companies attach exceptional importance to individualised services such as those offered by E+S Rück on the basis of its marked customer orientation. This assessment is supported by the extraordinarily high level of confidence expressed by our clients: 90 percent of those surveyed are so satisfied with our performance capabilities and our service orientation that they would recommend E+S Rück to business partners, colleagues or acquaintances. There can hardly be any better form of advertising.

All in all, it was clear from the survey that we were able to boost still further the satisfaction of our clients in virtually all subcategories compared to 2004 levels. Yet despite this thoroughly positive assessment some areas of course leave room for improvement. Instead of resting on our laurels, E+S Rück will therefore identify appropriate measures to optimise its customer satisfaction and in the future, too, will do everything in its power to keep pace with changing requirements.

A special word of thanks is due to our clients, whose active participation in the surveys consistently enables us to better evaluate and satisfy their own needs and those of other cedants and, what is more, to continuously expand our already recognised strengths. On the basis of long-term partnerships we shall continue in future to be guided by the goal of working with our clients to secure sustained economic success. We thus stand for continuity and calculable, reliable decisions – irrespective of short-term changes in the market. For almost 85 years this special customer orientation has been a hallmark of E+S Rück, which now ranks as the second-largest non-life reinsurer in Germany. The findings of our Client Monitor show that we are on the right track with our holistic Performance Excellence approach. They at once inspire and compel us to consistently enhance the customer orientation of our services – for to quote Robert Bosch once again: "Every success is just a stepping stone towards the next goal".

Economic climate

The vigorous expansion enjoyed by the global economy in the previous year continued virtually unabated in the year under review. Although the economic picture clouded over somewhat towards the end of the year due to the real estate crisis in the United States, the pace of growth in the world economy remained brisk.

Developments in the major economic regions varied widely in the year under review: in emerging markets, such as India, as well as in Asia – and here most notably China – the already lively expansion actually accelerated. Manufacturing output in the Eurozone, Japan and the United States, on the other hand, recorded only moderate growth. Especially in the United States, economic activity had already lost impetus appreciably in the previous year due to a fall-off in housing investment. This trend was exacerbated by the correction on the US real estate market in the second half of the year under review. The worsening of the property crisis triggered turmoil on financial markets – and hence considerably more marked volatility on the markets.

The German insurance industry

The 2007 financial year was once again an eventful one for the German insurance industry. January brought by far the most costly windstorm event for Germany and indeed Europe as a whole in the shape of winter storm "Kyrill". Germany alone incurred insured losses in the order of EUR 2.5 billion and altogether two million claim notifications. All in all, though, German insurers coped well with this event and helped their insureds get over their material losses quickly and unbureaucratically.

Despite the economic revival the German insurance industry was faced with a further slackening in the pace of growth. This can be attributed first and foremost to the fact that private households – which account for roughly 80% of total insurance demand – have scarcely profited so far from the cyclical upturn. From mid-2008 onwards, however, a trend reversal is to be anticipated since experi-

The German economy generated further strong growth in the year under review and gross domestic product consequently outstripped the previous year. After a modest start to the year – attributable to the rise in value-added tax – domestic demand in Germany surged sharply. Private consumption played a vital part in the upswing, not least because the state of the labour market in Germany continued to ease and disposable incomes grew.

For the fifth time in succession Germany defended its title as world export champion in the year under review. Cyclical risks for the German economy nevertheless increased again: the American mortgage crisis and credit crunch also placed a strain on German financial institutions. The monetary environment deteriorated against the backdrop of unrest on financial markets. Although the business mood and consumer sentiment consequently dipped, cyclical expansion showed little sign of slowing.

ence shows that a surge in insurance demand normally occurs more towards the end of an economic cycle.

The financial year just-ended forcefully demonstrated that the economic climate consistently poses fresh challenges for the German insurance industry. The factors at play in this increasingly complex environment were more diverse than ever in the year under review: not only was the insurance industry affected by economic changes, it was also impacted by various reforms in the German and broader international legal landscape, which posed additional challenges.

The premium volume booked by German insurers was virtually flat in 2007 at altogether EUR 162 billion. It was only thanks to private health insurance, which recorded a gain of 2.5%, that the sector generated minimal growth.

In the course of the year under review the situation in property and casualty insurance continued to worsen: along with an erosion of premium income, most notably in the motor and fire lines, the claims experience further deteriorated as a consequence of winter storm "Kyrill", which made deep inroads into the balance sheets of non-life insurers.

The marked level of competition in motor insurance, which has prevailed for a number of years, was reflected in a contraction in premium volume of around 2% in the year under review. Due to heavy loss expenditure in motor own damage insurance attributable to "Kyrill" as well as further windstorm and hail events, the line slipped into the red for the first time in years and recorded a combined ratio of 101%. It was not until the end of the year that the first signs of a trend reversal in premium policy among insurers finally began to emerge.

Industrial property insurance was similarly hard hit by the windstorm events of 2007 – claims expenditure came in

35% higher than in the previous year. With premium erosion of 2.5% the combined ratio stood at 111%.

Casualty insurance received only isolated growth stimuli in the year under review, particularly in risk-exposed business segments where capacities were scarce: the growth rate in this line thus remained weak at just 1%. Based on a combined ratio of 86% the business nevertheless delivered a satisfactory result.

Credit insurance was faced with increased losses in 2007, yet it still achieved a combined ratio of 62%. The favourable trend of recent years in this line was sustained.

Marine insurance failed to fully profit from the cyclical upturn in imports and exports in the year just-ended because – as in previous years – the strong competitive pressure in this line intensified again. Premium income nevertheless climbed by 2%, and since the claims experience remained stable the line generated a satisfactory result.

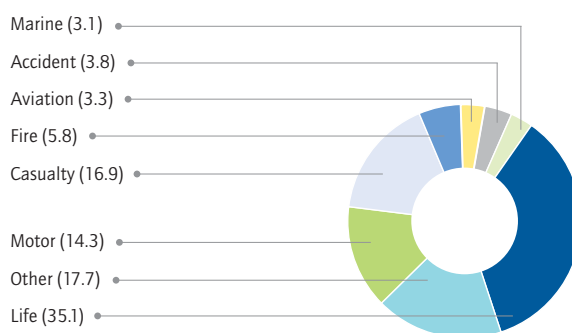
Business development

In the year under review we were able to consolidate and extend the position of E+S Rück as the second-largest reinsurer serving the German market. Contrary to the downward trend we again succeeded in acquiring new client relationships in 2007 and enlarging our treaty shares under existing accounts. Under an internal retrocession arrangement we also assume foreign business from Hannover Re so as to achieve significantly better risk spreading and geographical diversification across our portfolio.

2007 brought a flood of new laws and regulations for the insurance and reinsurance industries. The amended Insurance Supervision Act ("VAG-Novelle") adopted by the German Federal Parliament in November 2007, for example – which entered into force on 1 January 2008 –, is intended to strengthen the German insurance industry in the European competitive environment. Key points of this reform are new provisions governing enterprise risk management: among other things, the rules place more

exacting requirements on decision-making processes at companies. The amendment of the Insurance Contract Act ("VVG-Novelle") should also be mentioned in this context.

Line-of-business breakdown: gross premium (in %)



In a further development, November 2007 saw the entry into force of a new Environmental Damage Act that provides for public liability for environmental damage or harm caused to biodiversity. In addition to supporting the work of the GDV (German Insurance Association), E+S Rück drew up framework conditions for its clients that can be used to arrive at an expert assessment of such risks. Given the lack of statistics as yet and the absence of any claims experience, this constitutes a decisive value-added for our cedants as they translate the new requirements into practice.

Compared to the insurance market, the reinsurance market in Germany was notable for a continuing favourable market climate, i.e. adequate rates and conditions. Despite initial softening tendencies we were again able in the year under review to secure improved conditions, exploit attractive business opportunities and thereby extend our market share as well as our position as one of the leading reinsurers in the profitable German market. Although the result generated for our domestic market was adversely impacted by a net strain of EUR 49.2 million from the severe winter storm "Kyrill", we were highly satisfied overall with the development of our business.

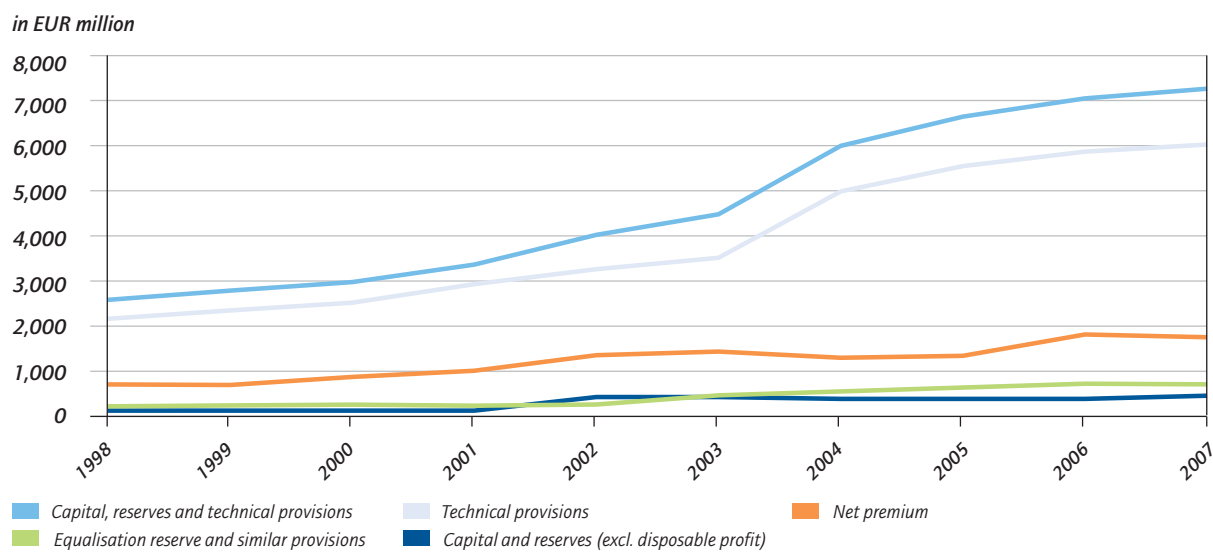
E+S Rück sold its entire stake in Hannover Life Re of Australasia Ltd. to Hannover Re in the year under review so as to be able to concentrate exclusively on its German

business. The interest was transferred on 1 October 2007 and produced a gratifying book profit.

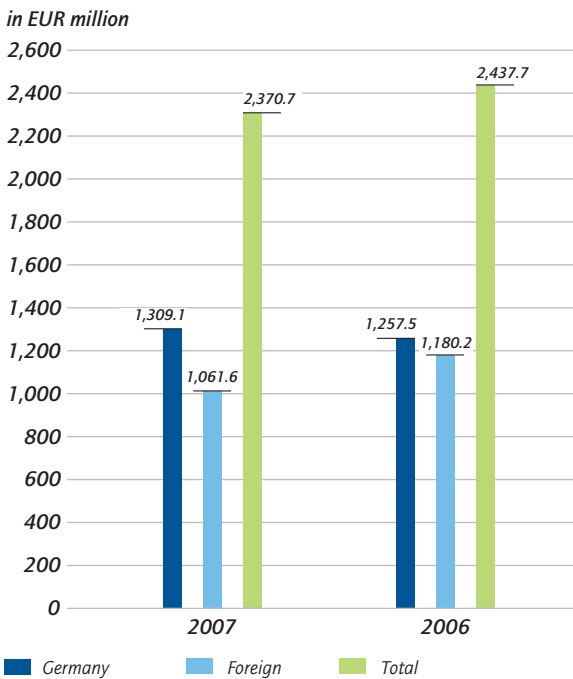
The continual expansion of our client relationships and the focus on profitable business in the German market – in the context of which we have also relinquished low-margin business – are reflected in our premium income: gross written premium fell by a mere 2.7% to EUR 2,370.7 million (EUR 2,437.7 million) in the year under review. With the level of retained premium remaining almost stable, net premium earned similarly declined by 3.3% to EUR 1,780.4 million (EUR 1,841.3 million).

The share of our total portfolio attributable to non-life reinsurance was virtually unchanged in the year under review at 58.6% (56.5%). It should be borne in mind in this context that non-life reinsurance is not only our largest and most important business group – it is also the most difficult due to its volatile and cyclical movements. Given the tense competitive state of the primary market, motor reinsurance developed satisfactorily with a gross premium volume of EUR 339.0 million (EUR 367.9 million). Industrial fire insurance recorded an extremely positive underwriting result due to a historically low burden of major claims in the year under review, while developments in the other lines were very much in accordance with our expectations.

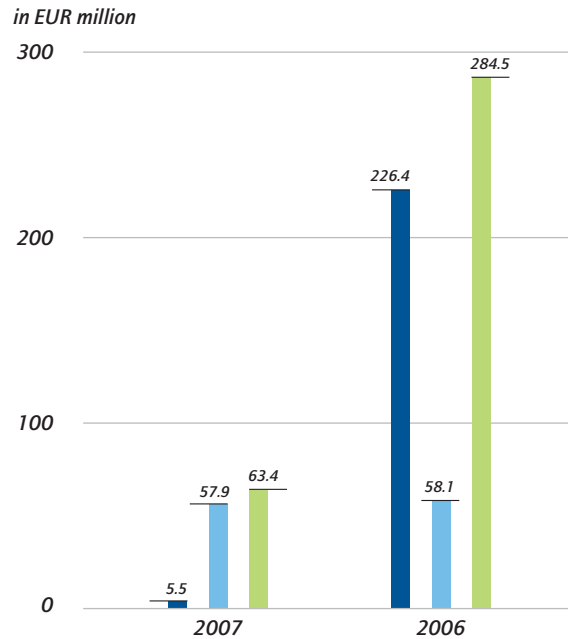
Growth in capital, reserves and technical provisions and in net premium



Development of gross premium income –
breakdown into German and foreign business



Development of underwriting results* –
breakdown into German and foreign business



* Underwriting result: gross before internal administrative expenses, allocated investment return and the change in the equalisation reserve

On the claims side E+S Rück had to absorb numerous smaller and mid-sized losses in foreign markets as well as the effects of winter storms "Kyrill", "Hanno" and "Per": windstorm events accompanied by heavy rain led to flooding in Australia and Arab countries. The United Kingdom, too, experienced severe flooding. The highly active hurricane season that had been forecast for the United States and the Caribbean, on the other hand, failed to materialise; only hurricane "Dean" claimed a place in our list of major losses. Net loss expenditure in non-life reinsurance consequently climbed by 10.9% to EUR 897.3 million (EUR 809.4 million). We reviewed our actuarial methods used to calculate the IBNR reserves for belatedly reported claims, adjusted them in line with the latest insights and extended them to include not only the casualty and motor liability lines but also aviation and marine business. This prompted substantial strengthening of the IBNR reserves with a once-only effect in the year under review.

From 2007 onwards we are only drawing up separate profit and loss accounts for the lines pursuant to Section II No. 1 (1) and (2) of the Appendix to § 29 of the Regulation on the Presentation of Insurance Company Accounts (RechVersV). As a result, and due also to the combining of individual lines, amounts were written back from the equalisation reserve totalling EUR 53.0 million.

In the life and health lines E+S Rück further extended its already good position in the German market, despite a contraction in new business attributable to the EU Mediation Directive. Further growth in the areas of deferred annuities, long-term care annuity products and disability covers maintained the positive tendency of the previous year.

Since the middle of the year under review the international financial and capital markets have been heavily overshadowed by the credit crunch and real estate crisis in

the United States. We are pleased to report that our asset portfolio does not necessitate any write-downs for subprime risks. As far as technical risks are concerned, charges are possible in connection with directors' and officers' (D&O) and professional indemnity covers. We carefully analysed our portfolios and established conservative IBNR reserves in the order of EUR 3.9 million.

Against the backdrop of capital market volatility in the course of the year the performance of our investments was highly satisfactory. The positive underwriting cash flow was only marginally eroded by the appreciation of the euro against other currencies, as a consequence of which the asset volume grew by 3.2%. Along with the profitable sale of the Australian participation, it was

thanks not least to this growth that the net investment result climbed by EUR 88.8 million to EUR 365.3 million.

In view of the continued very stable premium trend – following the high point of the cycle in 2006 – as well as a claims frequency within the bounds of the multi-year average, the profit for the year increased to EUR 180.0 million (EUR 70.4 million). This result derived in part from the sale of the Australian participation, although it also offers impressive proof that E+S Rück is able to more than offset even a large loss such as "Kyrill". An amount of EUR 70.0 million was allocated to retained earnings.

Development of the individual lines of business in Germany

The following sections explain the development of each line of business. In view of E+S Rück's orientation as a specialist reinsurer for the German market, we have subdivided our reporting on underwriting business into two parts. The following remarks on the various lines of business refer solely to our German portfolio; we then provide a summary of our international business accepted

from Hannover Re under retrocession arrangements. It should, however, be noted that the change in the equalisation reserves, which we report in each line, refers to the total portfolio – i.e. including international business.

Fire

In German industrial fire insurance the premium erosion that has been witnessed over the last three years continued in the year under review. After double-digit declines in both the previous two years industrial fire business recorded premium decreases of 7% to 10% in the financial year just-ended. Whereas in past years the German market had been concentrated on just a few providers, the currently positive claims scenario is prompting foreign insurers, in particular, to increasingly force their way into German fire business. This inevitably leads to further erosion of premium rates and softening of insurance terms and conditions.

In the year under review the line enjoyed one of the most favourable major loss situations in the past 20 years. Despite unsatisfactory conditions, therefore, a combined ratio after run-off of less than 100% is expected market-wide in 2007.

The optimisation of our portfolio bore further fruit in 2007. As part of its concentration on high-margin business and – where possible – non-proportional treaties, E+S Rück has been able to position itself as a strong partner in industrial fire insurance in Germany.

Facultative fire business was notable for undiminished pressure on premiums, with erosion of up to 15% observed in some cases. The trend was, however, more moderate than in previous years. The year under review nevertheless passed off on a positive note since only a few major claims were incurred. What is more, E+S Rück parted with unprofitable treaties in some instances.

The gross premium volume of our German fire portfolio thus contracted in the year under review as anticipated. Gross written premium retreated by 16.0% to EUR 38.2 million (EUR 45.5 million). The loss ratio of our portfolio was still very low at 39.4% (26.0%) despite a modest deterioration. The underwriting result was consequently in positive territory at EUR 9.4 million (EUR 18.5 million).

Casualty

Casualty insurance in the year under review was characterised by a relatively soft market on the primary side. Many insurers nevertheless continue to find the business interesting, and new foreign competitors are therefore squeezing into the German market. Conditions in some areas thus softened as providers sought to avoid further losses of premium income.

Similarly, the climate for director's and officers' (D&O) insurance continues to be very soft. In general terms, the market lacks a clear and consistent underwriting policy, as a consequence of which premiums as a whole came under further pressure. In this segment we are therefore standing by our very cautious underwriting stance – also with an eye to the subprime crisis – and, as before, we write business predominantly on a facultative basis.

Pharmaceutical liability insurance saw a further extension of liability in connection with a major pharmaceutical liability claim: for the first time social insurance institutions (particularly health insurance funds) sought redress from the manufacturer for their expenditures.

An amount of altogether EUR 17.3 million was withdrawn from the equalisation reserve and similar provisions owing to the fact that the required level had been reached due to the reduced premium volume.

Fire

in EUR million	2007	2006
Gross written premium	38.2	45.5
Loss ratio (%)	39.4	26.0
Underwriting result (gross)	9.4	18.5

Effective 14 November 2007 the Environmental Damage Act (USchadG) was enacted into law in Germany; it provides for retroactive liability for environmental damage occurring since 30 April 2007. For the first time, therefore, a legal basis is in place that facilitates the enforcement of claims in public law for harm caused to biological diversity. E+S Rück, as a pioneer in the German market, offers its clients comprehensive advice on the rating options for an appropriate insurance solution. In contrast to the Environmental Liability Act, the Environment Damage Act does not put any limitation on the amount of damages that may have to be paid.

Thanks to a selective underwriting policy – under which we focus largely on non-proportional business – E+S Rück has been relatively successful in decoupling itself from the general market trend. Premium adjustments did, however, occur in the area of industrial major risks.

On the basis of a large proportional acceptance of casualty business under an existing client relationship, gross written premium was boosted by 74.7% to EUR 269.5 million

(EUR 154.3 million). This effect was not carried over to the underwriting result, which came in at -EUR 21.5 million (EUR 41.7 million) due to strengthening of the IBNR reserves.

An amount totalling EUR 30.3 million was allocated to the equalisation reserve and similar provisions.

Accident

The development of accident insurance in the year under review gave grounds for satisfaction: while prices and conditions remained broadly stable, we were able to minimise the premium decline thanks to growing demand among our existing clients.

In accordance with the support that we have given this line for a number of years, we assist our clients not only by assuming risks but also by offering them product innovations. We focus here on new products developed by our company, such as a combined personal accident annuity that also provides benefits in the event of severe illnesses. Extending the range of further services delivered by external providers (policies with assistance benefits) is another core area of our service offering.

Gross written premium was 3.9% lower than in the previous year at EUR 68.3 million (EUR 71.1 million). The underwriting result in the year under review improved

Motor

Competition in the primary sector continued unabated in motor business, and experts expect it to be sustained until the end of 2009. As a consequence of premium erosion due to the annual increase in the no-claims bonus, the general readiness to switch into more reasonable tariffs and the entry into the market of outside providers, the average premium generated per policyholder is still below the lowest point of the previous cycle reached in 1999.

In terms of premium volume, the motor portfolio is the largest line in E+S Rück's non-life segment. In view of our

Casualty

in EUR million	2007	2006
Gross written premium	269.5	154.3
Loss ratio (%)	78.0	56.3
Underwriting result (gross)	(21.5)	41.7

to -EUR 1.0 million (-EUR 7.5 million). The loss ratio stood at 57.7% (70.8%).

We withdrew an amount of altogether EUR 5.9 million from the equalisation reserve and similar provisions.

Accident

in EUR million	2007	2006
Gross written premium	68.3	71.1
Loss ratio (%)	57.7	70.8
Underwriting result (gross)	(1.0)	(7.5)

specific client structure the renewed premium erosion in this sector had only a limited impact on our account. It was possible to push through price improvements for non-proportional treaty business with an eye to the further rise in claims costs for bodily injuries.

On the claims side the year under review witnessed a sharp increase in own damage claims as a consequence of winter storm "Kyrill". Overall, though, a moderate drop in the claims frequency can be observed, and the loss situation in 2007 was therefore in line with our expectations.

With ceding companies carrying higher retentions and given the rating measures implemented in original business, the gross written premium booked by E+S Rück in the motor line contracted to EUR 271.7 million (EUR 296.5 million). The loss ratio of 95.1% (92.2%) fell slightly short of the previous year. In part also due to an increased IBNR reserve, the underwriting result therefore improved as expected to -EUR 30.7 million (-EUR 37.4 million).

We withdrew an amount of altogether EUR 29.2 million from the equalisation reserve and similar provisions.

Aviation

Considerable surplus capacities continue to be the hallmark of aviation insurance in the primary market. This situation, in conjunction with the favourable claims experience of recent years, consequently led to sometimes extreme rate reductions of up to 20%.

On the reinsurance side, however, the excess capacities are still relatively limited and only moderate rate erosion was observed. E+S Rück continues to profit here from the fact that it ranks among the most sought-after reinsurers due to its excellent rating. Our portfolio again proved to be superbly diversified in the year under review. We are thus well positioned to act profitably in a softening market.

The premium volume contracted by 15.7% to EUR 21.9 million (EUR 26.0 million). Owing to increased IBNR reserves the underwriting result failed to build on the

Marine

Unlike the international market, German marine business makes no distinction between catastrophe-exposed programmes and those that have no correlation with natural catastrophe events. In spite of everything, this line is still heavily overshadowed by the losses of 2005, which left substantial charges in the books of insurers and reinsurers alike with its three severe hurricanes. Further rate increases consequently ensued in the year under review.

Motor

in EUR million	2007	2006
Gross written premium	271.7	296.5
Loss ratio (%)	95.1	92.2
Underwriting result (gross)	(30.7)	(37.4)

good level of the previous year. Reflecting a loss ratio of 90.8% (31.9%), it fell to EUR 2.5 million (EUR 15.3 million).

An amount of altogether EUR 5.8 million was withdrawn from the equalisation reserve and similar provisions.

Aviation

in EUR million	2007	2006
Gross written premium	21.9	26.0
Loss ratio (%)	90.8	31.9
Underwriting result (gross)	2.5	15.3

In offshore and energy business appreciable price increases were achieved, as against only modest rate rises for the rest of the marine portfolio. E+S Rück's underwriting in this segment is heavily geared towards non-proportional treaties. On the claims side the line was not affected by any exceptional major losses.

The premium volume in marine business – one of our smaller lines – was halved in 2007 to EUR 3.0 million (EUR 6.1 million). This line saw positive run-offs of reserves constituted for previous years, as a consequence of which the loss ratio arithmetically stood at 0.0% (14.2%). This was also reflected in an underwriting result of EUR 2.5 million (EUR 4.2 million).

A total amount of EUR 0.3 million was contributed to the equalisation reserve and similar provisions.

Life

For the German life insurance industry 2007 was notable for numerous legal developments. In view of its more extensive duties of disclosure, the implementation of the EU Mediation Directive is held partially responsible for the decline in new business in the year under review. The total premium income booked by German life insurers was similarly flat in 2007 at around EUR 78 billion.

On the product side, as in the previous year, a clear leaning towards deferred annuity products could be discerned; these are offered both in the form of traditional annuities (with interest guarantees) and on a unit-linked basis. Disability covers also continue to be important sales drivers, and pure risk-oriented policies to provide against the death risk remain a core product of German life insurance business. The long-term care risk is taking on growing significance in the eyes of the population, and life insurers are therefore observing greater interest in LTC annuity products – albeit starting from a very modest base.

The gross premium assumed by E+S Rück from the German market (excluding cessions from Hannover Re) amounted

Other lines

The lines of health, credit and surety, other indemnity insurance and other property insurance are reported together under other lines. Other property insurance consists

Marine

in EUR million	2007	2006
Gross written premium	3.0	6.1
Loss ratio (%)	0.0	14.2
Underwriting result (gross)	2.5	4.2

to EUR 526.3 million, a modest reduction of 3.3% compared to the previous year's level of EUR 544.1 million.

The underwriting performance in the German market is determined by the risk components of mortality and morbidity as well as the persistency of the business in force – the latter playing a particularly crucial role in financing transactions. A gratifying underwriting profit of EUR 107.4 million was reported in the year under review, after the previous year's figure of EUR 157.0 million had been favourably influenced by a special effect of EUR 91.3 million.

Life

in EUR million	2007	2006
Gross written premium	526.3	544.1
Underwriting result (gross)	107.4	157.0

of the extended coverage, comprehensive householder's (contents), comprehensive householder's (buildings), burglary and robbery, water damage, windstorm, plate

glass, engineering, loss of profits, hail and livestock lines. Other indemnity insurance encompasses legal protection, fidelity as well as other pure financial losses and property damage. Reflecting their significance, our comments on the other lines will concentrate on natural hazards covers and credit and surety insurance.

Thanks to falling insolvency figures and the healthy state of the economy, loss ratios in credit and surety insurance were on an excellent level in the year under review. Ceding companies boosted their retentions in view of the long string of good results in recent years. This factor, combined with a surplus supply of capacity on the reinsurance side, led to pressure on conditions. Large insurance groups, in particular, were able to push through their demands owing to the capacity overhang. On the other hand, clients continued to focus on professional reinsurers of sound financial standing, a situation from which E+S Rück benefited. The crisis on the US mortgage market did not have any implications for our credit and surety business, since our underwriting guidelines preclude the use of credit derivatives. Total gross premium volume of EUR 18.6 million (EUR 23.8 million) and an underwriting profit of EUR 4.1 million (EUR 12.0 million) were booked.

Conditions for the natural hazards portfolio written by E+S Rück were stable in the year under review. However, due to winter storm "Kyrill" and various smaller events spread over the year – such as hail showers, floods and summer storms – we incurred a disproportionately heavy burden of catastrophe losses. All in all, though, these

Results of our foreign business

By adding blocks of foreign business through retrocessions assumed from our parent company Hannover Re we are able to ensure better geographical diversification of our portfolio, which serves to stabilise results from the medium- to long-term perspective. Furthermore, a large portion of profitable life and health reinsurance business of important foreign markets can be contributed to the portfolio in this way.

strains were very well absorbed by the rest of E+S Rück's portfolio – a testament to the quality of our acceptances.

The gross written premium in all the other insurance lines combined similarly declined by altogether 3.3% to EUR 110.1 million (EUR 113.9 million). On account of a deterioration in the loss ratio to 127.7% (40.1%), the underwriting result slipped into negative territory as expected at -EUR 63.1 million (previous year: profit of EUR 34.4 million). In addition to natural hazards business the comprehensive householder's (buildings) line was particularly hard hit in this regard.

An amount of altogether EUR 14.0 million was allocated to the equalisation reserve and similar provisions constituted in the other lines.

Other lines

in EUR million	2007	2006
Gross written premium	110.1	113.9
Loss ratio (%)	127.7	40.1
Underwriting result (gross)	(63.1)	34.4

The following sections first discuss the development of non-life reinsurance in the markets with the largest premium volume from Hannover Re's perspective, with special emphasis on the key lines of business.

Europe

United Kingdom

The general climate in the United Kingdom remained virtually unchanged from the previous year: further appreciable competition again led to corresponding pressure on rates in the primary market. Only in motor insurance was the situation more favourable. Reinsurance markets, on the other hand, were notable for stable prices in the year under review. Indeed, Hannover Re actually boosted its gross premium income in the United Kingdom. In terms of catastrophe losses the portfolio was impacted by winter storm "Kyrill" at the start of the year as well as floods in June and July, although the strains for Hannover Re were relatively moderate.

Aviation insurance was notable for considerable surplus capacities. This situation, in conjunction with a favourable claims experience, led to appreciable softening in rates. On the reinsurance side, however, only moderate rate reductions were observed because ceding companies continue to attach considerable importance to their reinsurer's credit status. Hannover Re wrote its business selectively in the year under review and asserted its leading position in aviation reinsurance despite slightly reducing its market shares. The company continued to improve the diversification of its portfolio, as a result of which the dominance previously enjoyed by airline business further diminished; in this context the focus is on writing non-proportional business. In the year under review a charge of almost EUR 10 million was incurred from a plane crash in Brazil – the largest loss in the aviation market in five years. Hannover Re's account was further impacted by another aviation claim and three satellite failures. All in all, though, the company was satisfied with the business experience in aviation reinsurance.

The market climate in marine reinsurance in the year under review was still heavily overshadowed by the losses from the 2005 hurricane events. In offshore and energy business Hannover Re achieved appreciable price increases, although rate rises were also obtained for the rest of the marine portfolio. As part of the company's risk management activities the limit of liability for wind-

storm-exposed programmes in the Gulf of Mexico has now been reduced by roughly 25%. On the claims side, marine business was not affected by any exceptionally large losses; contrary to forecasts, the hurricane season in the Gulf of Mexico passed off relatively calmly in the year under review. The first half of the year saw an accumulation of sizeable ocean hull claims, although these impacted insurers first and foremost and reinsurers only to a lesser extent.

United Kingdom

in EUR million	2007	2006
Gross written premium	133.8	163.7
Underwriting result (gross)	10.6	(14.9)

France

In France Hannover Re is one of the largest providers of reinsurance coverage and the market leader in personal accident and builder's risk insurance. Overall, though, the company does not pursue any growth targets; it stepped up its involvement only in areas where terms and conditions were attractive.

Rate declines in primary insurance were recorded both for coverage of industrial risks and in the motor line. With claims numbers falling, however, insurers again booked good results in the year under review, leading to greater pressure on rates on the reinsurance side. In motor business they still proved to be inadequate, since although the number of accidents fell spending on seriously injured victims of traffic accidents moved higher.

In the year under review Hannover Re further optimised its portfolio in builder's risk insurance and continued to be guided by a long-term strategy of consistent expansion. Cooperation between the facultative and treaty reinsurance departments in the personal accident and builder's risk reinsurance lines delivered a good performance and premium growth in 2007, while at the same time cementing a solid position in the market.

No significant loss events occurred in the French market; the strains from windstorm events – such as "Kyrill" – were moderate because the bulk of the exposure remained within the retentions carried by insurers.

Hannover Re scaled back its premium volume as rates in some areas were no longer adequate. Overall, the result fell short of expectations.

North America

The North American (re-)insurance market is the largest and most important single market for Hannover Re and indeed for all players worldwide. Given the absence of natural disasters over the past two years, US insurers have been able to generate strong profits and hence further improve their equity position. At the same time competition has intensified appreciably in virtually all lines of insurance.

Competition emerged in the casualty sector back in 2006, and by mid-2007 it had become considerably more marked. Hannover Re responded by drastically reducing its business volume, especially in the exposed lines, and the premium volume consequently came in lower in 2007. The crisis that erupted in the US real estate and credit market in the year under review also had implications for directors' and officers' (D&O) and professional indemnity covers. The market loss is currently put at more than USD 3 billion; this contrasts with total premium for the financial institutions segment of around USD 3.5 billion. Hannover Re's burden of losses will, however, be significantly below the market average since it had continuously reduced its market share – especially in North American D&O business – in view of the decline in rates.

Property business was spared any appreciable price erosion until the beginning of 2007. However, the high rate level attained in the wake of the 2004 and 2005 hurricane years, especially under policies with natural catastrophe exposures, fanned competition by the middle of the year under review. Rates in property business that had no correlation with catastrophe exposures, on the other

France

in EUR million	2007	2006
Gross written premium	49.3	53.2
Underwriting result (gross)	(5.4)	2.4

hand, had long been under pressure. As yet, however, there has been no indication of a softening in treaty terms and conditions, which is always the unmistakable sign of a "soft" market. Here too Hannover Re booked a reduced premium volume, since it scaled back its involvement in property business with no catastrophe exposure in accordance with the company's anticyclical underwriting policy.

On the claims side the year under review passed off largely quietly. The predicted severe hurricane season failed to materialise, and the damage caused by tornadoes, hailstorms and forest fires in California was within the multi-year average of our catastrophe loss budget. The strains from the subprime crisis – i.e. in connection with exposures from D&O and professional indemnity covers held by financial institutions – are, however, likely to be more severe. At the present point in time Hannover Re nevertheless anticipates a loss merely in the lower double-digit millions of US dollars in this area.

Hannover Re is one of the market leaders in credit and surety reinsurance in North America and it again made the most of the attractive business opportunities in the year under review. Most notably, surety business – for Hannover Re the dominant line in the United States – was characterised by an attractive rate level; against a backdrop of above-average profitability, the company maintained its already significant market position here and even extended it in some areas. In credit reinsurance the premium volume showed double-digit growth and results continued to be very good. Premium income was also boosted in the political risks segment. Hanno-

ver Re's credit and surety portfolio was unaffected by the crisis on the US mortgage market; the company's underwriting guidelines preclude mortgage guarantee business and credit derivatives.

Rates in marine business held stable, although it was not possible to obtain further price increases. In some small segments early softening tendencies could be discerned on the rates side, yet the quality of the portfolio as a whole was unchanged from the previous year. The market share in North America is disproportionately low relative to other regions on account of the fact that Hannover Re was unable to push through improvements in conditions to the same extent as in other markets. The company writes non-proportional treaties here that attach above the layer comprised of basic losses. Whereas

Asia

Japan is still by far the largest Asian market for Hannover Re. Through its service company in Tokyo the company maintains a direct local presence and is thereby able to stay in constant personal contact with its clients. The company enjoys the status of "core reinsurer" with most of the country's major insurers.

The most important single line in Japan is natural catastrophe business, which Hannover Re writes predominantly on a non-proportional basis. With ceding companies carrying higher retentions, the premium volume on the reinsurance market contracted; Hannover Re was nevertheless able to beat this trend and consolidate its position. The price level held stable overall: reinsurance commissions under proportional treaties rose thanks to improved results and the absence of catastrophe losses. In non-proportional personal accident business rates were for the most part stable, although modest reductions were observed in certain areas. The premium volume was boosted slightly in the year under review, and no appreciable major losses were incurred. Although a fire caused considerable damage at a chemical company, the resulting strain for Hannover Re was relatively modest. All in all, the development of business in Japan was satisfactory.

a relatively broad-ranging portfolio is written in the non-proportional segment, in proportional treaty business the company concentrates on a few lines – such as offshore and war risks – and writes niche business. Facultative acceptances are written on a purely opportunistic basis and recorded a moderate loss experience in the year under review.

North America

in Mio. EUR	2007	2006
Gross written premium	191.5	238.5
Underwriting result (gross)	11.2	10.9

South and southeast Asian markets suffered further rate reductions in both the primary and reinsurance sectors. The main markets in this region are Malaysia, India, Pakistan, the Philippines, Indonesia, Thailand, Singapore and Vietnam. Property lines account for about two-thirds of Hannover Re's total portfolio, which has been extended to include lines such as personal accident, motor, crop and livestock insurance as well as structured products. In motor business the company offers selected clients a combination of traditional and structured covers. Agricultural policies, including crop and livestock covers, are increasingly growing in importance on account of rising prices for farm products and in light of subsidy schemes intended to promote plant-based energy sources.

The strongest growth market in Asia is China. While Hong Kong, Taiwan and South Korea are established insurance markets that scarcely changed year-on-year, the Chinese market again recorded disproportionately vigorous growth – a trend witnessed across all lines but especially evident in motor business and casualty lines. China thus continues to be a target market for international insurers and reinsurers, and competition is correspondingly intense. This, in turn, was reflected in declining rates and

deteriorating terms and conditions, although the current market environment in Taiwan, Hong Kong and South Korea is also soft.

No major losses were incurred in the year under review, although the frequency of smaller claims was higher. Overall, Hannover Re's results in Asia were satisfactory.

International life and health reinsurance

E+S Rück enjoys access to a profitable, broadly diversified portfolio from all five continents through its participation in Hannover Re's international business. It is thus able to tap into a growth potential that it could not realise in the German market.

In the year under review gross premium income of EUR 455.2 million was generated for E+S Rück through these retrocessions – a drop of around 12% compared to the previous year (EUR 516.5 million) due to the reduction of a substantial volume of unit-linked single-premium business from Luxembourg. The proportion of life and health reinsurance business relative to the total premium income booked by E+S Rück thus normalised at 41.4% (43.5%).

Particularly favourable growth impetus derived from enhanced annuities in the United Kingdom and bancassurance business in Romance-speaking and other southern European countries.

In the United States Hannover Re has supported Medicare – the government health insurance programme for seniors in which more than 44 million citizens are enrolled – for a number of years and reinsures the Health Medicare Supplement insurance plans organised through the private insurance sector. A large contract originally concluded for the three-year period of 2006 to 2008 was commuted ahead of schedule in the autumn of 2007 on favourable conditions.

The company devoted special attention in the year under review to the countries of the Asia/Pacific economic region. The start-up preparations for the Hannover Re

Asia

in Mio. EUR	2007	2006
Gross written premium	68.3	43.7
Underwriting result (gross)	1.6	14.5

branch in Shanghai moved forward according to plan, and operational activities are expected to commence in the spring of 2008. In December 2007 the South Korean regulator gave Hannover Re the green light to set up a life branch in Seoul. In India the establishment of a service company in Mumbai has been set in motion. These measures will help the company to tap into the growth opportunities in life and annuity insurance offered by the rapidly developing markets in this densely populated region to a greater extent that has hitherto been the case.

The results of international business were gratifying, especially in the life and health lines, and a gross underwriting profit of EUR 21.6 million (EUR 6.7 million) was booked.

International life and health reinsurance business

in Mio. EUR	2007	2006
Gross written premium	455.2	516.5
Underwriting result (gross)	21.6	6.7

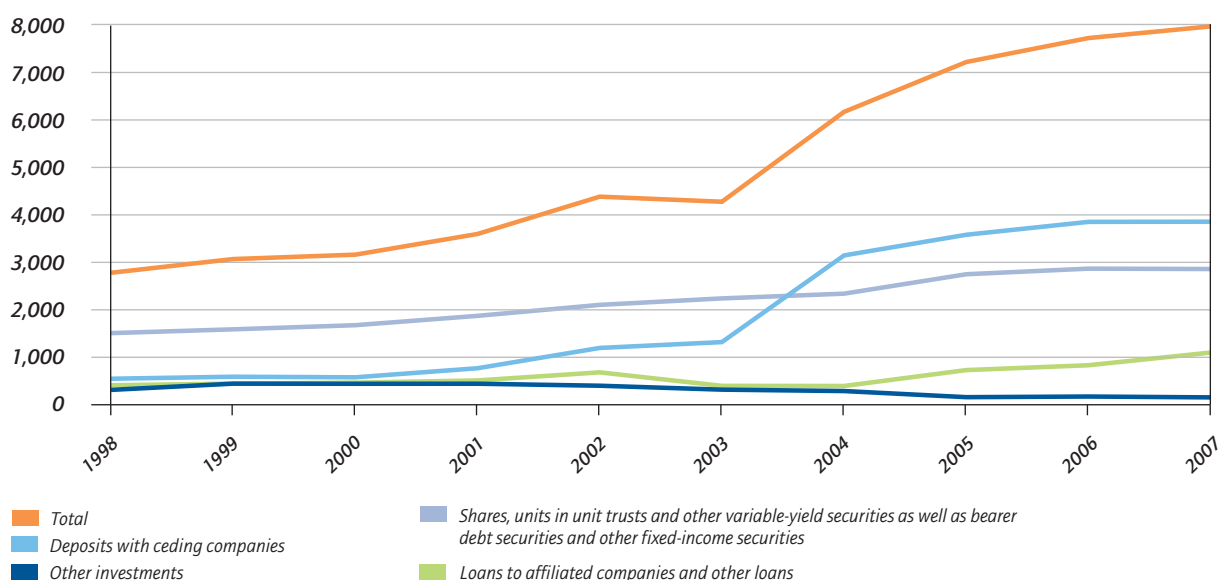
Investments

Sharp volatility was a hallmark of financial markets in the year under review. The German stock index (Dax) put on almost 22% between January and December and was thus one of the top performers among the world's established indices. During the year the index touched its lowest points in March at 6,448, while soaring to highs

in excess of 8,100 points in July and flirting with this level again in December. The S&P 500 in the United States – the bellwether index for international equity markets – and the EuroStoxx both recorded single-digit percentage gains over the course of the year.

Investments

in EUR million



As the US mortgage crisis took hold the Federal Reserve Board responded with incremental interest rate cuts and – prompted by palpable concerns over the economy – lowered the Fed fund rate from 5.25% to 4.25%. In light of the better economic conditions prevailing in Europe the European Central Bank chose not to make any reductions in base rates.

Ten-year US treasury bonds showed a reference rate of 4.0% as at year-end, while in Europe the yield on bonds of the same duration was 4.3%. The market for corporate bonds and other credit products within the asset class of fixed-income securities came under a cash strain from the third quarter until the end of the year under review

due to the credit crunch and housing crisis. The euro consistently moved strongly higher in 2007 against virtually all major world currencies.

E+S Rück's investment policy continues to be guided by the following core principles:

- generation of stable, plannable and tax-optimised returns while at the same time maintaining the high quality standard of the portfolio;
- ensuring the company's liquidity and solvency at all times;

- high diversification of risks within the scope of the investment strategy;
- management of currency exposures in accordance with the principle of matching currencies.

With these goals in mind we engage in active risk management on the basis of balanced risk/return analyses. In this context we observe centrally implemented investment guidelines and are guided by dynamic financial analysis based on the latest scientific insights. These measures ensure that at all times we are able to meet our payment obligations in light of our liabilities profile.

Within the scope of our asset/liability management activities, the allocation of investments by currency is determined by the development of underwriting items on the liabilities side of the balance sheet. We are thus able to achieve extensive currency matching of assets and liabilities, thereby ensuring that our result is not significantly affected by fluctuations in exchange rates.

Thanks to the neutral/defensive posture of our bond portfolio, our investment performance was not significantly impacted by the volatility on capital markets. Based on the cash inflow from the technical account, our portfolio of self-managed assets grew to EUR 4.1 billion (EUR 3.9 billion).

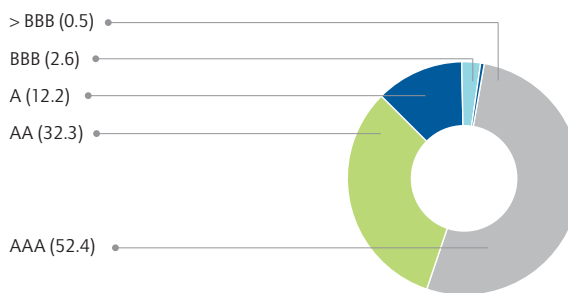
Deposit interest and expenses including income from the reversal of separate value adjustments contributed EUR 100.8 million (EUR 101.0 million) on balance to the investment result. The gains of altogether EUR 138.9 million (EUR 64.4 million) realised on the disposal of assets under own management derived in very large measure from the sale of the 50 percent stake in Hannover Life Re of Australasia Ltd. They contrasted with losses of EUR 3.1 million (EUR 9.4 million). The positive balance was therefore higher than in the previous year at EUR 135.8 million (EUR 55.0 million). Along with the increased ordinary income of EUR 242.6 million (EUR 237.9 million) and write-downs of EUR 19.6 million (EUR 10.4 million), the net investment result in the year under review came in substantially higher than in the previous year at EUR 365.3 million (EUR 276.5 million) –

largely due to the special effect associated with the restructuring of participations.

As in previous years, we actively managed the duration of our fixed-income portfolio, thereby not only optimising our returns but also conserving our shareholders' equity. The modified duration of our bond portfolio was kept stable over the reporting period, standing at 4.2 years as at 31 December 2007 – the same level as at the end of the previous year.

The portfolio of fixed-income securities (including bond funds) as at 31 December 2007 amounted to EUR 3.4 billion (EUR 3.2 billion), a rise of 6.4%. The international markets for structured bond and credit products have been heavily overshadowed by the subprime crisis since the middle of the year under review. Given the insignificant expansion of our holdings of corporate bonds and in view of the minimal proportion of structured credit products, E+S Rück's portfolio is unaffected; it was not therefore necessary to take any write-downs on subprime securities. In light of the developments on credit markets we attached special importance in the course of the year under review to high quality and transparency. Preferred asset classes in Europe were debt securities issued by semi-governmental entities and jumbo mortgage bonds. New investments were made primarily in medium-duration instruments. Net unrealised losses in our portfolio of fixed-income securities totalled -EUR 31.7 million, compared to -EUR 23.4 million in the previous year, as a consequence of movements in the European interest rate curve.

Rating of fixed-income securities (in %)



In light of the favourable trend on stock markets we realised targeted gains on equities. The equity allocation increased to 14.3% (13.2%). New equity investments

were made predominantly in the Eurozone – especially in index-tracking instruments. We used systematic option strategies to partially hedge the equity portfolio.

Human resources

At E+S Rück personnel management is considered a key factor in the successful execution of strategy. Our company's human resources strategy therefore concentrated on three goals in the year under review: the order of the day was to further boost the company's appeal as an employer, strengthen the satisfaction and affinity of the workforce and enhance our personnel processes. In the year under review our staff were surveyed for the fourth time on their attitude towards their company: the finding was that, overall, they indicated again a high level of satisfaction with their employment situation. Our company enjoys a good reputation in all quarters – not only among clients, but also among young people at universities and schools. At graduate recruitment fairs we always receive better-than-average ratings.

E+S Rück employed 247 (235) staff as at 31 December 2007. Although the state of the labour market shifted appreciably in the year under review in favour of those seeking employment – politicians and the media are already talking about another lack of skilled workers –, the turnover and absenteeism figures at our company are still well below the industry average. What is more, with the aid of our holistic management system Performance Excellence we demonstrated the exceptionally successful execution of our human resources strategy in an externally conducted assessment (IQNet Business Excellence Class).

Demographic change – a challenge?

More than half of our workforce can draw on a rich store of professional expertise based on their age. With an average length of service of nine years and an average age of 40, they have comprehensive experience at their fingertips.

Demographic change and its potential implications for the business world were often the subject of public debate over the past two years – and were particularly widely discussed in companies' personnel departments. For our part, we too have begun to take a close look at this issue. An analysis of our company's age structure revealed that E+S Rück – in common with many other enterprises – does not have a balanced age structure: the majority of our company's staff are aged between 30 and 40. While this does not mean that we shall have an age-related problem filling jobs in the coming years, we will, however,

constantly have to keep a close eye on the different situations in the departments and hierarchical levels so as to be able to respond quickly to developments.

Demographic change encompasses a very broad range of issues. In many of these areas E+S Rück is already superbly positioned, including for example the organisation of working time (flexible working-time/part-time models and telecommuting options), aspects of wellness promotion (company sports), work/life balance considerations (company crèche) and in terms of an extensive internal training programme.

In the current year we shall analyse to what extent there is a need for action with respect to the themes of cooperation and leadership, further training and professional

development as well as the preservation of our employees' physical and mental well-being. We shall then enhance or adjust the existing tools. A further constant challenge in this connection – particularly for a service provider

such as ourselves – is safeguarding and passing on the expertise already existing within our organisation.

Career and family

In its human resources management policy E+S Rück attaches considerable importance to promoting the compatibility of its employees' professional and private lives. Our various part-time working models already offer a high degree of flexibility to promote the harmonisation of family and career.

This flexibility was again assessed exceptionally positively in the latest personnel survey. Working together with dedicated members of staff, we are developing further models so as to harmonise still better company needs and private concerns.

Expansion of our range of training opportunities

Training is good – more training is better. Guided by this maxim, we have enabled many graduates to embark on a professional career in recent years. Cementing the affinity of qualified young people at an early stage is an important element of our corporate philosophy. After a protracted demand-driven market we now anticipate a shift towards a supply market. We have responded accordingly: in future,

we shall not only offer training as a certified insurance practitioner but will also assist our staff in obtaining a Bachelor of Science degree in business informatics or indeed in qualifying as a chef in our internal Facilities Management unit.

General Act on Equal Treatment (AGG)

Since August 2006 the General Act on Equal Treatment (AGG) has been in force. The German federal government thereby implemented European Union guidelines on equal treatment in national law. As a globally operating organisation the concerns of the AGG are nothing new for us. Diversity has long been part of our corporate cul-

ture, and the avoidance of discrimination is already enshrined in our business principles. Employees from 25 nations working at our Hannover headquarters are the guarantors that diversity is an integral part of lived daily experience at our company.

Word of thanks to our staff

We would like to thank our employees for their initiative, dedication and performance. Our staff identified with the company's defined objectives and pursued them purpose-

fully at all times. We would also like to express our appreciation to the representatives of staff and senior management for their critical yet always constructive cooperation.

Sustainability report

E+S Rück's overriding objective is to be the leading specialty reinsurer for the German market. In this context we strive to finance growth with self-generated profits and to avoid imbalances that would necessitate contributions by shareholders. We therefore operate on a purely profit-oriented basis and concentrate on attractive segments of reinsurance business. The sustainable value creation of our company is steered and documented using a system of key ratios, and we ground our strategy and our daily actions alike on high ethical and legal standards. We recognise that the public image of E+S Rück is crucially shaped by the manners, actions and conduct of every member of staff.

Social commitment

E+S Rück is aware of its role as a contractor in the city of Hannover and the surrounding region. Where possible, we prefer to award contracts locally so as to foster businesses based here. Not only that, we also support events in and around Hannover that are important for our com-

pany, including for example the "Tag der Retter" organised in the year under review by Hannover Medical School (MHH) to showcase the work of the emergency rescue services.

Profitability in turn enables the company to live up to its social responsibility. Our successful business management establishes the basis for playing a positive role in society, consistently fostering and advancing staff and supporting projects that are in the public interest. The responsible underwriting of risks and diligent risk management are vital preconditions for safeguarding the quality of our business over the long term and for preserving and multiplying the value of our company. Our goal is to continue to treat the resources entrusted to us with this level of responsibility.

Research and development

The transfer of knowledge between business and research is indispensable for the assessment of catastrophe risks. For some years now we have therefore supported the Geo Research Center in Potsdam, which engages in the systematic investigation and early detection of earthquakes.

Yet we do not attach exclusive importance to our exchange of ideas with this institution – we also set great store by our dialogue with other universities. E+S Rück cooperated

with various institutions of higher learning in Germany in the year under review. The University of Lüneburg, for example, held an event in Hannover entitled "Everything is a question of liability", and students from Cologne University of Applied Sciences visited our premises on an organised tour. Not only that, staff from E+S Rück visited and gave lectures at the University of Applied Sciences and Arts in Hannover, University of Applied Sciences in Paderborn, Gisma Business School and Coburg University of Applied Sciences.

Environment

In 2007 E+S Rück participated for the first time in the "Ecological Project for Integrated Environmental Technology" (Ecoprofit). The basic idea underlying this pro-

ject is to combine economic profit with ecological benefit. Through preventive environmental protection – for example thanks to the systematic saving of resources

such as water and energy – the goal is to sustainably improve the state of the environment in a particular region and at the same time save costs. As a financial services company our emissions of harmful substances are of course significantly lower than those of a manufacturing plant. We nevertheless aspire to leave the smallest possible footprint on our environment, and we are therefore consistently reducing our use of resources and our emissions.

E+S Rück identified 16 measures from the "Ecoprofit" Hannover catalogue that related primarily to the lighting system for the entire building complex at the Hannover location. Ten of these measures could be implemented immediately at minimal cost or through targeted manage-

ment of the already existing building technology, as a consequence of which CO₂ emissions for 2007 were cut by around 175,000 kg. For our successful implementation of these steps we were singled out as an "Ecoprofit" business in December 2007; this is the title awarded by the City and Region of Hannover to companies that save energy through appropriate measures and hence reduce their emissions of polluting carbon dioxide. Implementation of the remaining six measures is scheduled for early 2008.

Support for the arts

Following its premiere back in 1998, the year under review saw the tenth examination concert in Hannover. Every year this concert – organised by E+S Rück in cooperation with Hannover University of Music and Drama – offers three to four "master students" the opportunity to perform with the accompaniment of a large orchestra. With this performance the students are able to complete their

final examination and are thereby able to satisfy the requirements for embarking on a career as a soloist. At the same time we consider the examination concert to be the musical highlight of E+S Rück's annual "Hannover Forum" seminar event.

Employee responsibility

By means of company-wide guidelines – including for example our business principles – which we update regularly and adjust in line with changing socio-political requirements, we have defined standards that are valid for all employees worldwide. All members of staff undertake to conduct themselves vis-à-vis their colleagues and clients in a manner that is honest, fair and law-abiding. These

and other principles are intended to help our staff successfully cope with the often complex ethical and legal challenges facing them in their daily tasks.

Performance Excellence

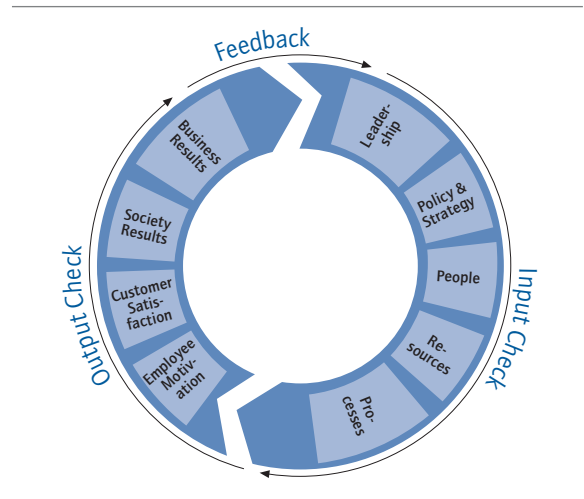
Support for our strategic planning and steering processes is provided on the basis of the Performance Excellence (PE) method. Performance Excellence is a forward-looking, holistic management system for E+S Rück, with the aid of which we seek to sustainably increase the value of

our company. It takes its lead from the "Excellence Model" of the European Foundation for Quality Management (EFQM) and is based on the evaluation and enhancement of methods, practices and procedures used, supported by external expert assessments.

This comprehensive approach serves as our guideline and is a particularly effective means of consistently enhancing our customer orientation. By way of this holistic management system, we strive to continuously improve our steering tools of leadership, policy and strategy, people as well as the management of resources and processes. In so doing, our goal is to achieve an optimal outcome in terms of customer satisfaction and employee motivation as well as business results.

E+S Rück maps fulfilment of its responsibility to society via the criterion of "society results". As shown in the illustration, a broad range of initiatives fall under this EFQM criterion, the contents of which are evaluated within the scope of our internal and external assessments. The measurement results produced by this appraisal provide insights into how we are perceived by the public at large.

Integrated assessment



Risk report

Overriding goals and organisation of our risk management

As a reinsurance enterprise we are confronted with a broad diversity of risks that are directly connected with our entrepreneurial activities and which manifest themselves differently in the individual strategic business groups and geographical regions. Our risk management therefore forms an integral component of our value-based enterprise management and hence of all higher-order decision-making processes. Our goal is to optimally utilise opportunities while appropriately controlling and managing the risks associated with our business operations. Risk management is accorded a high status in E+S Rück's strategy. It is a matter of existential importance to us that the core elements of our risk management are optimally harmonised and closely interlinked with one another. Only in this way can we make a holistic assessment not just of the risks on the asset and liabilities side of our balance sheet, but also of the opportunities.

The following seven factors are hallmarks of our risk management system:

- central coordination by Group Risk Management and local risk responsibility in the various areas
- documentation of the essential components of the system in compulsory rules
- systematic and thorough recording of all conceivable risks that could jeopardise the company's net income or survival from the current perspective
- standard and ad hoc reports appropriate to the various risks
- quarterly meetings of the Risk Committee
- use of efficient steering and controlling systems, e.g. DFA risk budgets
- feedback-control-based review of the efficiency of the systems and adjustment as necessary in line with the prevailing business environment and/or changed risk situation

In the financial year just-ended the internationally leading US rating agency Standard & Poor's assessed our risk management as "Strong", the second-highest S&P rating.

This opinion reflects the quality of our approach to risk management, also in comparison with the broader market environment.

Central elements of the risk management system

Controlling elements	Key risk management tasks
Supervisory Board	<ul style="list-style-type: none"> • Advising and monitoring the Executive Board in its management of the company, inter alia with respect to risk management
Executive Board	<ul style="list-style-type: none"> • Overall responsibility for risk management • Definition of the risk strategy • Responsible for the proper functioning of risk management
Risk Committee ¹⁾	<ul style="list-style-type: none"> • Monitoring and coordinating body with respect to operational risk management • Decision-making power is within the bounds of the risk strategy defined by the Executive Board
Group Risk Management ²⁾	<ul style="list-style-type: none"> • Risk monitoring function • Methodological competence, inter alia for <ul style="list-style-type: none"> – Edevelopment of processes/methods for risk assessment, management and analysis, – risk limitation and reporting, – risk monitoring and determination of the required risk capital
Business units ³⁾	<ul style="list-style-type: none"> • Primary risk responsibility, inter alia responsible for risk identification and assessment on the departmental level. The task is performed on the basis of the guidelines for the independent risk monitoring function.
Line-independent monitoring	<ul style="list-style-type: none"> • Review of all functional areas of E+S Rück by Internal Auditing

¹⁾ Members: Chairman of the Executive Board, Chief Financial Officer, Member of the Board responsible for life/health reinsurance, Member of the Board responsible for coordinating non-life reinsurance, Head of Controlling and Chief Risk Officer.

²⁾ Led by: Chief Risk Officer; functions: aggregate control, natural catastrophe modelling, actuarial claims analysis, dynamic financial analysis (DFA), handling of operational risks and risk reporting.

³⁾ Treaty departments and service units within the non-life and life/health reinsurance business groups and in the investments sector.

Management of risks across the company

We have developed an internal risk model in order to quantify the risks to which E+S Rück is exposed. It encompasses statistical models both for individual risks (e.g. capital market risks such as interest rate changes or underwriting risks such as exposure to natural disasters) and for the aggregation of such individual risks. This enables us to measure our exposure not only in relation to individual risks but also in relation to the overall risk and to limit the exposure on the basis of our risk tolerance. Our overarching risk/return management is geared to probability distributions for key balance sheet variables and performance indicators (including the operating profit (EBIT) and shareholders' equity) that are determined by the internal risk

model. Our internal model is oriented towards standard market practice and is subject to constant refinement. The importance of the internal model – an indispensable element for our company in the calculation of the necessary equity resources – will continue to rise in view of the future requirements of the first pillar of Solvency II.

Global risks

Global risks are beyond our direct sphere of influence and we therefore concentrate our risk management activities on early detection. These risks may derive inter alia from changes in the legal (including the regulatory and tax) framework, social and demographic changes, developments in the insurance industry as well as environmental and climate factors. We counter these potential risks by taking a number of steps, including constant monitoring

of claims trends as well as analyses of claims and catastrophe losses. We adjust our underwriting policy accordingly, as necessary by means of appropriate contractual exclusions or through material and geographical diversification of the portfolio. Furthermore, we track developments in relevant legal areas (e.g. US liability law) and in regulatory/statutory requirements as well as changes in accounting standards (e.g. IFRS).

Strategic risks

Our overriding strategic objective is to generate value-oriented growth as an optimally diversified and economically independent reinsurer of average-average profitability. All other goals are derived from and subordinate to this overriding objective. Strategic risks may derive from an imbalance between the defined corporate strategy and the continually changing general economic conditions. Such an imbalance might be caused, for example, by incorrect strategic policy decisions – or by a failure to consistently implement the defined strategy. We therefore regularly review our strategy and systematically adjust our structures and processes as and when required.

Our holistic management system of "Performance Excellence" ensures that our strategy is constantly reviewed and consistently translated into practice. We continuously and systematically improve our performance under all Excellence criteria and subject them not only to internal but also external assessment. In this regard "Policy and Strategy" is an independent assessment criterion. Every three years the assumptions underlying our corporate strategy are systematically re-examined, most recently in 2005. This structured process is a core element of our integrated opportunity management.

Technical risks

Risks on the underwriting side can be subdivided into risks of random fluctuation, risks of error and risks of change. A significant technical risk is the risk of underreserving. In *non-life reinsurance* we calculate our loss reserves on an actuarial basis. The point of departure here is always the information provided by our cedants, where necessary supplemented by additional reserves that may seem appropriate on the basis of our own loss estimations. Furthermore, we constitute an IBNR (incurred but not reported) reserve for losses that have already occurred but have not yet been reported to us. Our own actuarial calculations regarding the adequacy of the reserves are subject to annual quality assurance reviews conducted by external actuaries and auditors.

A key tool for risk limitation is retrocession; the business that we accept is not always fully retained, but instead

portions are retroceded as necessary. Our retrocessions conserve our capital, stabilise and optimise our results and enable us to derive maximum benefit from a "hard" market (e.g. following a catastrophe loss event). Alongside traditional retrocession we also transfer risks to the capital market. Overall, these tools support diversification within the total portfolio and promote risk reduction. The default risk on reinsurance recoverables has a bearing on our retrocessions. It is for this reason that the credit status of our retrocessionaires is a criterion of paramount importance in the selection process. As a further risk reduction measure, some of our reinsurance recoverables are secured by cash or securities deposits or by letters of credit.

In order to assess the risks posed by natural hazards E+S Rück uses licensed scientific simulation models. We also employ our own scientists to evaluate and control the

quality of the models. Within various segments we additionally determine extra safety loadings that are added to the output of the simulation models in order to adjust our calculation base to adequately reflect the risks. In addition, E+S Rück's natural hazards experts constantly monitor the findings of all available scientific research with an eye to possible changes in the risk situation. The simulation models and the know-how of our specialists in geosciences and natural sciences form the basis for the risk management of our natural hazards exposure. We continually review the utilisation of our maximum permissible exposure limits, the allocation of equity according to profitability criteria and the active management of our own reinsurance requirements.

Within the scope of accumulation control – i.e. monitoring of the exposure of E+S Rück's portfolio – the full Executive Board defines the willingness to assume natural hazards risks once a year on the basis of the company's overall risk strategy. In order to manage the portfolio with this consideration in mind, maximum underwriting limits ("capacities") are stipulated for various extreme loss scenarios and return periods/probabilities in light of profitability criteria.

Adherence to these limits is constantly monitored by the "Aggregate Control" section of Group Risk Management and the Risk Committee. For this purpose, we establish the portfolio risk for the scenario in question (e.g. hurricanes in the US, windstorms in Europe, earthquakes in the US) in the form of probability distributions on a gross basis, i.e. our natural hazards experts calculate specific occurrence probabilities of the expected loss with the aid of our simulation models for natural hazards. As a final step, this data based on individual scenarios is then collated for the portfolio as a whole, which is considered both on a gross basis and for net account after application of the existing retrocession structure.

The data described here also forms an integral component of our regular reporting to the Executive Board and the Risk Committee. The tools used for accumulation control are supplemented by the progressive inclusion of realistic extreme loss scenarios. The tasks, responsibilities and processes within our overall system of natural hazards accumulation control are set out in guidelines drawn up specially for this purpose.

In *life and health reinsurance* biometric risks are of special importance to our company. This term refers to all risks directly connected with the life of an insured person, such as miscalculation of mortality, life expectancy and the probability of disability. Since we also prefinance our cedants' new business acquisition costs, lapse and credit risks are of significance too.

We reduce these potential risks with a broad range of risk management measures. For example, the reserves in life and health reinsurance are calculated in accordance with actuarial principles using secure biometric actuarial bases and with the aid of portfolio information provided by our clients. Through our own quality assurance we ensure that the reserves established by ceding companies in accordance with local accounting principles satisfy all requirements with respect to the calculation methods used and assumptions made (e.g. use of mortality and disability tables, assumptions regarding the lapse rate etc.). New business is written in all regions in compliance with internationally applicable Global Underwriting Guidelines, which set out detailed rules governing the type, quality, level and origin of risks. These global guidelines are revised every two years and approved by the full Executive Board. Regular audits verify compliance with these guidelines. We review the risk feasibility of new business activities and of the assumed portfolio on the basis of a series of regularly performed, holistic analyses, inter alia with an eye to the lapse risk.

A key tool of our value-based management and risk management in the area of life and health reinsurance is the European Embedded Value (EEV). This refers to the present value of future earnings from the worldwide life and health reinsurance portfolio – after appropriate allowance for all risks underlying the covered business.

The interest guarantee risk, which is important in life business in the primary insurance sector, is of only minimal risk relevance to our business owing to the structure of our contracts and the use of conservative assumptions.

Investment risks

The profit for the year generated by E+S Rück is fundamentally determined by two components, namely the "underwriting result" and the "investment income". The asset portfolios derive in substantial measure from insurance premiums that must be set aside for future loss payments. The risks in the investment sector encompass, most notably, market, credit and liquidity risks as well as currency exposures.

We seek to generate stable, plannable and tax-optimised returns while at the same time maintaining the high quality standard of the portfolio. Our goal is to generate an optimal contribution margin while adhering to maximum defined risk limits. We therefore strive to generate at least the risk-free interest rate plus the cost of capital associated with the asset structure. Investments are guided by the requirements of the reinsurance business (e.g. with respect to currencies and maturities). The underwriting portfolio (liability management) is linked and harmonised with the investment portfolio (asset management) under the umbrella of integrated asset/liability management. The mix of our asset portfolio is guided by continuous dynamic financial analysis (DFA) as well as the requirements of liquidity and matching currency coverage. The latter is important because a sizeable portion of our business is written in foreign currencies. By

way of matching currency coverage we ensure that exchange-rate fluctuations do not have any significant effect on the company's assets, financial position or net income. The implemented management and control mechanisms encompass in particular organisational rules – such as the principle of separation of functions with respect to trading, settlement and risk control which is applied through to the level of senior management – as well as regular reviews of limits and portfolio/sensitivity analyses, together with standard and ad hoc reports that are stipulated on this basis, all of which are integrated into the overall process.

We use short-call and long-put options as well as swaps to partially hedge portfolios, especially against price, exchange and interest rate risks. In the year under review we also used derivative financial instruments to optimise our portfolio in light of risk/return considerations. Derivative transactions are effected solely with first-class counterparties and compliance with the standards defined in the investment guidelines is strictly controlled.

Rating structure of our fixed-income securities as at 31.12.2007

Rating	Bearer debt securities		Registered debt securities, debentures and loans		Bond funds		Sundry loans	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	67.6	1,470.1	16.6	166.8	90.4	137.9	–	–
AA	25.8	559.8	52.2	525.2	7.3	11.1	–	–
A	5.0	109.2	29.5	297.5	–	–	9.2	5.0
BBB	1.0	20.9	1.7	17.5	–	–	90.8	49.2
<BBB	0.6	13.6	–	–	2.3	3.5	–	–
Total	100.0	2,173.6	100.0	1,007.0	100.0	152.5	100.0	54.2

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

Portfolio	Scenario	Portfolio change based on fair value in EUR million
Equities	Stock prices +10%	61.7
	Stock prices +20%	123.4
	Stock prices -10%	(61.7)
	Stock prices -20%	(123.4)
	Fair value as at 31.12.2007	616.8
Fixed-income securities	Yield increase +50 basis points	(69.5)
	Yield increase +100 basis points	(136.4)
	Yield decrease -50 basis points	72.1
	Yield decrease -100 basis points	146.7
	Fair value as at 31.12.2007	3,365.1

Operational risks

In our understanding, this category encompasses the risk of losses occurring directly or indirectly because of inadequacy or failure of internal procedures, human error or system failure, organisational shortcomings and external events.

In this regard, our internal control system – which embraces all harmonised and interlinked checks, measures and rules – is a vital risk management tool for minimising operational risks. As a mandatory component of all audits, our Internal Audit unit regularly checks the proper functioning of the internal control system. Internal auditing is thus a major element of the line-independent monitoring of risk management. In the year under review, in response to the growing importance of the internal control system, we began to further optimise our existing control system and attune it even more closely to future requirements.

The technological dependency of our core processes on information technology is rapidly increasing, with

corresponding implications for the potential risk. It is therefore of fundamental economic importance that we ensure the high availability of applications and integrity of mission-critical data and of our infrastructure. In the year under review, with an eye to preserving the existing high level of security going forward, we began to further optimise our existing plans and safeguards on both the technical and organisational sides (e.g. pandemic contingency plans, crisis communication, back-up computer centre) to deal with the failure of fundamental business processes.

We regularly re-examine the existing measures for contingency planning. The Business Continuity Management (BCM) project launched in the year under review is an indispensable element of the proactive management of operational risks at our company and will serve to further enhance our preventive mechanisms.

Emerging risks

The hallmark of emerging risks is that the content of such risks is not as yet known with any certainty and their implications are difficult to assess. These risks evolve gradually from scarcely perceptible signals to unmistakable tendencies. It is therefore important to detect such signals at an early stage and to systematically identify them, determine their relevance and assess the risk that they

pose. On this basis it is possible to decide which steps must be taken, e.g. the implementation of contractual exclusions or the development of new reinsurance products. This category includes, for example, obesity-related risks and the advancement of nanotechnology.

Assessment of the risk situation

The above remarks describe the diverse spectrum of potential risks to which we, as a reinsurance enterprise, are exposed. These risks can have a not inconsiderable impact on our assets, financial position and net income. Yet it is inappropriate to consider only the risk aspect, since risks always go hand-in-hand with opportunities. With the aid of our effective controlling tools as well as our organisational structure and process organisation,

we ensure that we are able to identify risks in a timely manner and maximise our opportunities. Based on our currently available insights arrived at from a holistic analysis of the risk situation, we cannot discern any risks that could jeopardise the continued existence of our company in the short or medium term or have a significant, lasting effect on our assets, financial position or net income.

Forecast

Although cyclical risks have increased, the global economy should continue to grow in 2008: at the beginning of the current year, however, events surrounding the mortgage crisis and credit crunch initially helped to fan fears of a recession in the United States and its negative implications for Europe and Asia. The cut in the prime rate made by the Federal Reserve Board – first by 75 and then by a further 50 basis points – proved helpful and initially helped to stop the massive price slumps suffered by international stock markets on 21 January 2008.

Monetary policy in the Eurozone will likely tend more towards an expansionary stance. The European Central Bank will probably leave its base rate unchanged for as long as the dangers on the financial markets have not been averted.

The cyclical downturn in the United States could also drain appreciable impetus from the economic upturn in Germany. Against the backdrop of a continuing strong

euro, export growth will be considerably softer than in the previous year. The high price of oil is also likely to prove a drag on the German economy. Nevertheless, company order books are healthy, and this should help to promote economic growth.

The German insurance industry will have to face up to undiminished fierce competition in 2008. Foreign insurers with the capability to establish themselves as professional players are continuing to force their way into the market and companies already active in Germany are stepping up their efforts to generate growth. Along with premium reductions some concessions over conditions have been observed in certain segments, such as special terms and conditions for specific customer groups.

We are satisfied with the market conditions on the reinsurance side in Germany. Our company enjoyed a gratifying treaty renewal season in our domestic market: in response to the strains incurred in connection with

winter storm "Kyrill" in January 2007, stronger demand is emerging for catastrophe covers. *Industrial fire insurance* will see further premium erosion in 2008 driven by the favourable major claims experience of 2007. If, however, a normal burden of losses is recorded as in previous years, the entire line will no longer be profitable and the combined ratio will inevitably exceed 100%. It remains to be seen how the competitive situation will play out in this line.

In *casualty insurance* the outcome of the renewals gives grounds for hope. The premium erosion forecast as recently as the reinsurance gathering in Baden-Baden has largely failed to materialise. Conditions and rates for non-proportional business can therefore be expected to again remain stable in 2008. As one of the leading reinsurers in Germany E+S Rück will continue to be a reliable partner in 2008 and intends to stand by its margin-oriented underwriting policy of past years.

In 2008 it will become increasingly clear how best to deal with the new Environmental Damage Act (USchadG) that was implemented in 2007. Non-governmental organisations have a right to file class actions under the law, and it can be assumed that they will exercise this right in order to uncover environmental damage. A proliferation of lawsuits is therefore to be expected, and demand for insurance protection should consequently continue to rise. E+S Rück is ready to tackle these challenges.

Prices and conditions in *accident insurance* remain on a thoroughly gratifying level for E+S Rück. Many insurers continue to enjoy favourable portfolio growth, which also of course benefits our company. As in past years, our focus in this line will be on developing new products in cooperation with our clients and promoting an active knowledge transfer at specialist conferences organised by E+S Rück. Based on our expertise we are a sought-after reinsurance partner in this line.

Competition among German *motor insurers* will be sustained in 2008. Given the continuing downward slide in original premiums and with the claims frequency expected to remain stable, insurers will find it increasingly dif-

ficult to achieve underwriting results in positive territory. On the reinsurance side we are highly satisfied with the outcome of the most recent renewals. E+S Rück will stand by its selective underwriting policy. Rates under non-proportional treaties held stable on a high level.

Given the absence of major claims in *marine business* in both 2006 and 2007, rate reductions of around 10% were seen in this line; nevertheless, rates were still appreciably higher than the level of 2005. In addition to these cuts we expect insurers to further raise their retentions, since prices for reinsurance are falling considerably less sharply than they are on the insurance side.

The anticipated double-digit percentage increases in premiums for *natural catastrophe covers* largely failed to materialise in the latest round of renewals. Programmes that had been spared losses actually saw further reductions, while those treaties that had been impacted saw increases in the single-digit percentage range. This development shows that in spite of everything the capacities available on the German market are still sufficient.

We were thoroughly satisfied with the treaty renewals in *credit and surety insurance* as at 1 January 2008. Although rates and conditions came under moderate pressure on the back of excellent results in the year under review, we consolidated our market position – even as ceding companies raised their retentions – and selectively enlarged our portfolio. The historically low loss ratios of 2007 will likely normalise in the current financial year on account of rising insolvency figures. Another gratifying result should nevertheless be possible.

The situation in foreign business, which we assume by way of retrocessions from Hannover Re, was as follows: rates in *Northern European* countries are decreasing in all lines. Hannover Re nevertheless expects to see a satisfactory development.

France offers further attractive business opportunities in builder's risk insurance, and Hannover Re therefore intends to keep a close eye on this line over the long term. Rates in motor business were stable during the renewals. In property business, on the other hand, they are likely

to fall slightly in both France and Belgium. A modest increase in premium income can be anticipated.

In *North America* it will become more difficult for many clients to maintain the combined ratios reported in recent years of less than 90% in some areas as well as returns on equity in excess of 15%, while at the same time growing their gross and net premium. The second and third quarters of the year under review were already notable for the lowest increase in gross premium in decades.

Hannover Re does not expect the competitive pressure in property insurance to ease. In the case of business with a less pronounced catastrophe exposure (such as in the Midwest), the possibility cannot be ruled out that even in 2008 a profitable level can no longer be maintained. The casualty insurance market could slide into a soft market phase during the current financial year.

The absence of catastrophe losses had corresponding implications for rate movements on the reinsurance side. Property business (including that with natural catastrophe exposure) consequently saw rate reductions. The margin requirements will, however, still be comfortably surpassed, and the price level that is ultimately achieved should still match up to that called for by modelling and rating agencies. Reinsurance conditions in casualty business are still relatively acceptable despite a softening market.

In *China* we expect to see a further decline in rates and diminishing profitability, although in other *East Asian countries* too the indicators point to a softening market. In Hannover Re's assessment, the gross premium volume from these markets is likely to contract. In *Japan* – where treaties are for the most part renewed on 1 April – the company similarly anticipates softening rates, although they should still be commensurate with the risks. Hannover Re is continuing to push its profitable, predominantly non-proportional business and expects the premium volume to come in unchanged. In *India, Indonesia* and *Thailand* prices are showing gratifying increases of up to 30%.

Prospects for *life and health reinsurance* are bright in 2008, driven by the demographic trend in most industrial nations – but also boosted by growing demand coming out of the emerging markets of *Asia, Africa* and *Latin America*.

Europe offers further potential in the areas of German long-term care annuities, UK single-premium annuities and bancassurance relationships with countries bordering on the Mediterranean.

Our Group's core business in the *United States* continues to consist of block assumption transactions designed to realise the embedded value of the assumed life and annuity portfolios; in this context Hannover Re concluded the hitherto largest transaction of this type in the first quarter of 2008.

In *South Africa* and *Australia/New Zealand* the company is seeking to cement its leading market position with an enhanced range of services, while the infrastructure in *Asia* is to be substantially expanded through the establishment of branches and service offices.

All in all, we are looking to boost our premium income from this business group and again expect to generate very favourable results.

On the investments side, the anticipated positive underwriting cash flow should serve to further enlarge the volume of assets. Income from assets under our own management should therefore rise again. In the area of fixed-income securities we continue to stress the high quality of our portfolio as well as the transparency of the risk structures. Combined with our other investments in equities and alternative asset categories, we should be able to generate a stable profit contribution.

Bearing in mind our current knowledge of market conditions in our two business groups as well as movements on capital markets, we expect the 2008 financial year to offer further good business opportunities – despite a

softening market in non-life reinsurance. Provided the loss experience in natural catastrophe business is within the expected bounds and as long as capital markets remain fairly stable, we therefore expect another good

year-end result for 2008. Consequently, it is our expectation that we shall be able to pay our shareholders another gratifying dividend.

Affiliated companies

We received an adequate consideration for all transactions with affiliated companies according to the circumstances of which we were aware at the time when the

transactions were effected. We incurred no losses requiring compensation as defined by § 311 (1) of the Stock Corporation Act (AktG).

Other information

Joint administration arrangements exist between our company and Hannover Rückversicherung AG and extend to all functions of the two companies.

Our investments are managed by AmpegaGerling Asset Management GmbH and real estate matters are handled by AmpegaGerling Immobilien Management GmbH.

Tax matters are largely handled on a central basis for the Group by Talanx AG.

Capital, reserves and technical provisions

The capital, reserves and technical provisions constitute the total funds theoretically available to our company to cover actual and possible obligations. If the Annual Gen-

eral Meeting approves our proposals for the distribution of the disposable profit, the composition of these funds will be as follows.

Figures in EUR million	2007	2006
Subscribed capital and reserves	490.3	420.3
Equalisation reserve and similar provisions	741.3	755.0
Technical provisions	6,032.7	5,875.5
Total capital, reserves and technical provisions	7,264.3	7,050.8

The capital, reserves and technical provisions amounted to 406.9% (385.3%) of net premiums; this includes the capital and reserves at 27.5% (23.0%) of net premiums.

Proposal for the distribution of profits

The Executive Board and Supervisory Board intend to propose to the Annual General Meeting that the disposable profit be distributed as follows:

	EUR
Distribution of a dividend on the participating paid-up subscribed capital of EUR 42 621 941.81	110,000,000.00

The dividend is payable on 6 March 2008.

ACCOUNTS
of the E+S Rückversicherung AG

BALANCE SHEET

as at 31 December 2007

Figures in EUR thousand	2007	2006
Assets		
A. Investments		
I. Land and buildings, rights to land and buildings, leasehold	4,952	5,249
II. Investments in affiliated companies and participation interests		
1. Shares in affiliated companies	74,138	90,876
2. Loans to affiliated companies	40,000	40,000
3. Participating interests	14,204	12,704
	<u>128,342</u>	<u>143,580</u>
III. Other financial investments		
1. Shares, units in unit trusts and other variable-yield securities	690,257	635,695
2. Bearer debt securities and other fixed-income securities	2,173,575	2,236,040
3. Mortgages and loans secured on land and buildings	66	80
4. Other loans		
a) Registered debt securities	360,000	255,452
b) Debentures and loans	646,999	478,940
c) Sundry loans	54,203	59,316
	<u>1,061,202</u>	<u>793,708</u>
5. Deposits with banks	54,520	55,898
6. Other investments	7,491	8,365
	<u>3,987,111</u>	<u>3,729,786</u>
IV. Deposits with ceding companies	3,862,787	3,858,632
	<u>7,983,192</u>	<u>7,737,247</u>

Figures in EUR thousand	2007	2006
Liabilities		
A. Capital and reserves		
I. Subscribed capital	42,622	42,622
II. Capital reserve	372,166	372,166
III. Retained earnings		
1. Statutory reserve	256	256
2. Other retained earnings		
as at 1.1.	5,237	5,237
Allocation	70,000	–
as at 31.12.	75,237	5,237
	75,493	5,493
IV. Disposable profit	110,000	70,400
	600,281	490,681
B. Technical provisions		
I. Provision for unearned premiums		
1. Gross	208,195	230,578
2. Less: reinsurance ceded	40,507	58,194
	167,688	172,384
II. Life assurance provision		
1. Gross	3,446,564	3,366,561
2. Less: reinsurance ceded	826,506	766,276
	2,620,058	2,600,285
III. Provisions for outstanding claims		
1. Gross	3,973,968	3,782,929
2. Less: reinsurance ceded	773,315	724,573
	3,200,653	3,058,356
IV. Provision for bonuses and rebates		
1. Gross	155	293
2. Less: reinsurance ceded	59	50
	96	243
V. Equalisation reserve and similar provisions	741,256	754,958
VI. Other technical provisions		
1. Gross	52,549	52,394
2. Less: reinsurance ceded	8,256	8,169
	44,293	44,225
	6,774,044	6,630,451

Figures in EUR thousand	2007	2006
Assets		
B. Receivables		
I. Accounts receivable arising out of reinsurance operations	380,872	302,879
from affiliated companies:		
276,258 (2006: 156,862)		
II. Other receivables	18,340	20,120
from affiliated companies:		
3,958 (2006: 8,543)		
		322,999
C. Other assets		
I. Tangible assets and stocks	1	1
II. Current accounts with banks, cheques and cash in hand	16,134	11,468
		11,469
		16,135
D. Prepayments and accrued income		
I. Accrued interest and rent	65,703	56,290
II. Other accrued income	110	193
		56,483
		65,813
		8,464,352
		8,128,198

Figures in EUR thousand	2007	2006
Liabilities		
C. Provisions for other risks and charges		
I. Provisions for pensions and similar obligations	16,911	13,735
II. Provisions for taxation	80,186	55,118
III. Other provisions	11,636	13,049
	108,733	81,902
D. Deposits received from retrocessionaires		862,491
E. Other liabilities		
I. Accounts payable arising out of reinsurance operations	27,317	49,400
to affiliated companies:		
11,563 (2006: 703)		
II. Miscellaneous liabilities	17,154	13,206
from		62,606
taxes:		
15,893 (2006: 12,207)		
to affiliated companies:		
38 (2006: 155)		
F. Accruals and deferred income		67
	8,464,352	8,128,198

PROFIT AND LOSS ACCOUNT

for the 2007 financial year

Figures in EUR thousand	2007		2006	
	1.1.–31.12.		1.1.–31.12.	
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross written premiums	2,370,677			2,437,737
b) Retrocession premiums	585,424			608,029
		1,785,253		1,829,708
c) Change in the gross provision for unearned premiums (+/-)	12,088			23,325
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	(16,909)			(11,730)
		(4,821)		11,595
			1,780,432	1,841,303
2. Allocated investment return transferred from the non-technical account, net of retrocession			78,003	79,832
3. Other technical income, net of retrocession			16	–
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	1,367,048			1,407,288
bb) Retrocessionaires' share	274,572			362,241
		1,092,476		1,045,047
b) Change in provisions for outstanding claims				
aa) Gross	(333,299)			(105,978)
bb) Retrocessionaires' share	55,060			(130,106)
		(278,239)		(236,084)
			1,370,715	1,281,131
5. Change in other technical provisions, net of retrocession				
a) Net life assurance provision		(79,885)		(186,995)
b) Other net technical provisions		(374)		579
			(80,259)	(186,416)
6. Bonuses and rebates, net of retrocession			(30)	214
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		562,409		462,465
b) Less: commissions and profit commissions received on retrocession		163,738		46,684
			398,671	415,781
8. Other technical charges, net of retrocession			1,680	2,044
9. Subtotal			7,156	35,549
10. Change in the equalisation reserve and similar provisions			13,702	(84,336)
11. Net technical result			20,858	(48,787)

Figures in EUR thousand	2007		2006	
	1.1.–31.12.		1.1.–31.12.	
Balance brought forward:			20,858	(48,787)
II. Non-technical account				
1. Investment income				
a) Income from participating interests		4,309		11,789
affiliated companies:				
2,309 (2006: 11,789)				
b) Income from other investments				
affiliated companies:				
51,373 (2006: 49,846)				
aa) Income from land and buildings, rights to land and buildings, leasehold	488			1,863
bb) Income from other investments	237,775			224,240
		238,263		226,103
c) Appreciation on investments		18,364		2,844
d) Gains on the realisation of investments		138,924		64,372
			399,860	305,108
2. Investment charges				
a) Investment management charges, including interest		11,882		8,735
b) Depreciation		19,594		10,445
extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB):				
2,223 (2006: 150)				
c) Losses on the realisation of investments		3,129		9,441
			34,605	28,621
			365,255	276,487
3. Allocated investment return transferred to the technical account			(87,842)	(89,278)
			277,413	187,209
4. Other income		29,420		21,166
5. Other charges		47,679		59,395
			(18,259)	(38,229)
6. Profit or loss on ordinary activities before tax			280,012	100,193
7. Taxes on profit and income		99,747		30,024
8. Other taxes		265		(231)
			100,012	29,793
9. Profit or loss for the financial year			180,000	70,400
10. Allocation to retained earnings: to the other retained earnings			70,000	–
11. Disposable profit			110,000	70,400

NOTES

Valuation of assets

Valuation was carried out in accordance with the provisions of §§ 341 et seq. of the Commercial Code (HGB).

Property was valued at the purchase or construction cost less tax-allowable scheduled and unscheduled depreciation in accordance with § 253 (2) of the Commercial Code (HGB).

Shares in affiliated companies and participations were valued on a purchase cost basis taking into account write-downs at the lower fair value.

Loans to affiliated companies were valued at acquisition cost.

The portfolio of securities was allocated to fixed assets or current assets depending on the intended use and valued in accordance with the provisions of § 341 b of the Commercial Code (HGB).

Shares, units in unit trusts and other variable-yield securities as well as bearer debt securities and other fixed-income securities were valued according to the strict or modified lower-of-cost-or-market principle depending on the intended use.

Mortgages and loans secured on land and buildings, registered debt securities, debentures and loans as well as other loans were valued at nominal value or cost of acquisition – taking into account amortisation – or at the lower fair value.

Write-ups were effected in accordance with § 280 (1) of the Commercial Code (HGB).

Other investments, were carried as current assets. Deposits and cash at banks on current accounts, deposits and accounts receivable arising out of reinsurance operations and other debts were valued at the nominal amounts. Valuation adjustments were set up for default risks.

Fixed assets and stock were valued at purchase cost less straight-line or declining-balance depreciation.

Valuation of liabilities

The provision for unearned premiums, life insurance provision, provisions for outstanding claims, provisions for bonuses and rebates and other technical provisions were entered as liabilities according to the information provided by the ceding companies.

The basis for the valuation of the provision for unearned premiums is the reinsurance premium less 92.5% of the reinsurance commission in accordance with the NRW order dated 29 May 1974. In marine insurance the provision for unearned premiums and the provisions for outstanding claims were regarded as one unit and shown as provisions for outstanding claims. It was determined on the basis of the so-called English system. The provision is replaced by a provision established in accordance with general principles no later than three years following the year in which the business was written.

Where the provisions indicated by the ceding companies are not expected to be adequate, they have been increased by appropriate additional amounts. Where no information was available from cedants, the provisions were estimated in the light of the business experience to date. The results of new treaties were at least neutralised. In some cases, provisions have been determined on an actuarial basis. If necessary, additional or complete estimates of the corresponding portfolio or profit elements were carried out where ceding company accounts with substantial premium income were outstanding. Outstanding ceding company accounts involving a low premium income are included in the following year. The estimated gross premium income for treaties of the 2007 underwriting year is 25.6% of the total volume.

In the casualty, motor third party liability, aviation and marine lines IBNR reserves have been set up. The calculation was largely carried out in accordance with statistical mathematical methods.

The shares of retrocessionaires in the technical reserves were determined on the basis of the reinsurance treaties. Provision was made for bad debts.

The equalisation reserve was set up in accordance with the notes to § 29 of the regulation on the presentation of insurance company accounts (RechVersV); similar provisions were constituted in accordance with § 30 of the regulation on the presentation of insurance company accounts (RechVersV). With respect to insurance lines 28 Other property insurance and 29 Other indemnity insurance, separate profit and loss accounts were drawn up only for the fidelity line. The equalisation reserves for the other insurance lines shown here were written back.

The provision for nuclear plants was calculated in accordance with § 30 (2) of the regulation on the presentation of insurance company accounts (RechVersV).

We calculated the major risk provision for pharmaceutical product liability in accordance with § 30 (1) of the regulation on the presentation of insurance company accounts (RechVersV).

The catastrophe risk provision for terrorism risks was calculated in accordance with § 30 (2a) of the regulation on the presentation of insurance company accounts (RechVersV).

The provision for pensions was established according to the fractional value method as per § 6a of the Income Tax Act (EStG) in conjunction with Paragraph 41 Income Tax Regulations (EStR) 2003. The 2005 G standard tables of Dr. Klaus Heubeck were used as a basis for this with an accounting interest rate of 4.9% (6.0%).

The pension commitments are established according to the present value of the expectancy and are protected by insurance.

In our opinion, the provisions for taxation and other provisions take into account all identifiable risks and uncertain liabilities. The accounting option of recognising deferred tax assets was not taken up.

The other provisions were established in the amount that will probably be utilised or on the basis of actuarial opinions.

A provision was constituted for virtual stock options in accordance with actuarial principles on the basis of a recognised financial option pricing model (Black-Scholes Model with the aid of a trinomial tree method).

The other liabilities were valued at the amounts repayable.

Currency conversion

Transactions booked in foreign currencies were converted to the reporting currency at the applicable monthly exchange rate at the date of entry in the accounts. Assets and liabilities entered in the balance sheet were converted to euros at the average exchange rates on the balance sheet date.

In order to reduce currency risks as far as possible, matching cover was extensively established for liability elements by setting up corresponding asset elements in the different currencies. In the case of foreign currencies in which investments are held, the profits arising out of revaluation were allocated – after offsetting against losses within the financial year – to the reserve for currency risks as unrealised profits. Exchange-rate losses from these investment currencies were – where possible – neutralised by releases from the reserve. In addition, this reserve is written back on a year-by-year basis.

Miscellaneous

The technical interest results in the main from the interest income earned on the basis of the life assurance provision. Standard methods were used for the calculation.

Notes on assets

Figures in EUR thousand	2006			2007		
Change in asset items A.I. to A.III.	Book values 31.12.	Additions	Disposals	Write-ups	Depre- ciation	Book values 31.12.
A. I. Land and buildings, rights to land and buildings, leasehold	5,249	–	–	–	297	4,952
A. II. Investments in affiliated companies and participating interests						
1. Shares in affiliated companies	90,876	27,506	44,244	–	–	74,138
2. Loans to affiliated companies	40,000	–	–	–	–	40,000
3. Participating interests	12,704	–	–	1,500	–	14,204
4. Total A. II.	143,580	27,506	44,244	1,500	–	128,342
A. III. Other financial investments						
1. Shares, units in unit trusts and other variable-yield securities	635,695	478,990	426,427	10,569	8,570	690,257
2. Bearer debt securities and other fixed-income securities	2,236,040	1,081,070	1,138,233	5,425	10,727	2,173,575
3. Mortgages and loans secured on land and buildings	80	–	14	–	–	66
4. Other loans						
a) Registered debt securities	255,452	160,000	55,452	–	–	360,000
b) Debentures and loans	478,940	215,000	46,941	–	–	646,999
c) Sundry loans	59,316	–	5,113	–	–	54,203
5. Deposits with banks	55,898	–	1,378	–	–	54,520
6. Other	8,365	–	874	–	–	7,491
7. Total A. III.	3,729,786	1,935,060	1,674,432	15,994	19,297	3,987,111
Sum total	3,878,615	1,962,566	1,718,676	17,494	19,594	4,120,405

Land and buildings and rights to land and buildings

As at 31 December 2007, the company owned a developed site in Leipzig. The company also owned a share worth EUR 2,677 thousand in a developed site in Frankfurt as well as a share of EUR 1,232 thousand in land without buildings in Hannover.

Shares in affiliated companies and participations

Our major shares in affiliated companies and participations are listed below. We have omitted companies of subordinate economic importance with no material influence on the assets, financial position or net income.

A complete list of shareholdings has been deposited with the electronic company register.

Name and registered office of the company Figures in currency units of 1,000	Participations (in %)	Capital and reserves (§ 266 (3) of the Commercial Code)	Result for the last financial year
Shares in affiliated companies			
Companies resident in Germany			
GbR Hannover Rückversicherung AG/ E+S Rückversicherung AG Grundstücksgesellschaft, Hannover./Germany	50.00	EUR 60,494	EUR 727
Companies resident abroad			
Hannover Re Real Estate Holdings, Inc., Orlando./USA	13.49	USD 111,641	USD 5,338
Participations			
WeHaCo Unternehmensbeteiligungs-AG, Hannover./Germany	20.00	EUR 77,906 ¹⁾	EUR 6,293 ¹⁾

¹⁾ Financial year ending 31 December 2006

Other notes on investments

Assets with a balance sheet value of EUR 42,701 (EUR 43,390) thousand have been blocked as security for ceding companies. Security deposits were sometimes made available to banks for security loan transactions in favour of third parties. A guarantee fund of EUR 215 (EUR 177) thousand has been established to secure commitments under partial retirement arrangements.

Fair values pursuant to § 54 RechVersV

The fair values of land and buildings were determined using the gross rental method.

Income values were determined for shares in affiliated companies and participating interests, and in the case of life insurance companies embedded values were calculated. In individual cases, book values were used.

Shares, units in unit trusts, bearer debt securities and other securities were valued at market value.

The fair values of the sundry loans were determined on the basis of yield curves, taking into account the creditworthiness of the specific debtor and the currency of the loan.

Other investments were valued at nominal values and in individual cases at book value.

Figures in EUR thousand		2007	
Fair values pursuant to § 54 RechVersV of asset items A.I. to A.III.	Book values 31.12.	Fair values 31.12.	Difference 31.12.
A. I. Land and buildings, rights to land and buildings, leasehold	4,952	7,700	2,748
A. II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	74,138	104,175	30,037
2. Loans to affiliated companies	40,000	40,000	–
3. Participating interests	14,204	17,330	3,126
4. Total A. II.	128,342	161,505	33,163
A. III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	690,257	875,569	185,312
2. Bearer debt securities and other fixed-income securities	2,173,575	2,162,239	(11,336)
3. Mortgages and loans secured on land and buildings	66	66	–
4. Other loans			
a) Registered debt securities	360,000	344,469	(15,531)
b) Debentures and loans	646,999	632,010	(14,989)
c) Sundry loans	54,203	54,242	39
5. Deposits with banks	54,520	54,520	–
6. Other investments	7,491	9,316	1,825
7. Total A. III.	3,987,111	4,132,431	145,320
Sum total	4,120,405	4,301,636	181,231

Other receivables

Figures in EUR thousand	2007	2006
Receivables from reinsured pension schemes	9,711	8,920
Receivables from affiliated companies	3,958	8,543
Receivables from the revenue authorities	2,389	2,365
Interest and rent due	2,039	231
Other receivables	243	61
Total	18,340	20,120

Accruals and deferred income

Figures in EUR thousand	2007	2006
Accrued interest and rent	65,703	56,290
Accrued administrative expenses	–	65
Other	110	128
Total	65,813	56,483

Notes on liabilities

Subscribed capital

The subscribed capital of the company amounted to EUR 42,622 thousand as at 31 December 2007. It consists of 75,783 no-par-value registered shares.

Retained earnings

An amount of EUR 70,000 thousand was allocated to other retained earnings from the profit for the 2007 financial year.

Provision for unearned premiums

Figures in EUR thousand	2007		2006	
	gross	net	gross	net
Insurance line				
Fire	25,015	22,722	26,663	22,856
Casualty	50,134	47,117	44,287	40,951
Accident	10,264	5,783	5,797	3,941
Motor	9,212	7,843	20,445	18,640
Aviation	20,255	18,376	31,359	25,767
Life	46,268	27,779	58,207	27,835
Other lines	47,047	38,068	43,820	32,394
Total	208,195	167,688	230,578	172,384

Life assurance provisions

Figures in EUR thousand	2007		2006	
	gross	net	gross	net
Insurance line				
Accident	857	577	55	17
Life	3,441,135	2,614,909	3,362,719	2,596,481
Other lines	4,572	4,572	3,787	3,787
Total	3,446,564	2,620,058	3,366,561	2,600,285

Provisions for outstanding claims

Figures in EUR thousand	2007		2006	
	gross	net	gross	net
Insurance line				
Provision for reimbursements and surrenders (except annuities)				
Fire	161,063	137,885	187,261	156,183
Casualty	1,335,542	1,127,451	1,169,537	997,635
Accident	111,627	56,309	98,070	51,468
Motor	1,414,509	1,181,043	1,375,968	1,134,247
Aviation	238,627	160,238	225,227	154,107
Marine	162,432	141,560	194,099	174,304
Life	95,406	73,874	70,435	49,278
Other lines	387,622	264,320	396,756	279,203
	3,906,828	3,142,680	3,717,353	2,996,425
Separate value adjustment on retrocessions	–	3,991	–	9,200
	3,906,828	3,146,671	3,717,353	3,005,625
Provision for annuities				
Casualty	4,120	3,803	3,901	3,654
Accident	11,069	8,444	9,687	7,648
Motor	51,951	41,735	51,988	41,429
	67,140	53,982	65,576	52,731
Total	3,973,968	3,200,653	3,782,929	3,058,356

Equalisation reserve and similar provisions

Insurance line	2007			
	Position at 1.1.	Addition	Withdrawal and release	Position at 31.12.
Equalisation reserve				
Fire	143,785	–	22,298	121,487
Casualty	152,204	29,322	–	181,526
Accident	28,753	–	5,879	22,874
Motor	220,235	–	29,246	190,989
Aviation	57,533	482	6,292	51,723
Marine	–	–	–	–
Other lines	119,719	31,291	16,934	134,076
	722,229	61,095	80,649	702,675
Provisions which are similar to the equalisation reserve – major risks –				
Fire	15,358	4,970	–	20,328
Casualty	6,217	972	–	7,189
Accident	74	24	–	98
Motor	11	3	–	14
Aviation	–	–	–	–
Marine	1,078	278	–	1,356
Other lines	9,991	1	396	9,596
Total	754,958	67,343	81,045	741,256

Other technical provisions

Figures in EUR thousand	2007		2006	
	gross	net	gross	net
Profit commission	51,630	43,397	51,264	43,080
Premium cancellation	940	940	567	567
Road accident victims' assistance	24	18	22	15
Commissions	(45)	(62)	541	563
Total	52,549	44,293	52,394	44,225

Technical provisions – total

Figures in EUR thousand	2007		2006	
	gross	net	gross	net
Insurance line				
Fire	333,619	307,317	377,759	342,184
Casualty	1,594,336	1,382,434	1,391,836	1,215,996
Accident	157,077	94,294	142,671	92,023
Motor	1,680,142	1,434,483	1,680,014	1,425,413
Aviation	312,680	231,695	316,241	238,786
Marine	165,208	144,308	196,427	176,613
Life	3,583,487	2,717,241	3,491,797	2,674,029
Other lines	596,138	458,281	590,968	456,207
	8,422,687	6,770,053	8,187,713	6,621,251
Separate value adjustment on retrocessions	–	3,991	–	9,200
Total	8,422,687	6,774,044	8,187,713	6,630,451

Provisions for other risks and charges

Figures in EUR thousand	2007	2006
Provisions for pensions and similar liabilities	16,911	13,735
Provisions for taxation	80,186	55,118
Sundry provisions		
Provisions for outstanding payments	5,138	4,708
Provisions for suppliers' invoices	2,279	468
Provisions for partial retirement	1,444	1,183
Provisions for currency risks	1,118	867
Provisions for annual accounts costs	946	935
Provisions for litigation risks	327	327
Provisions for costs of legal action	114	118
Provisions for interest	–	4,180
Other provisions	270	263
	11,636	13,049
Total	108,733	81,902

Miscellaneous liabilities

Figures in EUR thousand	2007	2006
Liabilities in respect of the revenue authorities	15,893	12,207
Liabilities from LOC	1,091	654
Accounts due to affiliated companies	38	155
Other liabilities	132	190
Total	17,154	13,206

Deferred items

Figures in EUR thousand	2007	2006
Disagio	511	37
Other accruals and deferred income	7	30
Total	518	67

Notes on the profit and loss account

Figures in EUR thousand	2007	2006	2007	2006	2007	2006	2007	2006
	Gross written premiums		Gross premiums earned		Net premiums earned		Technical result for own account	
Fire	137,745	162,826	137,638	167,375	110,703	144,270	37,356	733
Casualty	400,035	314,189	391,510	335,271	356,993	298,266	(48,447)	8,177
Accident	89,628	88,759	85,087	88,318	51,132	49,420	12,720	3,017
Motor	339,003	367,893	349,594	365,316	289,408	300,201	(19,099)	(51,898)
Aviation	78,530	95,994	87,552	100,050	54,182	65,070	2,200	11,239
Marine	74,382	83,381	74,382	83,381	46,532	52,102	(16,060)	(40,460)
Other lines	418,394	434,418	412,869	434,920	330,409	359,422	(19,275)	33,563
Total property and casualty insurance	1,537,717	1,547,460	1,538,632	1,574,631	1,239,359	1,268,751	(50,605)	(35,629)
Life	832,960	890,277	844,133	886,431	541,073	572,552	71,463	(13,158)
Total insurance business	2,370,677	2,437,737	2,382,765	2,461,062	1,780,432	1,841,303	20,858	(48,787)

Total insurance business

Figures in EUR thousand	2007	2006
Gross claims incurred	1,700,347	1,513,266
Gross operating expenses	562,409	462,465
Reinsurance balance	108,963	340,940

Expenses for personnel

Figures in EUR thousand	2007	2006
1. Wages and salaries	18,894	17,787
2. Social security payments and expenses for welfare	2,766	2,666
3. Expenses for old-age pension scheme	3,259	690
4. Total expenses	24,919	21,143

Expenses for investments

Figures in EUR thousand	2007	2006
Fixed-income securities	13,387	15,319
Shares, units in unit trusts	9,039	3,520
Administrative expenses	7,940	7,422
Deposit and bank fees	2,193	1,313
Options contracts	1,749	–
Land and buildings	297	1,045
Deposits	–	2
Total	34,605	28,621

Other income

Figures in EUR thousand	2007	2006
Cancellation of value adjustments	9,610	2,631
Exchange rate gains	7,246	6,901
Profit from services	6,936	8,038
Release of non-technical provisions	4,440	826
Allocated investment return	578	2,313
Other income	610	457
Total	29,420	21,166

Other expenses

in TEUR	2007	2006
Interest pursuant to § 233a AO (Fiscal Code)	13,373	483
Deposit interest	12,613	10,626
Exchange rate losses	11,835	6,577
Expenses for the whole company	7,383	7,448
Expenses from services	6,935	8,035
Separate value adjustment on accounts receivable and retrocessions	3,499	12,958
Interest charges on old-age pension scheme	723	794
Interest charges on reinsurance operations	385	120
Expenses for letters of credit	141	537
Expenses from contracts with limited risk	–	20,892
Other interest and expenses	631	371
	57,518	68,841
Less: Technical interest	9,839	9,446
Total	47,679	59,395

Other information

Long-term commitments

Following the termination of the German Aviation Pool with effect from 31 December 2003, our participation consists of the run-off of the remaining contractual relationships.

Membership of the association for the reinsurance of pharmaceutical risks and the association for the insurance of German nuclear reactors gives rise to an additional call in accordance with the quota participation if one of the other pool members should fail to meet its liabilities.

Contingent liabilities

Liabilities for remaining calls exist with respect to shares in affiliated companies and special investments in the amount of EUR 113,248 (EUR 91,348) thousand. There were no other contingent liabilities or other financial commitments not shown in the annual balance sheet which are relevant to an assessment of the financial position.

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

Of the units in unit trusts totalling EUR 570,490 (EUR 515,264) thousand shown under the "Other investments" in the item "Shares, units in unit trusts and other variable-yield securities", an amount of EUR 324,098 (EUR 321,705) thousand was allocated to fixed assets. The fair value amounts to EUR 410,486 (EUR 422,227) thousand. Based on the assumption that the impairments will not be permanent, write-downs of EUR 1,000 (EUR 646) thousand were not taken on a portfolio with a book value of EUR 15,119 (EUR 13,091) thousand.

Of the bearer debt securities and other fixed-income securities, securities with a book value of EUR 915,009 (EUR 1,070,242) thousand and a fair value of EUR 895,245 (EUR 1,048,402) thousand were allocated to fixed assets. Write-downs of EUR 29,659 (EUR 24,808) thousand were not taken on a portfolio with a book value of EUR 642,934 (EUR 1,016,174) thousand since a permanent impairment is not anticipated.

Special investments in private equity funds and asset pools held long term for which no market price was available were valued at acquisition cost or net asset value (NAV). Temporary impairments were disregarded to the extent that a full return flow of funds is anticipated within the aggregate term.

As at 31 December 2007 the portfolio contained 4,400 put options bought in the year under review on the German Dax index with a floor of 7,150 as well as 22,000 put options on the EuroStoxx 50 index with a floor of 4,050 (2006: no holding of options contracts). The fair value of these derivative financial instruments amounted to EUR 1,875 thousand.

Of the total fees paid to the auditor, EUR 367 (EUR 330) thousand related to the audit of the financial statements, EUR 61 (EUR 114) thousand to tax consulting and EUR 45 (EUR 36) thousand to other services.

Miscellaneous

The names of the members of the Supervisory Board, Advisory Board and Executive Board are listed on pages 4 to 7.

The emoluments paid to the Supervisory Board in the year under review totalled EUR 260 thousand, those to the Advisory Board EUR 116 thousand, those to the Executive Board EUR 1,387 thousand and those to former members of the Executive Board and their surviving dependants EUR 419 thousand. The amount of EUR 3,996 thousand was shown on the liabilities side for current pensions of former members of the Executive Board; an amount of EUR 228 thousand was allocated to the provision constituted in this regard.

No mortgage loans were granted to board members.

The company has not entered into any contingent liabilities for members of the boards.

The average number of employees was 244 in the financial year.

Hannover Rückversicherung AG includes the figures from our annual accounts in its consolidated financial statements. In addition, our annual accounts are included in the consolidated financial statements of Talanx AG, Hannover, and in the consolidated financial statements of HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover. These financial statements are deposited in the electronic company register.

Hannover, 28 February 2008

Executive Board



Zeller



Arrago



Dr. Becke



Gräber



Dr. König



Dr. Pickel



Wallin

AUDITORS' REPORT

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of the E+S Rückversicherung AG, Hannover, for the business year from 1 January to 31 December 2007. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Hannover, 29 February 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Dahl	Schuster
Wirtschaftsprüfer	Wirtschaftsprüfer

REPORT OF THE SUPERVISORY BOARD

of E+S Rückversicherung AG

In our function as the Supervisory Board we considered at length during the 2007 financial year the position and development of the company. We advised the Executive Board on the direction of the company, monitored the management of business on the basis of written and verbal reports from the Executive Board and held four meetings in order to adopt the necessary resolutions after appropriate discussion. The Standing Committee also met on three occasions. Resolutions were adopted by a written procedure with respect to two matters requiring attention at short notice. Furthermore, we received quarterly written reports from the Executive Board on the course of business and the position of the company pursuant to § 90 German Stock Corporation Act. At each meeting the Executive Board presented to us the profit expectations for the 2007 financial year. In this context the profitability of the joint underwriting arrangements with Hannover Re was a focus of our deliberations. The operational planning for 2008 and the medium-term planning until the year 2012 were also the subject of intensive discussion.

In addition, the Supervisory Board reviewed inter alia sale of the interest held in Hannover Life Re of Australasia Ltd. to Hannover Re, approval of the transfer of registered shares of the company with limited transferability, updating of the Executive Board's schedule of responsibility, editorial amendments to the Articles of Association and the company's Investment Guidelines.

The Chairman of the Supervisory Board was constantly kept informed by the Chairman of the Executive Board of major developments and impending decisions as well as of the risk situation at the company. All in all, we were involved in decisions taken by the Executive Board as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. The development of our major subsidiaries and participations was also included in our consultations.

The Supervisory Board selected the auditor for the 2007 annual financial statements; the Chairman of the Supervisory Board issued the specific audit mandate. The audit report was distributed to all members of the Supervisory Board, and the auditors participated in the meeting of the Supervisory Board held to discuss and approve the annual accounts. Collaboration with the auditors took place on a trusting and cooperative basis.

The accounting, annual financial statements and management report were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG DTG), Hannover. This audit did not give rise to any objections; an unqualified audit certificate was therefore issued. In conclusion, having examined and discussed the annual financial statements and the Executive Board's report and having received answers to a number of questions, the Supervisory Board concurred with the opinion of the auditors and approved the annual financial statements drawn up by the Executive Board.

The report on the company's relations with affiliated companies drawn up by the Executive Board has likewise been examined by KPMG DTG and given the following unqualified audit certificate:

"Having audited the report in accordance with our professional duties, we confirm that

1. its factual details are correct;
2. in the case of the transactions detailed in the report, the expenditure of the company was not unreasonably high."

We examined both the Executive Board's report and the auditors' report on the company's relations with affiliated companies, and we found everything to be in order. As a final result of our examination we had no objections to the statement by the Executive Board at the end of its report on relations with affiliated companies.

The Supervisory Board has thus approved the annual financial statements, which are thereby adopted. We concur with the Executive Board's proposal regarding the appropriation of the disposable profit for 2007.

With effect from the date of the Annual General Meeting on 12 March 2007 Dr. Heiner Feldhaus and Ms. Marga Hetzel stepped down from this body as representatives of the shareholders and employees respectively. The Supervisory Board thanked them both for their many years of constructive work and praised their contribution to the company's development. The Annual General Meeting elected Mr. Hans-Joachim Haug as a new member of the Supervisory Board. Mr. Haug had previously served on the company's Advisory Board for many years. As a successor to Ms. Hetzel, Ms. Benita Bierstedt was elected to the Supervisory Board as a staff representative with effect from 17 April 2007. At its constitutive meeting the Supervisory Board re-elected Mr. Herbert Haas as its Chairman and Mr. Gerd Kettler as its Deputy Chairman. Effective 12 March 2007 Dr. Feldhaus was elected to the company's Advisory Board.

The Supervisory Board thanks the members of the Executive Board and all staff for their work in the year under review. They made vital contributions to the excellent earnings performance.

Hannover, 5 March 2008

For the Supervisory Board

Herbert Haas
Chairman

GLOSSARY

Accumulation loss: sum of several individual losses incurred by various policyholders as a result of the same loss event (e.g. wind-storm, earthquake). This may lead to a higher loss for the direct insurer or reinsurer if several affected policyholders are insured by the said company.

Alternative risk financing: use of the capacity available on the capital markets to cover insurance risks, e.g. through the securitisation of natural catastrophe risks.

Bancassurance: partnership between a bank and an insurance company for the purpose of selling insurance products through the banking partner's branches. The link between the insurer and the bank is often characterised by an equity participation or a long-term strategic cooperation between the two parties.

Benefit reserves: value arrived at using mathematical methods for future liabilities (present value of future liabilities minus present value of future incoming premium), primarily in life and health insurance.

Block assumption transaction (BAT): proportional reinsurance treaty on a client's life or health insurance portfolio, by means of which it is possible, *inter alia*, for our clients to realise in advance the future profits so as to be able to efficiently ensure the attainment of corporate objectives, e.g. in the areas of financial or solvency policy.

Capital, reserves and technical provisions: an insurer's capital and reserves, also including the provisions committed to technical business and the equalisation reserve. Total maximum funds available to offset liabilities.

Catastrophe loss: loss which has special significance for the direct insurer or reinsurer due to the amount involved; it is defined as a catastrophe loss in accordance with a fixed loss amount or other criteria.

Cedant: direct insurer or reinsurer which passes on (also: *cedes*) shares of its insured or reinsured risks to a reinsurer in exchange for premium.

Cession: transfer of a risk from the direct insurer to the reinsurer.

Claims and claims expenses: sum total of paid claims and provisions for loss events that occurred in the business year; this item also includes the result of the run-off of the provisions for loss events from previous years, in each case after the deduction of own reinsurance cessions.

Combined ratio: sum of the loss ratio and expense ratio.

Credit status (also: creditworthiness): ability of a debtor to meet its payment commitments.

Creditworthiness: cf. → credit status

Critical illness coverages: cf. → dread disease coverages

Deposits with ceding companies/deposits received from retrocessionaires (also: Funds held by ceding companies/funds held under reinsurance treaties): collateral provided to cover insurance liabilities that a (re-)insurer retains from the liquid funds which it is to pay to a reinsurer under a reinsurance treaty. In this case, the retaining company shows a deposit received, while the company furnishing the collateral shows a deposit with a ceding company.

Derivatives, derivative financial instruments: these are financial products derived from underlying primary instruments such as equities, fixed-income securities and foreign exchange instruments, the price of which is determined on the basis of an underlying security or other reference asset. Notable types of derivatives include swaps, options and futures.

Direct (also: primary) insurer: company which accepts risks in exchange for an insurance premium and which has a direct contractual relationship with the policyholder (private individual, company, organisation).

Dread disease (also: critical illness) coverages: personal riders on the basis of which parts of the sum insured which would otherwise only become payable on occurrence of death are paid out in the event of previously defined severe illnesses.

Equalisation reserve: provision for the equalisation of substantial fluctuations in the claims experience of individual lines of business over several years.

Excess of loss treaty: cf. → non-proportional reinsurance

Expense ratio: administrative expenses in relation to the (gross or net) premium written.

Exposure: level of danger inherent in a risk or portfolio of risks; this constitutes the basis for premium calculations in reinsurance.

Facultative reinsurance: participation on the part of the reinsurer in a particular individual risk assumed by the direct insurer. This is in contrast to → obligatory (also: treaty) reinsurance.

Fair value: price at which a financial instrument would be freely traded between two parties.

Free float: the free float refers to the part of the capital stock held by shareholders with a low stockholding in both absolute and relative terms.

Funds held by ceding companies/funds held under reinsurance treaties: cf. → Deposits with ceding companies/deposits received from retrocessionaires

Gross/Retro/Net: gross items constitute the relevant sum total deriving from the acceptance of direct insurance policies or reinsurance treaties; retro items constitute the relevant sum total deriving from own reinsurance cessions. The difference is the corresponding net item (gross – retro = net, also: for own account).

IBNR (Incurred but not reported) reserve: provision for claims which have already occurred but which have not yet been reported.

Issuer: private enterprise or public entity that issues securities, e.g. the federal government in the case of German Treasury Bonds and a joint-stock corporation in the case of shares.

Leader: if several (re-)insurers participate in a contract, one company assumes the role of leader. The policyholder deals exclusively with this lead company. The lead (re-) insurer normally carries a higher percentage of the risk for own account.

Letter of credit (LOC): bank guarantee; at the request of the guaranteed party, the bank undertakes to render payment to the said party up to the amount specified in the LOC. This method of providing collateral in reinsurance business is typically found in the USA.

Life and health (re-)insurance: collective term for the lines of business concerned with the insurance of persons, i.e. life, pension, health and personal accident insurance.

Life business: this term is used to designate business activities in our life and health reinsurance business group.

Loss, economic: total loss incurred by the affected economy as a whole following the occurrence of a loss. The economic loss must be distinguished from the → insured loss.

Loss, insured: the insured loss reflects the total amount of losses covered by the insurance industry (insurers and reinsurers).

Loss ratio: proportion of loss expenditure in the → retention relative to the (gross or net) premium earned.

Mark-to-market valuation: the evaluation of financial instruments to reflect current market value or → fair value.

Matching currency cover: coverage of technical liabilities in foreign currencies by means of corresponding investments in the same currency in order to avoid exchange-rate risks.

Net: cf. → Gross/Retro/Net

Non-life business: by way of distinction from business activities in our life and health reinsurance business group, we use this umbrella term to cover our lines of non-life reinsurance business.

Non-life (re)insurance: collective term for all lines of business which in the event of a claim reimburse only the incurred loss, not a fixed sum insured (as is the case in life and personal accident insurance, for example). This principle applies in all lines of property and casualty insurance as well as specialty insurance and structured products.

Non-proportional reinsurance: reinsurance treaty under which the reinsurer assumes the loss expenditure in excess of a particular amount (→ priority) (e.g. under an excess of loss treaty). This is in contrast to → proportional reinsurance.

Obligatory (also: treaty) reinsurance: reinsurance treaty under which the reinsurer participates in a → cedant's total, precisely defined insurance portfolio. This is in contrast to → facultative reinsurance.

(Insurance) Pool: a risk-sharing partnership under civil law formed by legally and economically independent insurers and reinsurers in order to create a broader underwriting base for particularly large or unbalanced risks. The members undertake to write certain risks only within the scope of the insurance pool. They include such risks – while maintaining their commercial independence – in the insurance pool against a commission fee. Each insurer participates in the profit or loss of the insurance pool according to its proportionate interest. Reinsurance is often ceded or accepted in order to further diversify the risk. Pools can be divided into two types: coinsurance pools, in which all members take the role of primary insurers according to their interests, and reinsurance pools, in which a primary insurer writes the risks and then spreads them among the participating insurers by way of reinsurance.

Portfolio: a) all risks assumed by an insurer or reinsurer in a defined sub-segment (e.g. line of business, country) or in their entirety; b) group of investments defined according to specific criteria.

Premium: agreed remuneration for the risks accepted from an insurance company. Unlike the earned premium, the written premium is not deferred.

Primary insurer: cf. → direct insurer

Priority: direct insurer's loss amount stipulated under → non-proportional reinsurance treaties; if this amount is exceeded, the reinsurer becomes liable to pay. The priority may refer to an individual loss, an → accumulation loss or the total of all annual losses.

Proportional reinsurance: reinsurance treaties on the basis of which shares in a risk or → portfolio are reinsured under the relevant direct insurer's conditions. → Premium and losses are shared proportionately on a pro-rata basis. This is in contrast to → non-proportional reinsurance.

Protection cover: protection of segments of an insurer's portfolio against major losses (per risk/per event), primarily on a non-proportional basis.

Provision: liability item as at the balance sheet date to discharge obligations which exist but whose extent and/or due date is/are not known. Technical provisions, for example, are for claims which have already occurred but which have not yet been settled, or have only been partially settled (= provision for outstanding claims, abbreviated to: claims provision).

Provision for unearned premium (also: unearned premium reserve): premium written in a financial year which is to be allocated to the following period on an accrual basis. This item is used to defer written premium.

Quota share reinsurance: form of proportional reinsurance under which the reinsurer assumes a contractually set percentage share of the written risk. Since the insurer is responsible for acquisition, pricing, policy administration and claims handling, the administrative expenditure for the reinsurer is very low. The latter therefore participates in the aforementioned expenses through payment of a reinsurance commission. This commission can amount to 15%–20% of the original premium depending upon the market and cost situation.

Rate: percentage rate (usually of the premium income) of the reinsured portfolio which is to be paid to the reinsurer as reinsurance premium under a → non-proportional reinsurance treaty.

Rating: systematic evaluations of companies with respect to their → credit status or the credit status of issuers with regard to a specific obligation. They are awarded by a rating agency or bank.

Reinsurer: company which accepts risks or portfolio segments from a → direct insurer or another reinsurer in exchange for an agreed premium.

Reserve ratio: ratio of (gross or net) technical provisions to the (gross or net) premium.

Retention: the part of the accepted risks which an insurer/reinsurer does not reinsure, i.e. shows as → net (retention ratio: percentage share of the retention relative to the gross written premium).

Retro: cf. → Gross/Retro/Net

Retrocession: ceding of risks or shares in risks which have been reinsured. Retrocessions are ceded to other reinsurers in exchange for a pro-rata or separately calculated premium.

Risk, insured: defines the specific danger which can lead to the occurrence of a loss. The insured risk is the subject of the insurance contract.

Securitisation instruments: innovative instruments for transferring reinsurance business to the capital markets with the goal of refinancing or placing insurance risks.

Segmental reporting: presentation of items from the annual financial statements separated according to functional criteria such as segments and regions.

Structured products: reinsurance with limited potential for profits and losses; the primary objective is to strive for risk equalisation over time and to stabilise the → cedant's balance sheet.

Stochastic partnerships: targeted provision of financial support for primary insurers through reinsurance arrangements under which the reinsurer participates in the original costs of an insurance portfolio and receives as a consideration a share of the future profits of the said portfolio. This approach is used primarily for long-term products in personal lines, such as life, annuity and personal accident insurance.

Surplus reinsurance: form of proportional reinsurance under which the risk is not spread between the insurer and reinsurer on the basis of a previously agreed, set quota share. Instead, the insurer determines a maximum sum insured per risk up to which it is prepared to be liable. Risks that exceed the ceding company's retention (surpluses) are borne by the reinsurer. The reinsurer's lines thus vary according to the level of the retention and the sum insured of the reinsured contract. The reinsurer's liability is generally limited to a multiple of the ceding company's retention.

Technical result: the balance of income and expenditure allocated to the insurance business and shown in the technical statement of income (after additional allowance is made for the allocation to/ withdrawal from the equalisation reserve: net technical result).

Treaty reinsurance: cf. → obligatory reinsurance

Underwriting: process of examining, accepting or rejecting (re-) insurance risks and classifying those selected in order to charge the proper premium for each. The purpose of underwriting is to spread the risk among a pool of (re-)insureds in a manner that is equitable for the (re-) insureds and profitable for the (re-)insurer.

Unearned premium reserve: cf. → provision for unearned premium.

Value of in-force business (VIF): present value of expected future profit flows from the portfolio of in-force retained business, discounted by a currency-specific risk discount rate. It is determined in accordance with local accounting principles.

E+S Rückversicherung AG

Karl-Wiechert-Allee 50
30625 Hannover
Germany

Telephone +49/5 11/56 04-0
Fax +49/5 11/56 04-11 88
info@es-rueck.de
www.es-rueck.de

