somewhat different

Annual Report 2007

hannover re®

CONTENTS

KEY FIGURES
of Hannover Re

in Mio. EUR	2007	+/- previous year	2006	2005	2004	2003
Gross written premium	6,652.6	-13.0%	7,644.6	6,340.4	6,095.2	6,539.3
Net premium earned	4,979.3	-12.4%	5,685.3	4,383.8	4,030.8	3,695.3
Underwriting result [5]	(111.1)	-176.3%	145.6	(95.5)	(42.8)	60.7
Allocation to the equalisation reserve and similar provisions	(309.1)	-312.6%	145.4	228.3	232.5	301.8
Investment result	451.2	-43.6%	799.9	895.7	584.7	578.2
Pre-tax profit	438.1	+69.3%	258.7	376.1	149.1	133.2
Profit or loss for the financial year	272.0	+38.8%	196.0	374.6	120.6	114.9
Investments	18,106.1	-2.1%	18,499.7	16,699.4	13,465.3	11,670.8
Capital and reserve	2,085.8[3]		2,085.8[3]	2,085.8[2][3]	1,215.8	1,292.5[1]
Equalisation reserve and similar provisions	1,406.5	-18.0%	1,715.6	1,570.3	1,342.0	1,109.5
Net technical provisions	13,286.7	+2.0%	13,022.7	12,471.9	9,844.2	8,286.7
Total capital, reserves and technical provisions	16,779.0	-0.3%	16,824.1	16,128.0	12,402.0	10,688.7
Number of employees	660	+6	654	628	599	569
Retention	73.9%		74.2%	68.3%	67.8%	56.8%
Loss ratio [4][5]	80.0%		72.7%	76.7%	79.6%	80.3%
Expense ratio [4]	25.2%		25.4%	26.4%	20.1%	16.1%
Combined ratio [4][5]	105.2%		98.1%	103.1%	99.7%	96.4%

[1] *including surplus debenture (Genussrechtskapital)*
[2] *including allocation to reserves proposed by the Annual General Meeting*
[3] *including subordinated liabilities*
[4] *excluding life reinsurance*
[5] *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 previous years have been adjusted accordingly for the sake of improved comparability.*

BOARDS AND OFFICERS
of Hannover Re

Supervisory Board (Aufsichtsrat)

Wolf-Dieter Baumgartl [1)2)3)] Berg Chairman Chairman of the Supervisory Board Talanx AG HDI Haftpflichtverband der Deutschen Industrie V.a.G.	Member of the Advisory Board E+S Rückversicherung AG, Hannover
	Member of the Administrative Board HDI Assicurazioni S.p.A., Rome, Italy
Dr. Klaus Sturany [1)] Dortmund Deputy Chairman (since 3 May 2007) Former Member of the Executive Board RWE Aktiengesellschaft	Member of the Supervisory Board Bayer AG, Leverkusen Commerzbank Aktiengesellschaft, Frankfurt Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg Österreichische Industrieholding AG, Vienna, Austria
Dr. Paul Wieandt [2)] Königstein i. T. Deputy Chairman (until 20 March 2007) Liquidator of Resba GmbH i. L.	Chairman of the Advisory Board Lincoln International AG, Frankfurt/Main [3)] MANIC Management Information Consulting GmbH, Dreieich [3)]
Herbert K. Haas [1)2)3)] Burgwedel Chairman of the Executive Board Talanx AG HDI Haftpflichtverband der Deutschen Industrie V.a.G.	Chairman of the Supervisory Board E+S Rückversicherung AG, Hannover HDI-Gerling Industrie Versicherung AG, Hannover HDI-Gerling International Holding AG, Hannover HDI Service AG, Hannover HDI-Gerling Lebensversicherung AG, Cologne HDI-Gerling Leben Serviceholding AG, Cologne HDI-Gerling Leben Betriebsservice GmbH, Cologne HDI-Gerling Sach Serviceholding AG, Hannover Proactiv Holding AG, Hilden
	Chairman of the Board of Management Gerling Beteiligungs-GmbH, Cologne
	Member of the Supervisory Board AmpegaGerling Asset Management GmbH, Cologne
	Member of the Advisory Board Norddeutsche Landesbank Girozentrale, Hannover [3)]
	Member of the Administrative Board ASPECTA Assurance International AG, Luxembourg S.A., Luxembourg Talanx Finanz (Luxembourg) S.A., Luxembourg

Uwe Kramp [5] Hannover (since 3 May 2007)	
Karl Heinz Midunsky [3] Munich Former Corporate Vice President and Treasurer Siemens AG	
Ass. jur. Otto Müller [5] Hannover	Member of the Supervisory Board Talanx AG, Hannover
Dr. Immo Querner Ehlershausen Member of the Executive Board Talanx AG HDI Haftpflichtverband der Deutschen Industrie V.a.G. Gerling Beteiligungs-GmbH, Cologne	Chairman of the Supervisory Board AmpegaGerling Asset Management GmbH, Cologne ASPECTA Lebensversicherung AG, Cologne Protection Reinsurance Intermediaries AG, Hannover
	Deputy Chairman of the Supervisory Board AmpegaGerling Immobilien Management GmbH, Cologne AmpegaGerling Investment GmbH, Cologne ASPECTA Assurance International AG (Liechtenstein), Liechtenstein HDI-Gerling Leben Serviceholding AG, Cologne
	Member of the Supervisory Board Aspecta Zycie T.U. S.A., Warsaw, Poland E+S Rückversicherung AG, Hannover Euro International Reinsurance S.A., Luxembourg Gerling Polska T.U. Zycie S.A., Warsaw, Poland HDI-Gerling Lebensversicherung AG, Cologne HDI-Gerling Industrie Versicherung AG, Hannover HDI-Gerling Sach Serviceholding AG, Hannover ifb AG, Cologne [4] PB Lebensversicherung AG, Hilden PB Versicherung AG, Hilden Tertia Handelsbeteiligungsgesellschaft mbH, Cologne [4]
	Member of the Advisory Board Commerzbank AG, Hamburg [4]
Ass. jur. Renate Schaper-Stewart [5] Lehrte (until 3 May 2007)	

Dr. Erhard Schipporeit [2] Hannover (since 3 May 2007) Former Member of the Executive Board E.ON Aktiengesellschaft	Member of the Supervisory Board CarrerConcept AG, Munich Deutsche Börse AG, Frankfurt am Main HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover SAP AG, Walldorf Talanx AG, Hannover
	Member of the Board of Directors TUI Travel, PLC, London, United Kingdom
Dipl.-Ing. Hans-Günter Siegerist [5] Nienstädt (until 3 May 2007)	
Gert Waechtler [5] Großburgwedel (since 3 May 2007)	

[1] *Member of the Standing Committee*
[2] *Member of the Balance Sheet Committee*
[3] *Member of the Nomination Committee*
[4] *Memberships of supervisory boards and comparable control boards required by law at other companies in Germany and abroad*
[5] *Staff representative*

Executive Board (Vorstand)

Wilhelm Zeller Chairman of the Executive Board Hannover Rückversicherung AG, Hannover E+S Rückversicherung AG, Hannover	Chairman of the Administrative Board Euro International Reinsurance S.A., Luxembourg
	Chairman of the Board of Directors Clarendon Insurance Group, Inc., Wilmington, USA Clarendon National Insurance Company, Trenton, USA Hannover Re (Bermuda) Ltd., Hamilton, Bermuda Hannover Reinsurance (Ireland) Ltd., Dublin, Ireland
	Member of the Board of Directors Hannover Life Re of Australasia Ltd, Sydney, Australia
	Member of the Supervisory Board Coface Holding AG, Mainz* Coface Kreditversicherung AG, Mainz* Protection Reinsurance Intermediaries AG, Hannover
	Member of the Advisory Board Barmenia Allgemeine Versicherungs-AG, Wuppertal* Barmenia Krankenversicherung a.G., Wuppertal* Barmenia Lebensversicherung a.G., Wuppertal* Hannover Finanz GmbH, Hannover
	Member of the Executive Board Talanx AG, Hannover
André Arrago Member of the Executive Board Hannover Rückversicherung AG, Hannover E+S Rückversicherung AG, Hannover	Chairman of the Board of Directors Hannover Re Gestion de Réassurance France S.A., Paris, France Hannover ReTakaful B.S.C. (c), Manama, Bahrain
	Deputy Chairman of the Board of Directors Hannover Re (Bermuda) Ltd., Hamilton, Bermuda
	Member of the Board of Directors Hannover Re Services Japan KK, Tokyo, Japan
	Member of the Supervisory Board April Group, Lyon, France* Mutuelle des Transports Assurances (MTA), Paris, France*
Dr. Wolf Becke Member of the Executive Board Hannover Rückversicherung AG, Hannover E+S Rückversicherung AG, Hannover	Member of the Supervisory Board ASPECTA Lebensversicherung AG, Cologne CiV Lebensversicherung AG, Hilden HDI-Gerling Lebensversicherung AG, Cologne

	Chairman of the Board of Directors Hannover Life Reassurance Bermuda Ltd., Hamilton, Bermuda Hannover Life Reassurance (Ireland) Limited, Dublin, Ireland Hannover Life Reassurance (UK) Limited, Virginia Water, United Kingdom Hannover Life Reassurance Africa Ltd., Johannesburg, South Africa Hannover Life Reassurance Company of America, Orlando, USA
	Deputy Chairman of the Board of Directors Hannover Life Re of Australasia Ltd, Sydney, Australia
	Member of the Board of Directors Hannover Re Services Japan KK, Tokyo, Japan Hannover Reinsurance Group Africa (Pty) Limited, Johannesburg, South Africa
	Managing Director Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover Zweite Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover
Jürgen Gräber Member of the Executive Board Hannover Rückversicherung AG, Hannover E+S Rückversicherung AG, Hannover	Chairman of the Board of Directors Compass Insurance Company Limited, Johannesburg, South Africa Hannover Re Services USA, Inc., Itasca, USA Hannover Reinsurance Africa Limited, Johannesburg, South Africa Hannover Reinsurance Group Africa (Pty) Limited, Johannesburg, South Africa
	Member of the Board of Directors E+S Reinsurance (Ireland) Ltd., Dublin, Ireland Hannover Re (Guernsey) PCC Ltd., St. Peter Port, Guernsey Hannover Reinsurance (Dublin) Ltd., Dublin, Ireland Hannover Reinsurance (Ireland) Ltd., Dublin, Ireland
Dr. Elke König Member of the Executive Board Hannover Rückversicherung AG, Hannover E+S Rückversicherung AG, Hannover	Chairperson of the Board of Directors Hannover Finance (UK) Limited, Virginia Water, United Kingdom Hannover Finance, Inc., Wilmington, USA
	Deputy Chairperson of the Board of Directors Hannover Life Reassurance Bermuda Ltd., Hamilton, Bermuda
	Chairperson of the Advisory Board Hannover Finanz GmbH, Hannover
	Chairperson of the Administrative Board Hannover Finance (Luxembourg) S.A., Luxembourg
	Member of the Supervisory Board AmpegaGerling Asset Management GmbH, Cologne WeHaCo Unternehmensbeteiligungs-Aktiengesellschaft, Hannover

	Member of the Board of Directors Clarendon Insurance Group, Inc., Wilmington, USA Clarendon National Insurance Company, Trenton, USA Hannover Life Re of Australasia Ltd, Sydney, Australia Hannover Life Reassurance (Ireland) Limited, Dublin, Ireland Hannover Life Reassurance (UK) Limited, Virginia Water, United Kingdom Hannover Life Reassurance Company of America, Orlando, USA Hannover Re (Bermuda) Ltd., Hamilton, Bermuda Hannover Reinsurance (Ireland) Ltd., Dublin, Ireland Hannover ReTakaful B.S.C. (c), Manama, Bahrain International Insurance Company of Hannover Ltd., Bracknell, United Kingdom
	Managing Director Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover Zweite Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover
Dr. Michael Pickel Member of the Executive Board Hannover Rückversicherung AG, Hannover E+S Rückversicherung AG, Hannover	Chairman of the Administrative Board Hannover Re Services Italy S.r.l., Milan, Italy
	Chairman of the Board of Directors Mediterranean Reinsurance Services Ltd., Hong Kong, China
	Managing Director Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover
Ulrich Wallin Member of the Executive Board Hannover Rückversicherung AG, Hannover E+S Rückversicherung AG, Hannover	Chairman of the Board of Directors International Insurance Company of Hannover Ltd., Bracknell, United Kingdom
	Member of the Board of Directors Hannover Re Gestion de Réassurance France S.A., Paris, France

* *Membership of supervisory boards and comparable control boards required by law at other companies in Germany and abroad*

MANAGEMENT REPORT
of Hannover Re

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 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.

The year under review forcefully demonstrated that the economic environment consistently poses fresh challenges for our business activities. The factors here were more diverse than ever: not only was the insurance industry affected by a number of economic changes, it was also impacted by various reforms in the German and broader international legal landscape. In Germany the Regulation on Insurance Mediation and Advice (VersVermV) and the Insurance Contract Act (VVG) are intended to promote, above all, improved consumer protection. In July of the year under review the European Commission presented the European Parliament with a proposal for fundamental reform of European insurance supervisory law in the shape of the Draft Outline of a Solvency II Framework Directive.

Business development

Since 1 January 1997 the parent company has transacted the Group's active reinsurance exclusively in foreign markets – with the exception of some parts of the business of the Talanx companies. Our subsidiary E+S Rückversicherung AG, on the other hand, bears responsibility within the Hannover Re Group for German business. Geographical risk spreading between Hannover Re and E+S Rück is ensured by means of reciprocal retrocessions.

The year under review again passed off very well for Hannover Re. In order to derive maximum benefit from the opportunities offered by an attractive German market, we acquired the interest held by a minority shareholder in E+S Rück through our subsidiary Hannover Rück Beteiligung Verwaltungs-GmbH, partially resold it and thus raised our stake in E+S Rück to altogether 63.8%.

The continuing favourable state of the market in non-life reinsurance had a positive effect on the development of our business: the renewal season as at 1 January 2007 demonstrated that the "hard" market would be sustained in the year under review. Nevertheless, it became clear – as was reinforced by the further rounds of renewals in the course of the year – that it had passed its peak in

2006 after eight consecutive years of rate increases. What was crucial, however, was that rates in most segments remained on a comfortably adequate level – i.e. one that was commensurate with the risks. As a result, we continued to be able to generate profitable business. Only in a few lines, such as US casualty business – and here especially directors' and officers' (D&O) covers –, did we assess prices and conditions as no longer appropriate to the assumed risk. In these areas we responded accordingly and scaled back our premium volume. In property business, on the other hand, the situation was still satisfactory despite modest decreases in rates. Although prices retreated slightly overall, they stayed on an attractive level. In US property catastrophe business rates remained buoyant, with reductions observed only in isolated subsegments.

Key regulating factors in our underwriting continue to be our active cycle management and opportunistic underwriting policy, according to which we concentrate on those segments that promise the greatest profitability. These include, inter alia, property catastrophe business, worldwide credit and surety insurance, marine insurance and the markets of Central and Eastern Europe. In the German market, too, business was profitable.

The renewal phases once again reinforced the considerable importance that ceding companies attach to a reinsurer's rating – especially when it comes to long-tail casualty business. As an established and financially strong reinsurer, we enjoy outstanding ratings and are therefore a preferred point of contact for our clients.

In the year under review we took additional steps to ensure that our equity base is not strained by exceptionally large losses. On the one hand, for example, we further scaled back our peak exposures, while on the other we completed new risk securitisations – i.e. the transfer of insurance risks to the capital market. At the beginning of the year we topped up our largest-volume transaction to date – namely "K5" – by an extra USD 116 million to altogether USD 530 million, thereby making our portfolio even more weatherproof. The portfolio underlying the "K5" transaction consists of non-proportional reinsurance treaties in the property catastrophe, aviation and marine (including offshore) lines.

Not only that, we protected our retention under the "K5" property catastrophe business with a further securitisation concluded in March of the year under review: in the first transaction of its type we placed an aggregate XL cover in an amount of USD 200 million on the capital market. This transfer rounds off our programme of protection cover with the result that our portfolio is now better protected than ever against exceptionally large losses. What is more, the transaction gives us even greater independence from the traditional retrocession market.

We transferred default risks associated with reinsurance recoverables to the capital market for the first time in the year under review and thereby immunised ourselves against a potential credit risk. Dubbed "Merlin", this securitisation is considered an innovation on the international insurance market inasmuch as it marks the first time that a fully secured synthetic CDO has been launched for a portfolio of credit risks from insurance and reinsurance companies. The underlying portfolio has a nominal value of EUR 1 billion.

With a view to being able to invest in securitisations of reinsurance risks on an even more targeted basis going forward, we established an investment company under the name Hannover Insurance-Linked Securities Partners GmbH & Co. KG.

In May 2007 we closed the sale of Praetorian Financial Group, Inc. – active in the primary insurance sector – to the Australian insurance group QBE. Hannover Re intends to use the capital freed up by this transaction to systematically expand its non-life and life/health reinsurance portfolio and will hence focus exclusively on its profitable reinsurance business.

In the financial year just-ended we established Hannover Life Re Bermuda, through which we shall further enlarge our international life and health reinsurance portfolio. With the acquisition of the 50 percent stake in Hannover Life Re Australasia from our subsidiary E+S Rück we took another step towards simplification of the Group structure.

Gross written premium in total business contracted as anticipated by 13.0% to EUR 6.7 billion (EUR 7.6 billion).

The level of retained premium remained virtually unchanged at 73.9% (74.2%). Net premium earned fell by 12.4% to EUR 5.0 billion (EUR 5.7 billion).

On the claims side, the year under review passed off satisfactorily overall. The predicted severe hurricane season in the United States and the Caribbean failed to materialise. Nevertheless, winter storm "Kyrill" showed that in Europe, too, things can get stormy: "Kyrill" caused widespread damage and heavy losses. For our company, this event produced a net loss burden of EUR 33.6 million. In the course of the year a number of smaller and mid-sized major losses were also recorded. Total net expenditure on catastrophe losses and major claims amounted to EUR 214.7 million (EUR 95.6 million); this figure corresponds to 4.4% of net premium and was thus below the expected figure of 8%. The combined ratio (excluding life business) stood at 105.2% (98.1%) in the year under review.

We were satisfied with the development of international life and health reinsurance. The decisive, long-term growth factors – such as the demographic trend in the industrialised nations, the entry into retirement of the baby boomer generation and the rapid emergence of a middle class in many developing countries – remain in place. After the premium volume in the previous year had been influenced by special effects, gross premium contracted as expected in the year under review by 9.7% to EUR 2,914.0 (EUR 3,228.0 million).

Particularly close attention was again devoted to the countries of the Asia-Pacific economic region in the year under review: we pressed ahead as planned with all activities relating to the establishment of a branch in the People's Republic of China. Operational business is scheduled to commence in the spring of 2008. In December 2007 we received a provisional licence from the Korean insurance regulator to set up a life branch in South Korea, while in India we have set in motion the establishment of a service company in Mumbai.

The underwriting result for total business before changes in the equalisation reserve contracted year-on-year to -EUR 111.1 million (EUR 145.6 million) due to strengthening of the IBNR reserves. An amount of EUR 309.1 million (previous year: allocation of EUR 145.4 million) was withdrawn from the equalisation reserve and similar provisions.

Against the backdrop of volatile movements on capital markets in the course of the year, the performance of our investments was nevertheless satisfactory. The positive cash flow from the technical account was more than offset by – most notably – the downward slide in the value of the US dollar, as a consequence of which our portfolio of assets under own management declined to EUR 12.2 billion (EUR 12.7 billion). Ordinary income came in within the planned parameters at EUR 721.4 million (EUR 735.3 million). The net investment result of EUR 451.2 million fell appreciably short of the previous year (EUR 799.9 million) due to extraordinary expenses from write-downs taken on the subsidiary Clarendon Insurance Group, Inc., which is currently being wound up.

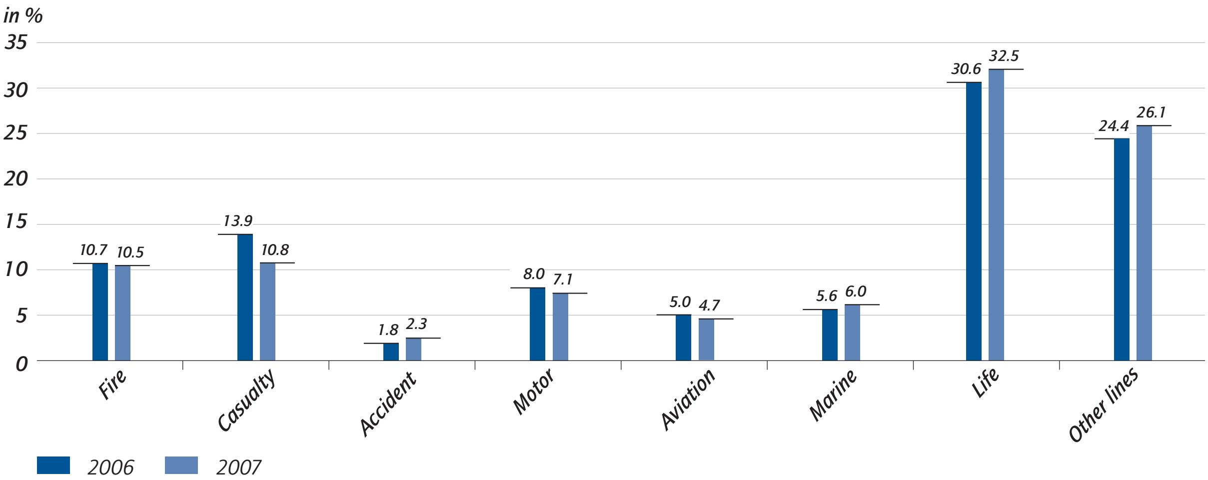
The international financial and capital markets have been significantly impacted by the US credit crunch and real estate collapse since the middle of the year under review. Of our total investment portfolio, securities in a volume of EUR 44.2 million are potentially affected by the crisis; the concrete depreciation requirement, however, was in the order of just EUR 9.7 million. As far as insured risks are concerned, losses are possible in the area of directors' and officers' (D&O) and professional indemnity covers. We carefully analysed our portfolios and set aside conservative IBNR reserves of EUR 15.6 million. With a total charge currently put at altogether EUR 25.3 million, our company is scarcely affected by the credit crisis.

Our profit for the financial year of EUR 272.0 million was significantly higher than in the previous year (EUR 196.0 million). In view of this very good financial year, the Executive Board and Supervisory Board will propose to the Annual General Meeting that a dividend of EUR 1.80 and a bonus of EUR 0.50 per share be paid.

Development of the individual lines of business

The following section describes the development of the various lines of business in relation to the worldwide portfolio written by Hannover Re (Hannover Rück AG). Through intra-Group retrocessions from E+S Rück we also participate in the German reinsurance market. We reviewed our actuarial methods used to calculate the IBNR reserves, adjusted them in light of the latest insights and extended their application to aviation and marine business in addition to the casualty and motor lines. This resulted in substantial strengthening of the IBNR reserves with a non-recurring effect in the year under review. From 2007 onwards separate profit and loss accounts will only be drawn up for the lines pursuant to Section II No. 1 (1) and (2) of the notes to § 29 of the regulation on the presentation of insurance company accounts (RechVersV). As a consequence of this and the combination of lines, amounts of EUR 171.2 million were written back from the equalisation reserves. The proportion of the parent company's gross written premium attributable to business accepted from E+S Rück stood at 7.7% in the year under review (6.8%). We were highly satisfied with both the result and the development of business in our domestic market.

Gross premium breakdown in % of the total portfolio



Fire

Fire insurance is one of our largest lines; we write this business worldwide. Leaving aside treaties in the United States, we generate the bulk of our portfolio in Germany. In the primary sector the premium erosion that has been witnessed over the past three years continued; whereas in recent years the German market had concentrated on just a few providers, the currently positive claims scenario prompted foreign insurers, in particular, to increasingly force their way into German fire business. This led to further erosion of premiums 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.

We were also highly satisfied with the development of business in the United Kingdom – the third-largest single market in our fire portfolio –, where we recorded an improved result.

All in all, we scaled back our proportional fire business in the year under review, most notably in the US. The premium volume booked in the fire line contracted by 14.5% to EUR 701.2 million (EUR 820.2 million).

The underwriting result came in roughly on a par with the previous year at EUR 42.4 million (EUR 44.5 million). The net loss ratio of 67.8% was slightly better than in 2006 (69.5%).

An amount of EUR 34.0 million (EUR 49.5 million) was allocated to the equalisation reserve and similar provisions.

Fire

in EUR million	2007	2006
Gross written premium	701.2	820.2
Loss ratio (%)	67.8	69.5
Underwriting result (net)	42.4	44.5

Casualty

In view of our strict profitability criteria we wrote our business highly selectively. This was especially true of the United States, by far our largest single market, where competition intensified markedly from mid-2007 onwards. Risks that generated below-average margins continued to be scaled back, as a consequence of which our premium volume in the United States has been virtually halved since 2005.

The US credit crunch and mortgage meltdown also had adverse repercussions for the insurance industry – or more specifically directors' & officers' (D&O) and professional indemnity covers. We carefully analysed our portfolios and set aside conservative IBNR reserves of EUR 15.6 million.

In the casualty sector we profit first and foremost from our good rating, since ceding companies continue to attach considerable importance to the financial strength of reinsurers. This is particularly the case with long-tail casualty lines.

In France we are the market leader for builder's risk covers in both treaty and facultative reinsurance business; the premium growth and result were in line with our expectations.

Casualty insurance in Germany 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 softened as providers sought to avoid further losses of premium income. Thanks to our selective underwriting policy – with a focus on non-proportional business – we have been relatively successful in decoupling ourselves from this trend.

Our total gross premium contracted by an appreciable 32.4% to EUR 717.9 million (EUR 1,062.1 million).

Reflecting the deliberate strengthening of our IBNR reserves, the loss ratio of 100.4% in the year under review was considerably higher than in the previous year (69.1%). The underwriting result consequently deteriorated to -EUR 136.3 million (EUR 24.1 million).

An amount of EUR 110.6 million was withdrawn from the equalisation reserve and similar provisions, following an allocation of EUR 78.1 million in the previous year.

Casualty

in EUR million	2007	2006
Gross written premium	717.9	1,062.1
Loss ratio (%)	100.4	69.1
Underwriting result (net)	(136.3)	24.1

Accident

Accident insurance is of relatively modest importance within our overall portfolio, accounting for just 2.3% of total business. Germany is the largest single market in this line. We are systematically expanding our involvement in this line and not only offer to assume our clients' risks by way of treaty and facultative reinsurance, but also support them with product innovations. These include, inter alia, a combined personal accident annuity product which also provides benefits in the event of severe illnesses. What is more, we continued to extend the range of further services delivered by external providers (policies with assistance benefits) and successfully established these products on the market.

Furthermore, attractive business opportunities opened up to us both in France – where we are the market leader in personal accident insurance – and in the United Kingdom. In the UK, for example, we were able to accelerate growth in travel accident business.

On the back of the vigorous growth generated in South Africa in the previous year, we were able to further enlarge our portfolio of personal accident business in the year under review.

Gross premium again climbed by a substantial margin relative to the previous year, rising by 10.2% to reach EUR 151.3 million (EUR 137.3 million).

On the claims side, too, we are satisfied with the experience in this line; the previous year's very good loss ratio of 49.6% increased slightly in the year under review to 52.5%. The underwriting profit totalled EUR 10.4 million (EUR 13.4 million).

An amount of EUR 1.9 million was withdrawn from the equalisation reserve and similar provisions, compared to an allocation of EUR 11.9 million in the previous year.

Accident

in EUR million	2007	2006
Gross written premium	151.3	137.3
Loss ratio (%)	52.5	49.6
Underwriting result (net)	10.4	13.4

Motor

The United States and Germany were our most important markets in the motor line. Fierce competition continued unabated in the German insurance market, with experts not anticipating any easing before the end of 2009. Winter storm "Kyrill" prompted a sharp surge in own damage claims in the year under review.

With an eye to the softening rates we significantly scaled back our business in North America and the United Kingdom. In France, too, prices proved unsatisfactory: although the number of accidents was down, spending on seriously injured victims rose – as a consequence of which we also appreciably reduced our involvement in this market.

In the Asian markets, on the other hand, we significantly expanded our portfolio – including for example in the area of motor liability policies with limited liability.

The premium volume in the motor line contracted sharply from EUR 611.9 million to EUR 470.2 million. Owing to the bolstering of our IBNR reserves the loss ratio increased from 73.3% to 94.1%. This was reflected in a poorer underwriting result of -EUR 76.6 million (-EUR 13.5 million).

An amount of EUR 47.7 million was withdrawn from the equalisation reserve and similar provisions, compared with an allocation of EUR 38.1 million in the previous year.

Motor

in EUR million	2007	2006
Gross written premium	470.2	611.9
Loss ratio (%)	94.1	73.3
Underwriting result (net)	(76.6)	(13.5)

Aviation

Hannover Re ranks among the leading reinsurers worldwide in aviation and space business. Owing to enormous surplus capacities and a favourable claims experience, rates in aviation business softened appreciably in the primary sector. The reinsurance market, however, saw only moderate rate reductions. Excess capacities here are limited because ceding companies continue to attach considerable importance to their reinsurer's financial standing. Despite slightly reducing our market shares, we consolidated our leading position in aviation reinsurance.

Our portfolio was again notable for its diversification; the dominance of fleet business continued to diminish. We are thus well placed to act profitably even as the market softens. In this context our focus is on underwriting non-proportional business. Our account was impacted by a major loss in the year under review, namely a plane crash in Brazil. This was the largest loss on the aviation market in five years. Three satellite failures were also incurred, although one of these came in under the major loss threshold of EUR 5 million.

Gross written premium contracted by 18.2% to EUR 315.6 million (EUR 385.9 million).

From 2007 onwards we are also establishing IBNR reserves for the aviation line on the basis of refined actuarial methods. Against this backdrop the net loss ratio increased markedly to 84.8% (51.5%). The underwriting result slipped accordingly to -EUR 11.3 million (EUR 74.2 million).

An amount of EUR 76.6 million (EUR 0.1 million) was withdrawn from the equalisation reserve and similar provisions.

Aviation

in EUR million	2007	2006
Gross written premium	315.6	385.9
Loss ratio (%)	84.8	51.5
Underwriting result (net)	(11.3)	74.2

Marine

In common with our aviation portfolio we also write marine business predominantly through the London Market; we are one of the major reinsurance providers in this line. The market climate in the year under review was still heavily overshadowed by the substantial losses from the 2005 hurricane events in the Gulf of Mexico, which had not only prompted rate hikes and increased retentions at ceding companies but also ushered in extensive restructuring of the reinsurance programmes. In relation to the Gulf of Mexico programmes now distinguish between catastrophe-exposed risks and those that have no correlation with natural disasters.

In offshore and energy business we achieved appreciable price increases, although rate rises were also obtained for the rest of the marine portfolio. As part of our risk management we have now reduced the limit of liability for windstorm-exposed programmes in the Gulf of Mexico by roughly 25%.

On the claims side marine business was not affected by any exceptionally large losses in the year under review. Contrary to forecasts, the hurricane season in the Gulf of Mexico passed off relatively calmly. 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.

Overall, we were thoroughly satisfied with the results of our marine business written on the London Market; this was equally true of the business development in other European countries and the United States, where we successfully consolidated the changes made in 2006. Rates consequently held stable. In some small segments early softening tendencies could be discerned, yet the quality of the portfolio as a whole was unchanged from the previous year. Our market share in the United States is disproportionately low relative to the London Market on account of the fact that we were unable to push through improvements in conditions to the same extent as in other markets. The liability of the treaties that we write here only attaches for more substantial losses, i.e. above the layer comprised of basic losses. Whereas in the non-proportional segment we write a relatively broad-ranging portfolio, in proportional treaty business we concentrate on a few lines such as offshore and war risks. We recorded a moderate loss experience for the US marine market.

Gross written premium retreated from EUR 424.8 million to EUR 396.7 million on account of our selective underwriting policy.

The underwriting result improved to -EUR 67.8 million (-EUR 169.0 million).

An amount of EUR 1.2 million (EUR 1.9 million) was contributed to the equalisation reserve and similar provisions.

In the marine line, just as in aviation business, we for the first time used new methods to determine the IBNR reserves in the year under review.

Without the allocation the loss ratio would have developed considerably more favourably.

Marine

in EUR million	2007	2006
Gross written premium	396.7	424.8
Loss ratio (%)	118.3	164.2
Underwriting result (net)	(67.8)	(169.0)

Life

Our internationally written portfolio of life and annuity reinsurance developed according to plan in the year under review.

Our business with enhanced annuities (for persons with a reduced life expectancy) in the United Kingdom grew by a vigorous EUR 267.4 million; our life business in the Anglo-American markets also enjoyed gratifying growth. These positive effects did not, however, offset the opposing decline in single-premium business with unit-linked products from Luxembourg (-EUR 676.1 million).

All in all, our gross premium income contracted as expected to EUR 2,161.9 million (EUR 2,335.7 million). Of this total volume, 75.7% was attributable to life insurance and 24.3% derived from annuity business.

The net underwriting profit of EUR 64.1 million in the year under review was lower than in the previous year (EUR 74.5 million). It nevertheless testifies to the sustained strong profitability of the life and annuity portfolio.

Life

in EUR million	2007	2006
Gross written premium	2,161.9	2,335.7
Underwriting result (net)	64.1	74.5

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 of the extended coverage, comprehensive householder's (contents), comprehensive householder's (buildings), burglary and robbery, water damage, plate glass, engineering, loss of profits, hail, livestock and windstorm lines. Other indemnity insurance encompasses legal protection, fidelity as well as other pure financial losses and property damage.

The premium volume in the other lines decreased by 6.9% to EUR 1,737.7 million (EUR 1,866.6 million). The loss ratio improved from 68.6% to 66.4%. The underwriting result was again most satisfactory at EUR 63.9 million (EUR 97.6 million).

As in the previous years, our *health reinsurance portfolio* consisted principally of retrocessions from our US subsidiary Hannover Life Re America, Orlando. The focus here is on supplementary covers taken out with the support of the private insurance industry in combination with government health insurance coverage for senior citizens. We also write specialty covers such as supplementary dental policies for employee affinity groups. Owing to the strength of the euro and the commutation of a large treaty, the gross premium of EUR 752.1 million fell short of the previous year's level (EUR 892.3 million). The underwriting result bounced back from a deficit of EUR 38.5 million in the previous year to a profit of EUR 10.1 million.

Hannover Re ranks third in worldwide *credit and surety reinsurance*. Thanks to falling insolvency figures and the healthy state of the economy, loss ratios retreated to a record low in the year under review. With ceding companies carrying higher retentions and given the surplus supply of reinsurance capacity, conditions in the reinsurance sector came under pressure. 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 reinsurers noted for their financial soundness and high level of professionalism, a situation from which we benefited. For reasons of diversification we stepped up our surety business and our acceptances of political risks.

By increasing shares under existing accounts and entering into new client relationships we were again able to generate significant premium growth in the year under review. Gross premium increased from EUR 293.7 million to EUR 355.4 million. The underwriting profit in the year under review was again very pleasing at EUR 33.9 million (EUR 38.3 million).

A contribution of EUR 67.1 million (EUR 59.0 million) was made to the equalisation reserves in these two lines.

The meltdown on the US mortgage market has not had any implications for our credit and surety business. Our underwriting guidelines preclude the acceptance of credit derivatives, which includes financial guarantee business.

Other lines

in EUR million	2007	2006
Gross written premium	1,737.7	1,866.6
Loss ratio (%)	66.4	68.6
Underwriting result (net)	63.9	97.6

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 around 6,440, while soaring to a high 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 50 both recorded gains of around 7% over the course of the year, while the Japanese Nikkei fell by more than 11%.

As the US mortgage crisis took hold the US 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 yielded a return 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 came under a cash strain from the third quarter until the end of the year due to the credit crunch and housing crisis. The euro consistently moved strongly higher in 2007 against virtually all major world currencies.

Hannover Re'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 our 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. The inflow of cash from the technical account was more than offset by the sharp rise of the euro against most other currencies, as a consequence of which our portfolio of assets under own management shrank to EUR 12.2 billion (EUR 12.7 billion).

Ordinary income came in within the planned parameters at EUR 721.4 million (EUR 735.3 million).

Our portfolio of fixed-income securities (including bond funds) as at 31 December 2007 amounted to EUR 6.2 billion (EUR 6.7 billion). 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 broadly stable over the reporting period, standing at 4.0 as at 31 December 2007.

The quality of our fixed-income securities – measured in terms of the average rating of the instruments – was maintained on a consistently high level. The proportion of securities rated "A" or better – at 96% – was on the same level as in the previous year.

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, our portfolio is scarcely affected. Of a total asset portfolio of EUR 12.2 billion, an amount of EUR 44.2 million – just 0.4% – was attributable to securities backed with subprime US mortgage loans. A concrete write-down of only EUR 9.7 million had to be taken. 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. Our 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 gains in our portfolio of fixed-income securities totalled EUR 106.7 million at year-end, compared to EUR 12.7 million in the previous year.

The equity allocation stood at 9.4% (6.8%), while in absolute terms the fair value of the equity portfolio grew to EUR 1,251.5 million (EUR 922.0 million). In light of the favourable trend on stock markets we realised targeted gains on equities.

New equity investments – especially in index-tracking instruments and actively managed equity mandates – were spread almost equally between the US dollar region and the Eurozone. By using systematic option strategies we exploited market volatilities to a modest extent in order to optimise our portfolio.

Gains of altogether EUR 132.4 million (EUR 169.6 million) were realised on the disposal of assets under own management in the reporting period, as against losses of EUR 29.6 million (EUR 23.2 million). The decline in the positive balance to EUR 102.8 million (EUR 146.4 million) was attributable primarily to reduced gains realised on equities. The net balance of write-ups and write-downs on investments in an amount of EUR 347.6 million derived for the most part from adjustments to the carrying amounts stated for participating interests as part of the ongoing restructuring of the portfolio. Deposit interest and expenses contributed EUR 133.3 million (EUR 142.9 million) on balance to the investment income. The net investment result consequently came in lower than in the previous year at EUR 451.2 million (EUR 799.9 million).

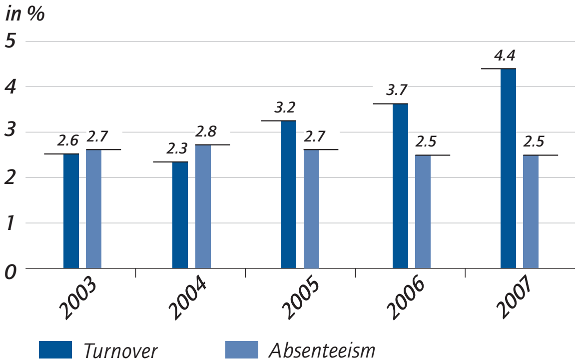
Human resources

At Hannover Re personnel management is considered a key factor in the successful execution of strategy. Our 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 employees were surveyed for the fourth time on their attitude towards their company: the level of satisfaction with their employment situation was again found to be very high. Our company enjoys a consistently good reputation – not only among clients, but also among young people at universities and schools. At graduate recruitment fairs we always receive better-than-average ratings. 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).

Key personnel data

Hannover Re employed 660 (654) staff as at 31 December 2007. The turnover ratio at our Hannover location of 4.4% (3.7%) was slightly higher than in the previous year. The rate of absenteeism was on a par with the low of 2.5% recorded in 2006. 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 are still well below the industry average.

Staff turnover and absenteeism



Demographic change – a challenge?

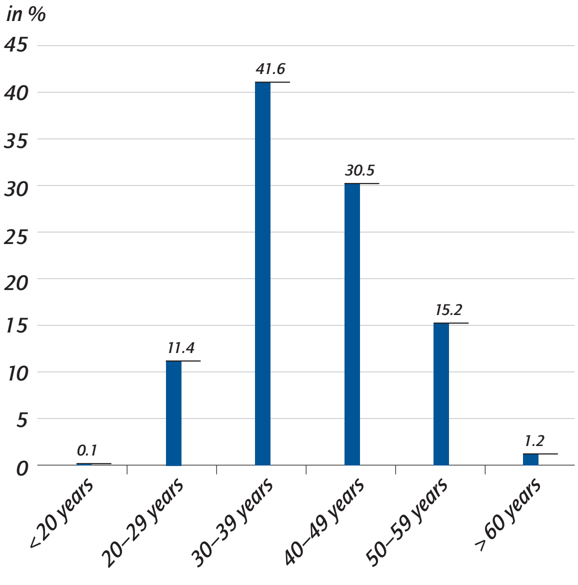
More than half of our workforce can draw on a rich store of professional expertise based on their age. With an average length of service of nine years and an average age of 40, they have comprehensive experience at their fingertips.

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 Hannover Re – 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.

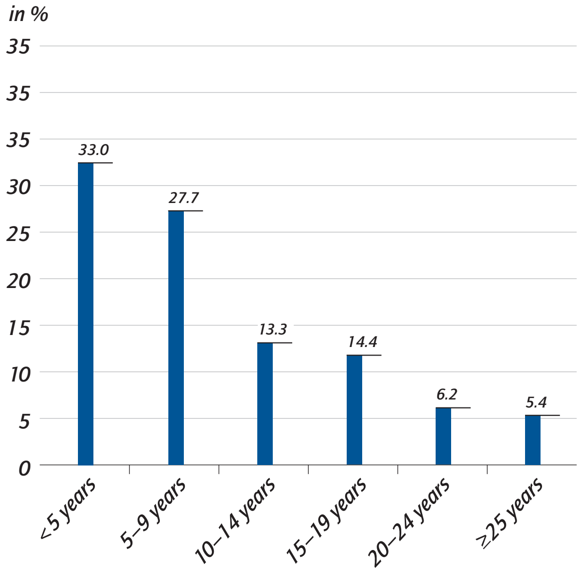
While this does not mean that we shall have an age-related problem filling jobs in the coming years, we will, however, constantly have to keep a close eye on the different situations in the departments and hierarchical levels so as to be able to respond quickly to developments.

Demographic change encompasses a very broad range of issues. In many of these areas Hannover Re 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 and in terms of an extensive internal training programme.

Age structure (Hannover location)



Length of service (Hannover location)



Career and family

In its human resources policy Hannover Re attaches considerable importance to promoting the compatibility of its employees' professional and private lives. Our various part-time working models, which are used by roughly 18% of our workforce, already offer a high degree of flexibility to promote the harmonisation of family and career. In the year under review 113 staff – i.e. around 12% of our workforce at Hannover Home Office – were telecommuting some of the time from home. 743 staff were in full-time employment in the year under review, 164 were employed part-time. 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.

Personnel development

Today, as in the past, personnel development is one of the cornerstones of our human resources management. Over the past three years an average of 4.1% of the workforce took part in a personnel development workshop; the total time invested in further and advanced training amounted to six days on average per employee per year. In 2008 we shall move forward with the closer interlinking of our individual personnel development tools such as the appraisal interview, personnel development workshop and management feedback.

Culture of achievement and compensation

At our company, there is a direct correlation between the achievement of objectives and compensation: in recent years we have consistently expanded the share of remuneration attributable to variable salary components. In the case of senior executives the variable salary components are controlled through the definition of individual objectives, achievement of which is determined by mutual agreement. In 2004 we implemented a compensation system linked to the company's performance, the Group Performance Bonus, for employees on or above the level of manager. The group of individuals participating in the system of variable compensation increased by 2.8% in the observation period.

Participation of staff in the Group Performance Bonus (Hannover location)

2007	Number
Senior executives	67
Managerial levels up to the rank of Chief	350
Total participants	417
Proportion of the total workforce	46.0%

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.

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.

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 culture, and the avoidance of discrimination is already enshrined in our business principles. Employees from 27 nations working at our Hannover Home Office 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 purposefully 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

Hannover Re's overriding strategic objective is to be one of the three most profitable reinsurers in the world. 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 Hannover Re is crucially shaped by the manners, actions and conduct of every member of staff.

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. Thanks to this orientation towards sustainability, Hannover Re has never had to report a deficit since its establishment in 1966, i.e. it has never lost capital. Our goal is to continue to treat the resources entrusted to us with this level of responsibility.

Social commitment

Hannover Re 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 company.

Yet our company's social commitment is not limited to the Greater Hannover region or indeed Germany. Internationally, too, social responsibility matters greatly to us.

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. We assist a number of institutions of higher learning in Germany in a variety of ways – for example the University of Göttingen, where we sponsor a guest professorship in Anglo-American law to promote the internationalisation of legal training.

Environment

In 2007 Hannover Re participated for the first time in the "Ecological Project for Integrated Environmental Technology" (Ecoprofit). The basic idea underlying this project 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.

Hannover Re 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 management of the already existing building technology, as a consequence of which CO_2 emissions for 2007 were cut by around 175,000 kg. For its successful implementation of these steps Hannover Re was 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

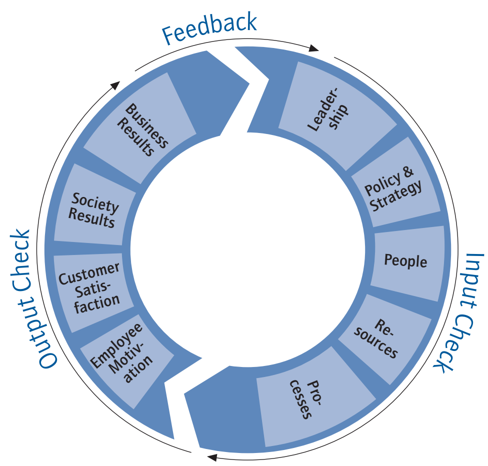
Hannover Re also sets great store by its support for the fine arts: as long ago as 1991, as a way of marking the occasion of Hannover Re's twenty-fifth anniversary, we launched an art foundation that benefits the Sprengel Museum Hannover. The interest earned on the foundation's capital is regularly used to acquire new artworks that we loan to the Sprengel Museum Hannover. By way of specially organised art tours the collection is opened up to interested sections of the broader public.

We also sponsor the Kestnergesellschaft through our involvement in the latter's partner programme. Hannover Re functions as a "kestnerpartner" – which means that we give the museum continuous and lasting support in its work.

Performance Excellence

Group-wide support for 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 the entire Hannover Re Group, 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.

Integrated assessment



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.

Hannover Re maps fulfilment of its responsibility to society via the criterion of "society results". A broad range of initiatives that fall under this EFQM criterion are developed and set in motion not only at Hannover Home Office but also at our subsidiaries. All contents 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.

Risk report

Overriding goals and organisation of our risk management

As an internationally operating reinsurer 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 Hannover Re'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.

Central elements of the risk management system

Controlling elements	Key risk management tasks
Supervisory Board	• Advising and monitoring the Executive Board in its management of the company, inter alia with respect to risk management
Executive Board	• Overall responsibility for risk management • Definition of the risk strategy • Responsible for the proper functioning of risk management
Risk Committee [1]	• 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]	• Risk monitoring function • Methodological competence, inter alia for – development 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]	• 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	• Review of all functional areas of Hannover Re 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, Central Divisional Manager 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.

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 year under review the US rating agency Standard & Poor's assessed our risk management as "Strong", the second-highest rating. This opinion reflects the quality of our approach to risk management, also in comparison with the broader market environment.

Management of risks across the company

We have developed an internal risk model in order to quantify the risks to which Hannover Re 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 reinsurance group of above-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. In 1994 Hannover Re pioneered the securitisation of natural catastrophe risks with its "Kover" transaction, followed by further such transactions in subsequent years ("K2" to "K5"). 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 Hannover Re 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, Hannover Re'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 Hannover Re'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. They are supplemented by country-specific "Special Underwriting Guidelines" that cater to the special features of individual markets. In this context the quality standards set for the portfolio reduce the potential credit risk stemming from an inability to pay or deterioration in the credit status of cedants. Regular audits verify compliance with these guidelines. We review the risk feasibility of new business activities and of the assumed international portfolio on the basis of a series of regularly performed, holistic analyses, inter alia with an eye to the lapse risk.

Quality is further assured – especially at the level of the subsidiaries – by the actuarial reports and documentation required by local regulators. 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 net income or loss generated by Hannover Re 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 large portion of our business is written in foreign currencies. Since we systematically adhere to the principle of matching currency coverage, however, these risks are largely neutralised. The implemented management and control mechanisms are wide-ranging and encompass 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.

The write-downs taken by Hannover Re as a result of the subprime crisis were minimal at around EUR 10 million. Our portfolio does not contain any underwriting risks from mortgage protection policies that originate from the subprime crisis.

Rating structure of our fixed-income securities*

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	66.2	3,540.2	51.8	124.7	0.2	0.8	–	–
AA	17.5	935.6	31.4	75.6	99.2	538.9	–	–
A	14.7	782.8	6.2	15.0	–	–	16.7	5.0
BBB	1.0	53.6	10.5	25.1	–	–	83.3	25.0
< BBB	0.6	29.8	0.1	0.2	0.6	3.5	–	–
Total	100.0	5,342.0	100.0	240.6	100.0	543.2	100.0	30.0

** Securities from investment funds were allocated to the appropriate categories.*

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%	125.1
	Stock prices	+20%	250.3
	Stock prices	-10%	(125.1)
	Stock prices	-20%	(250.3)
	Fair value as at 31.12.2007		1,251.5

Portfolio	Scenario		Portfolio change based on fair value in EUR million
Fixed-income securities	Yield increase	+50 basis points	(126.3)
	Yield increase	+100 basis points	(248.3)
	Yield decrease	-50 basis points	130.7
	Yield decrease	-100 basis points	265.8
	Fair value as at 31.12.2007		6,530.7

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 harmonized 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 optimize 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 reasses the existing measures for contingency plans. 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 an internationally operating reinsurance group, 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.

In the United States the signs are that economic growth will slow in 2008, with only a marginal rise in gross domestic product. Similarly, output in other industrial nations will likely grow only at a subdued pace. Despite the clouds hanging over the general economic landscape, however, the vigorous growth in emerging markets – especially China and India – should be sustained.

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 should also prove a drag on the German economy. Nevertheless, company order books are healthy, and this should help to stabilise the overall business outlook.

Non-life reinsurance

Overall, we were satisfied with the outcome of the treaty renewals as at 1 January 2008 – the date when around two-thirds of our treaties were renegotiated. Despite discernible softening tendencies in the market, the rate reductions were broadly smaller than anticipated. It was particularly gratifying to note that, by and large, the prices and conditions that could be obtained were still commensurate with the risks. At the same time we benefited from lower expenditure on our own protection covers. More pronounced premium decreases in some segments were virtually offset by increases in our market share on the German market and in worldwide credit and surety reinsurance. Assuming stable exchange rates and allowing for the lower cost of protection covers, net premium in non-life reinsurance is expected to remain stable.

For systemic reasons the effects of incipient market softening are only reflected in our results after a certain time lag, and we therefore expect the operating profit (EBIT) to actually increase again. Similarly, 2009 should still profit from the favourable business climate that has prevailed in non-life reinsurance in recent years.

The renewal season once again clearly demonstrated the considerable importance that ceding companies attach to their reinsurer's rating. This is especially true when it comes to the underwriting of casualty business; in order simply to be asked to submit a quotation a very good rating is an indispensable prerequisite here. With its very good ratings ("AA-" from Standard & Poor's and "A" from A.M. Best), Hannover Re is one of the few reinsurers to meet this condition without reservation. Our good financial strength has consequently enabled us to profit disproportionately from attractive business opportunities.

We are thoroughly satisfied with the market environment in *Germany*. Our subsidiary E+S Rück enjoyed highly gratifying treaty renewals in its domestic market: property business showed vigorous growth here. We were able to further extend our already large market share thanks to new customer relationships and increased treaty shares under existing accounts, thereby cementing and expanding our position as one of the leading reinsurers in the profitable German market.

In response to the losses incurred in connection with "Kyrill" in January 2007, stronger demand is emerging for catastrophe covers. We were able to raise rates for the property catastrophe business reinsured with our company. The development of motor liability insurance is also satisfactory; rates here remained stable on a high level under the non-proportional treaties. The premium erosion that had been forecast as recently as the 2007 reinsurance gathering in Baden-Baden – for example in non-proportional liability insurance – largely failed to materialise. Industrial fire insurance saw further premium erosion in 2008 attributable to the moderate major claims experience in 2007. As one of the leading reinsurers in Germany, E+S Rück – our subsidiary that bears responsibility for the German market – will again be a reliable partner for its clients in 2008 and will stand by its profit-oriented underwriting policy of past years.

In the *United Kingdom* we scaled back our casualty business with clients on the London Market in response to softening prices. Renewals in motor insurance, on the other hand, passed off exceptionally satisfactorily. We stepped up our participation in light of rate increases.

Given the absence of major claims in international *marine business* in both 2006 and 2007, rate cuts were seen in this segment; nevertheless, rates were still appreciably higher than the level of 2005, the year notable for the severe hurricanes "Katrina", "Rita" and "Wilma". More marked price declines were booked in Asia as a consequence of fierce competition. In addition to markdowns on rates we expect insurers to further raise their retentions, since reinsurance prices are falling considerably less sharply than insurance prices. In view of declining rates we further reduced our risk in regions with natural catastrophe exposure, such as the Gulf of Mexico, as a result of which premium income contracted by 9% after the renewals on 1 January 2008.

Aviation (re)insurance, for which the London Market is the centre of global business, is experiencing further premium erosion; all in all, then, market conditions are not particularly attractive at present. We only write business that we consider to be profitable. We shall continue to reduce our proportional treaties while further diversifying our non-proportional portfolio.

In *Northern European* countries we expect to see a satisfactory development. Rates will, however, decrease in all lines owing to intense competition.

In the *Netherlands* rates for programmes impacted by winter storm "Kyrill" are holding steady. This is also true of liability and motor business.

In our assessment, *France* offers further attractive business opportunities in builder's risk insurance, and we shall therefore keep an 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 *Belgium* and France. Effective 1 January 2008 we combined our service company and branch office in Paris so as to leverage synergies and cut costs.

In *Italy* too the treaty renewals were most satisfactory; we were able to significantly enlarge our premium volume here.

Intense competition still prevails in the countries of *Central and Eastern Europe*. We expect stable prices under direct customer relationships; in broker business, on the other hand, appreciable rate reductions are likely. By and large, however, margins should remain adequate. We are striving to further boost our share of non-proportional business in Russia and the CIS states.

In *North America* it will become more difficult for many of our 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 notable for the lowest increase in gross premium in decades.

We do 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 clearly 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 and property catastrophe business 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. Workers' compensation saw appreciable rate reductions, although the business is still attractive overall. Even in directors' and officers' insurance, where continuously decreasing rates are the hallmark of the original market, the reinsurance market proved to be stable with slight improvements. In long-tail casualty business a very good rating continues to be essential, and we therefore enjoy a clear competitive advantage. For 2008 we expect our premium volume in North America to contract.

Especially with an eye to the softening market environment, we shall actively pursue our strategy of diversification in 2008 and 2009. In concrete terms, this means that we are increasingly directing our sales activities at mid-sized and smaller clients. The foundations for this approach have been put in place by business management studies conducted in recent years by our Central Division North America.

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. Premium volume from these markets is likely to contract. In Japan – where treaties are for the most part renewed on 1 April – we similarly anticipate softening rates, although they should still be commensurate with the risks. We are continuing to push our profitable, predominantly non-proportional business and expect the premium volume to come in unchanged. In *India*, *Indonesia* and *Thailand* prices are showing gratifying increases of up to 30%; it should, however, be borne in mind that the previously existing level was not particularly attractive.

In view of the increasing consolidation in *Central America* we anticipate a decline in demand for reinsurance covers. In this region we are striving, in particular, to cultivate our motor portfolio. The parliament in *Brazil* approved the abolition of that country's reinsurance monopoly. However, given that growth in Brazil is disproportionately slow compared to other emerging markets and since we initially expect reinsurance supply to outstrip demand, we assess the current profit outlook as modest. We are currently reviewing whether it would make sense to open a local representative office. It is our expectation that the premium lost in Latin America as a consequence of premium erosion will be largely offset by growth in the agricultural segment.

Australia is likely to deliver premium growth in 2008: on account of several major loss events in the year under review we anticipate modestly rising rates in property business. In the casualty sector we shall continue to benefit from our good rating.

We were thoroughly satisfied with the treaty renewals in international *credit and surety insurance* as at 1 January 2008, during which 85% of our portfolio was renegotiated. Although rates and conditions came under moderate pressure on the back of excellent results in the year under review and previous years, 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.

Structured products can be expected to develop favourably around the world. In the United States demand should slowly pick up again, not least thanks to improved framework conditions. New solvency standards in the EU (Solvency II) as well as risk-weighted capital requirements in other markets will increase the capital required by some ceding companies in the medium term – and hence also lead to resurgent interest in reinsurance, inter alia with respect to quota share cessions, stop loss covers and portfolio transfers. The significant economic upturn in Asia and Eastern Europe should generate disproportionately strong growth in insurance demand. This, too, will give rise to sharply rising capital requirements, and insurers will respond by increasingly turning to structured products.

Although the treaty renewals as at 1 January 2008 clearly showed that the market is tending to soften, we still view the environment in non-life reinsurance as favourable for the current year: in view of our profit-oriented underwriting policy and the very good diversification of our portfolio, and thanks to our excellent rating, we are able to generate attractive business. In non-life reinsurance we continue to focus on profitable niche segments, and our portfolio is therefore expected to develop favourably in the current year. Results in 2008 and 2009 will also be positively affected by unearned premium as well as late premium settlements and possible run-off profits from the hard market conditions of previous years.

Our non-life reinsurance portfolio incurred losses in the single-digit millions of euros in the first two months of the current year as a consequence of snowstorms in China.

We are confident of our ability to boost our result in non-life reinsurance despite rate reductions in the current and coming year. This is subject to the premise that the burden of catastrophe losses and major claims remains within the expected level of around 10% of net premium. The following aspects, in particular, are central to this positive outlook:

- Rates and conditions are still commensurate with the risk, hence enabling us to at least generate our cost of capital;
- We were able to enlarge our market shares in profitable segments, e.g. in German business and the credit and surety lines;
- Reduced share of casualty business has a favourable effect on the combined ratio;
- Run-off profits are likely from reserves constituted for US casualty business in the years 2002–2006;
- Thanks to substantially lower retrocession costs, the quality of the net premium remained virtually unchanged for 2008;
- The 2008 calendar year will profit in some areas from the hard market of previous underwriting years.

Life and health reinsurance

Further momentum is evident in *life and health reinsurance lines*: for the life and annuity lines we expect the coming years to bring significant growth, which will be particularly accentuated by our involvement in the areas of unit-linked products in German-speaking markets, bancassurance relationships in Scandinavia and Romance-speaking countries and the expansion of business in Asian markets. Enhanced annuities in the United Kingdom will continue to be a growth segment going forward, and we are gaining additional market shares through our co-operation with new providers.

Health business from the United States, on the other hand, will contract in the coming years owing to the commutation of a large treaty in the second half of 2007. Overall, then, the weighting of our portfolio will shift markedly in favour of life and annuity business.

We anticipate further healthy growth in 2008. What is more, we are looking to stable profitability in all risk categories such as mortality, morbidity, critical illness and health. Our assessment of the longevity risk is also favourable in view of the particular product specifications of our portfolio.

Investments

The expected positive cash flow that we generate ourselves from the technical account and our investments should – subject to stable exchange rates – lead to further growth in our asset portfolio. Despite the very turbulent state of the credit markets so far, we expect to further increase the income from our investments under own management. In the area of fixed-income securities we continue to stress the high quality and diversification of our portfolio. Combined with investments in equities and alternative asset categories, we should be able to generate another stable profit contribution.

Overall business outlook

Bearing in mind the market conditions in non-life and life/health reinsurance described above and our strategic orientation, we are looking forward to good financial years in both 2008 and 2009. This is subject to the premise that the burden of catastrophe losses does not significantly exceed the expected level of 10% of net premium and that there are no unforeseen adverse movements on capital markets. As for the dividend distribution, the company remains committed to a payout ratio in the range of 35% to 40% of Group net income (IFRS).

In non-life reinsurance we are so well placed as a Multi Specialist that we can continue to operate profitably even as the market progressively softens. In this business group we do not pursue any growth targets, but are instead guided exclusively by profit targets on the Group level. Our goal here is to increase the operating profit (EBIT) by at least 10% each year. In life and health reinsurance, on the other hand, we have set ourselves an annual growth target of 12%–15% for both gross premium income and the operating profit (EBIT).

Our return-on-equity target for the Group is at least 750 basis points above the risk-free interest rate; this currently stands at 11.4%.

The earnings per share constitutes another central management ratio and performance indicator for our company on the Group level: our strategic objective is to increase this key figure by a double-digit percentage margin every year.

Other information

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).

Information pursuant to § 289 Para. 4 German Commercial Code (HGB)

The share capital of the company amounts to EUR 120,597,134.00. It is divided into 120,597,134 registered no-par-value shares.

The Executive Board of the company is not aware of any restrictions relating to voting rights or the transfer of shares, including cases where these may arise out of agreements between shareholders.

The following companies hold direct or indirect capital participations that exceed 10% of the voting rights:

20.1% of the company's voting rights are held by HDI Verwaltungs-Service GmbH, Riethorst 2, 30659 Hannover. The proportion of voting rights held by Zweite HDI Beteiligungsgesellschaft mbH, Riethorst 2, 30659 Hannover, is 19.7%. Talanx AG, Riethorst 2, 30659 Hannover, holds 10.4% of the company's voting rights.

There are no shares with special rights granting their holders powers of control, nor is there any specially structured voting control for employees who have capital participations and do not directly exercise their rights of control.

The appointment and withdrawal of members of the Executive Board are determined by §§ 84 et seq. Stock Corporation Act. Amendment of the Articles of Association is governed by §§ 179 et seq. Stock Corporation Act in conjunction with § 16 Para. 2 and § 21 of the Articles of Association of Hannover Re.

The powers of the Executive Board with respect to the issue and repurchase of shares are defined in § 6 "Contingent capital" and § 7 "Authorised capital" of Hannover Re's Articles of Association as well as in §§ 71 et seq. Stock Corporation Act. In this connection the Annual General Meeting authorised the Executive Board on 3 May 2007 pursuant to § 71 Para. 1 No. 8 Stock Corporation Act to acquire treasury shares on certain conditions.

The following paragraphs explain major agreements concluded by the company that are subject to reservation in the event of a change of control following a takeover bid and describe the resulting effects.

The two syndicated guarantees extended to Hannover Re in the amount of USD 2 billion each as well as a syndicated line of credit in the amount of EUR 500 million contain standard market change-of-control clauses that entitle the participating banks to require early repayment if Talanx AG loses its majority interest or drops below the threshold of a 25 percent participation or if a third party acquires the majority interest in Hannover Rückversicherung AG.

In addition, the retrocession covers in life and non-life business known as the "K" and "L" transactions contain standard market change-of-control clauses which in each case grant the other contracting party a right of termination if a significant change occurs in the ownership structure and participation ratios of the affected contracting party.

The company has not concluded any compensation agreements with the members of the Executive Board or with employees in the event of a takeover bid being made.

Miscellaneous information

Hannover Re maintains branches in Australia, Canada, France, Hong Kong, Malaysia and Sweden.

Joint administration arrangements exist between our company and our subsidiary E+S Rückversicherung AG and extend to all functions of the two companies.

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

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

With regard to remuneration arrangements the reader is referred to the remuneration report on pages 65 et seq.

Proposal for the distribution of profits

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

Figures in EUR	Proposal for the distribution of profits
Payment of a dividend of EUR 1.80 on each eligible no-par-value share	217,074,841.20
Payment of a bonus of EUR 0.50 on each eligible no-par-value share	60,298,567.00
Profit carried forward to new account	2,626,591.80
Disposable profit	280,000,000.00

BALANCE SHEET
as at 31 December 2007

Figures in EUR thousand	2007				2006
Assets					
A. Intangible assets:					
other intangible assets				34,987	24,544
B. Investments					
I. Land and buildings, rights to land and buildings, leasehold			6,287		6,297
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies		4,094,757			4,038,479
2. Loans to affiliated companies		231,153			653,885
3. Participating interests		84,440			83,077
			4,410,350		4,775,441
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		1,922,566			1,488,935
2. Bearer debt securities and other fixed-income securities		5,342,020			5,947,418
3. Mortgages and loans secured on land and buildings		230			260
4. Other loans					
a) Registered debt securities	110,708				101,193
b) Debentures and loans	129,892				125,926
c) Sundry loans	30,000				35,113
		270,600			262,232
5. Deposits with banks		230,430			182,346
6. Other investments		29,980			33,467
			7,795,826		7,914,658
IV. Deposits with ceding companies			5,893,631		5,803,280
				18,106,094	18,499,676

Figures in EUR thousand		2007		2006
Liabilities				
A. Capital and reserves				
I. Subscribed capital		120,597		120,597
II. Capital reserve		880,608		880,608
III. Retained earnings				
1. Statutory reserve	511			511
2. Other retained earnings	584,100			584,100
		584,611		584,611
IV. Disposable profit		280,000		201,000
			1,865,816	1,786,816
B. Subordinated liabilities			500,000	500,000
C. Technical provisions				
I. Provision for unearned premiums				
1. Gross	720,557			852,890
2. Less: reinsurance ceded	159,375			188,570
		561,182		664,320
II. Life assurance provision				
1. Gross	5,490,273			5,213,848
2. Less: reinsurance ceded	1,605,693			1,777,473
		3,884,580		3,436,375
III. Provisions for outstanding claims				
1. Gross	10,751,172			11,094,785
2. Less: reinsurance ceded	2,019,813			2,280,968
		8,731,359		8,813,817
IV. Provision for bonuses and rebates				
1. Gross	671			931
2. Less: reinsurance ceded	330			569
		341		362
V. Equalisation reserve and similar provisions		1,406,493		1,715,624
VI. Other technical provisions				
1. Gross	131,661			130,224
2. Less: reinsurance ceded	22,460			22,443
		109,201		107,781
			14,693,156	14,738,279

Figures in EUR thousand		2007	2006
Assets			
C. Receivables			
I. Accounts receivable arising out of reinsurance operations	1,160,533		1,187,975
from affiliated companies:			
151,989 (2006: 196,772)			
II. Other receivables	335,952		267,593
from affiliated companies:		1,496,485	1,455,568
276,897 (2006: 203,289)			
D. Other assets			
I. Tangible assets and stocks	16,192		10,416
II. Current accounts with banks, cheques and cash in hand	125,139		91,482
		141,331	101,898
E. Prepayments and accrued income			
I. Accrued interest and rent	88,955		102,385
II. Other accrued income	1,398		2,058
		90,353	104,443
F. Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)		100,091	121,428
		19,969,341	20,307,557

Figures in EUR thousand	2007		2006
Liabilities			
D. Provisions for other risks and charges			
I. Provisions for pensions and similar obligations	43,226		34,525
II. Provisions for taxation	103,377		120,534
III. Other provisions	42,709		47,500
		189,312	202,559
E. Deposits received from retrocessionaires		1,949,352	2,353,591
F. Other liabilities			
I. Accounts payable arising out of reinsurance operations	737,837		676,398
to affiliated companies:			
244,454 (2006: 243,990)			
II. Miscellaneous liabilities	33,208		49,824
		771,045	726,222
thereof			
from taxes:			
6,651 (2006: 1,689)			
for social security:			
92 (2006: 187)			
to affiliated companies:			
21,774 (2006: 30,115)			
G. Accruals and deferred income		660	90
		19,969,341	20,307,557

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	6,652,631			7,644,587
b) Retrocession premiums	1,738,546			1,969,486
		4,914,085		5,675,101
c) Change in the gross provisions for unearned premiums	81,675			84,329
d) Change in the provisions for unearned premiums, retrocessionaires' share	(16,451)			(74,131)
		65,224		10,198
			4,979,309	5,685,299
2. Allocated investment return transferred from the non-technical account, net of retrocession			85,274	105,666
3. Other technical income, net of retrocession			210	–
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	4,030,984			4,498,169
bb) Retrocessionaires' share	1,047,516			1,893,880
		2,983,468		2,604,289
b) Change in provisions for outstanding claims				
aa) Gross	(378,309)			4,096
bb) Retrocessionaires' share	(117,133)			(885,500)
		(495,442)		(881,404)
			3,478,910	3,485,693
5. Changes in other technical provisions, net of retrocession				
a) Net life assurance provision		(403,428)		(759,788)
b) Other net technical provisions		–		34
			(403,428)	(759,754)
6. Bonuses and rebates, net of retrocession			86	212
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		1,590,285		1,681,278
Less: commissions and profit commissions received on retrocession		298,924		285,664
			1,291,361	1,395,614
8. Other technical charges, net of retrocession			2,092	4,061
9. Subtotal			(111,084)	145,631
10. Change in the equalisation reserve and similar provisions			309,131	(145,374)
11. Net technical result			198,047	257

Figures in EUR thousand		2007			2006
		1.1.–31.12.			1.1.–31.12.
Balance brought forward				198,047	257
II. Non-technical account					
1. Investment income					
a) Income from participating interest		33,023			29,838
affiliated companies:					
28,221 (2006: 27,733)					
b) Income from other investments					
affiliated companies:					
58,753 (2006: 91,134)					
aa) Income from land and buildings, rights to land and buildings, leasehold	420				4,761
bb) Income from other investments	502,920				516,387
		503,340			521,148
c) Appreciation on investments		38,430			6,819
d) Gains on the realisation of investments		132,415			169,618
e) Income from profit pools, profit and loss transfer agreements or partial profit and loss transfer agreements		185,074			184,343
			892,282		911,766
2. Investment charges					
a) Investment management charges, including interest		25,473			32,761
b) Depreciation		386,003			55,848
extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB)					
319,141 (2006: 4,270)					
c) Losses on the realisation of investments		29,608			23,242
d) Expenses from loss transfer		36			50
			441,120		111,901
			451,162		799,865
3. Allocated investment return transferred to the technical account			(124,331)		(159,461)
				326,831	640,404
4. Other income			101,026		65,530
5. Other charges			187,829		447,507
				(86,803)	(381,977)
6. Profit or loss on ordinary activities before tax				438,075	258,684

Figures in EUR thousand	2007		2006
	1.1.–31.12.		1.1.–31.12.
Balance brought forward		438,075	258,684
7. Taxes on profit and income	165,195		61,404
8. Other taxes	925		1,280
		166,120	62,684
9. Profit or loss for the financial year		271,955	196,000
10. Profit brought forward from previous year		8,045	5,000
11. Disposable profit		280,000	201,000

Valuation of assets

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

Other intangible assets were valued at acquisition cost less scheduled depreciation in accordance with the normal operational useful life.

Property was valued at the purchase or construction cost less scheduled 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 and loans to enterprises in which the company has a participating interest were valued at acquisition cost less amortisation or at the lower fair value.

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. Bearer debt securities and other fixed-income securities subject to a suprime risk were written down to the lower fair value.

Derivative instruments were valued on a mark-to-market basis.

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 acquisition cost – 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, cash in hand, 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. Low-value items were written off in the year of acquisition.

Valuation of liabilities

The provision for unearned premiums, life assurance 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 after the year following the underwriting year.

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 missing. Missing ceding company accounts with a low premium income were included in the following year. The estimated gross premium income is 17.77% of the total volume.

In the liability, motor third party liability, aviation and marine lines IBNR claims 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 contracts. 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); the 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 28 Other indemnity insurance, separate profit and loss accounts were drawn up only for 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).

The catastrophe risk provision for pharmaceutical product liability was calculated 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 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. In the case of tax expenditure which relates to the financial year or previous years under the provisions of tax law, but for which probable tax relief will arise in subsequent years, an item on the assets side was established in accordance with § 274 (2) of the Commercial Code (HBG). This relates to corporation tax based on a rate of taxation of 15%, the German reunification charge and trade tax.

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 are 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.

The declaration of conformity required pursuant to § 161 German Stock Corporation Act (AktG) regarding compliance with the German Corporate Covernance Code has been submitted and made available to the stockholders.

Notes on assets

Figures in EUR thousand	2006	2007				
Change in asset items A., B.I. to B.III.	Book values 31.12.	Additions	Disposals	Write-ups	Depreciation	Book values 31.12.
A. Intangible assets						
other intangible assets	24,544	13,351	30	–	2,878	34,987
B.I. Land and buildings, rights to land and buildings, leasehold	6,297	156	–	–	166	6,287
B.II. Investments in affiliated companies and participating interests						
1. Shares in affiliated companies	4,038,479	433,320	69,042	–	308,000	4,094,757
2. Loans to affiliated companies	653,885	49,212	471,617	–	327	231,153
3. Participating interests	83,077	–	137	1,500	–	84,440
4. Total B.II.	4,775,441	482,532	540,796	1,500	308,327	4,410,350
B.III. Other financial investments						
1. Shares, units in unit trusts and other variable-yield securities	1,488,935	1,338,731	888,236	12,813	29,677	1,922,566
2. Bearer debt securities and other fixed-income securities	5,947,418	2,133,773	2,712,505	21,085	47,751	5,342,020
3. Mortgages and loans secured on land and buildings	260	–	30	–	–	230
4. Other loans						
a) Registered debt securities	101,193	56,860	47,345	–	–	110,708
b) Debentures and loans	125,926	40,000	36,034	–	–	129,892
c) Sundry loans	35,113	–	5,113	–	–	30,000
5. Deposits with banks	182,346	102,143	54,059	–	–	230,430
6. Other	33,467	9	3,496	–	–	29,980
7. Total B.III.	7,914,658	3,671,516	3,746,818	33,898	77,428	7,795,826
Sum total	12,720,940	4,167,555	4,287,644	35,398	388,799	12,247,450

Land and buildings and rights to land and buildings

On 31 December 2007 the company had at its disposal three developed properties with business and other buildings in Hannover, Bremen and near Paris as well as one floor of offices in Madrid. The book value of the floor of offices in Madrid amounted to EUR 870 thousand as at 31 December 2007. In addition, the company had shares in land without buildings in Hannover. The book value of the buildings on Roderbruchstraße in Hannover totalled EUR 1,526 thousand as at 31 December 2007.

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.

2007

Name and registered office of the company Figures in currency units of 1,000	Participation (in %)	Capital and reserves (§ 266 (3) Commercial Code)		Result for the last financial year	
Shares in affiliated companies					
Companies resident in Germany					
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany	100.0	EUR	2,618,749	EUR	–
holds 63,78% of the shares in:					
E+S Rückversicherung AG, Hannover/Germany		EUR	600,281	EUR	180,000
holds 50.00% of the shares in:					
GbR Hannover Rückversicherung AG/ E+S Rückversicherung AG Grundstücksgesellschaft, Hannover/Germany		EUR	60,494	EUR	727
holds 20.00% of the shares in:					
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany[1]		EUR	77,906	EUR	6,293
holds 100.00% of the shares in:					
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda		EUR	968,000	EUR	138,652
holds 100.00% of the shares in:					
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland		EUR	443,732	EUR	9,188
holds 95.00% of the shares in:					
Hannover ReTakaful B.S.C. (c) Manama/Bahrain		BHD	20,103	BHD	103

2007					
Name and registered office of the company Figures in currency units of 1,000	**Participation (in %)**	**Capital and reserves (§ 266 (3) Commercial Code)**		**Result for the last financial year**	
Zweite Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany	100.00	EUR	500,000	EUR	–
holds 100.00% of the shares in:					
Hannover Life Reassurance (Ireland) Limited, Dublin/Ireland		EUR	278,346	EUR	38,686
holds 100.00% of the shares in:					
Hannover Life Reassurance Company of America, Orlando/USA		USD	136,570	USD	30,319
holds 100.00% of the shares in:					
Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda		EUR	120,150	EUR	876
GbR Hannover Rückversicherung AG/ E+S Rückversicherung AG Grundstücksgesellschaft, Hannover/Germany	50.00	EUR	60,494	EUR	727
Oval Office Grundstücks GmbH Hannover/Germany	50.00	EUR	59,209	EUR	1,154
Companies resident abroad					
Hannover Finance (Luxembourg), S.A., Luxembourg/Luxembourg	100.00	EUR	49,677	EUR	(33,267)
Hannover Finance (UK) Limited, Virginia Water/United Kingdom	100.00	GBP	131,129	GBP	(10)
holds 100.00% of the shares in:					
Hannover Life Reassurance (UK) Limited, Virginia Water/United Kingdom		GBP	48,233	GBP	9,595
holds 100.00% of the shares in:					
Hannover Services (UK) Ltd., Virginia Water/United Kingdom		GBP	749	GBP	4
holds 100.00% of the shares in:					
International Insurance Company of Hannover Ltd., Bracknell/Großbritannien		GBP	96,988	GBP	920
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesbourg/South Africa	100.00	ZAR	182,048	ZAR	125,191
holds 100.00% of the shares in:					
Hannover Life Reassurance Africa Limited, Johannesbourg/South Africa		ZAR	160,212	ZAR	57,465
holds 100.00% of the shares in:					
Hannover Reinsurance Africa Limited, Johannesbourg/South Africa		ZAR	558,234	ZAR	114,117
holds 100.00% of the shares in:					
Compass Insurance Company Limited, Johannesbourg/South Africa		ZAR	91,251	ZAR	27,120
holds 51.00% of the shares in:					
Lireas Holdings (Pty) Ltd., Johannesbourg/South Africa		ZAR	113,961	ZAR	33,584

2007 Name and registered office of the company Figures in currency units of 1,000	Participation (in %)	Capital and reserves (§ 266 (3) Commercial Code)		Result for the last financial year	
Hannover Re Real Estate Holdings, Inc., Orlando/USA	86.51	USD	111,641	USD	5,338
Hannover Life Re of Australasia Ltd, Sydney/Australia	100.00	AUD	168,515	AUD	28,040
Hannover Finance, Inc., Wilmington/USA	100.00	USD	484,733	USD	(140,873)
holds 100.00% of the shares in:					
Clarendon Insurance Group, Inc., Wilmington/USA		USD	207,859	USD	(190,009)
holds 100.00% of the shares in:					
Clarendon National Insurance Company, Trenton/USA		USD	204,154	USD	(189,914)
holds 100.00% of the shares in:					
Clarendon America Insurance Company, Trenton/USA		USD	171,027	USD	(6,447)
Clarendon Select Insurance Company, Tallahassee/USA		USD	15,399	USD	(38)
Harbor Specialty Insurance Company, Trenton/USA		USD	32,296	USD	(5,980)
Kaith Re Ltd., Hamilton/Bermuda	88.00	USD	291	USD	(443)
Hannover ReTakaful B.S.C. (c) Manama/Bahrain	5.00	BHD	20,103	BHD	103
Participations					
ITAS Vita S.p.A., Trento/Italy	34.88	EUR	63,472	EUR	(556)
ITAS Assicurazioni S.p.A., Trento/Italy	43.74	EUR	56,960	EUR	65
HANNOVER Finanz GmbH, Beteiligungen und Kapitalanlagen, Hannover/Germany [1]	25.00	EUR	77,255	EUR	7,634
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany [1]	20.00	EUR	77,906	EUR	6,293

[1] *Financial year ending 31 December 2006*

Other notes on investments

Assets with a balance sheet value of EUR 3,084,940 (2006: 3,192,527) thousand were blocked as security for ceding companies. Security deposits were sometimes made available within the year to banks for security loan transactions in favour of third parties. A guarantee fund of EUR 649 thousand has been established to secure commitments under partial retirement arrangements.

Fair values pursuant to § 54 RechVersV

The fair values of land and buildings for 2007 were determined using the gross rental method. In individual cases book values were used.

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

Shares, units in unit trusts, bearer debt securities and other securities were valued at market value. In the case of special investments for which no stock exchange price was available, valuation was made at cost of acquisition or net asset value (NAV).

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 reported at nominal values and in individual cases at book value.

Figures in EUR thousand	2007		
Fair values pursuant to § 54 RechVersV of asset items B.I. to B.III.	**Book value 31.12.**	**Fair value 31.12.**	**Difference 31.12.**
B.I. Land and buildings, rights to land and buildings, leasehold	6,287	8,936	2,649
B.II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	4,094,757	4,870,410	775,653
2. Loans to affiliated companies	231,153	231,153	–
3. Participating interests	84,440	108,750	24,310
4. Total B.II.	4,410,350	5,210,313	799,963
B.III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	1,922,566	2,108,141	185,575
2. Bearer debt securities and other fixed-income securities	5,342,020	5,434,578	92,558
3. Mortgages and loans secured on land and buildings	230	230	–
4. Other loans			
a) Registered debt securities	110,708	112,646	1,938
b) Debentures and loans	129,892	126,755	(3,137)
c) Sundry loans	30,000	29,536	(464)
5. Deposits with banks	230,430	230,430	–
6. Other investments	29,980	37,250	7,270
7. Total B.III.	7,795,826	8,079,566	283,740
Total	12,212,463	13,298,815	1,086,352

Other receivables

Figures in EUR thousand	2007	2006
Receivables from affiliated companies	276,897	203,289
Receivables from reinsured pension schemes	29,360	26,981
Receivables from the revenue authorities	22,201	29,736
Claims from settlement of the purchase price of a participation	3,870	4,321
Receivables from representative offices	1,097	1,016
Interest and rent due	683	517
Other receivables	1,844	1,733
Total	335,952	267,593

Treasury shares

By a resolution of the Annual General Meeting of Hannover Rückversicherung AG adopted on 3 May 2007, the company was authorised until 31 October 2008 to acquire treasury shares of up to 10% of the capital stock existing on the date of the resolution. The company did not hold fully paid, no-par-value treasury shares within the financial year just-ended or as at 31 December 2007.

Accruals and deferred income

Figures in EUR thousand	2007	2006
Accrued interest and rent	88,955	102,385
Accrued administrative expenses	942	1,545
Deferred premium on bonds	319	278
Other	137	235
Total	90,353	104,443

Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)

A deferred item was established in the financial year for the probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB) in the amount of EUR 100,091 (121,428) thousand. Of this amount, EUR 49,615 (EUR 64,864) thousand was attributable to corporation tax including the German reunification charge and EUR 50,476 (56,564) thousand to trade tax.

Notes on liabilities

Subscribed capital

The company's subscribed capital remained unchanged as at 31 December 2007 in the amount of EUR 120,597 thousand. It is divided into 120,597,134 no-par-value registered shares.

Authorised capital of up to EUR 60,299 thousand is available with a time limit of 31 May 2009. Of this amount, up to EUR 1,000 thousand may be used to issue employee shares.

In addition, contingent capital of EUR 60,299 thousand is available. It can be used to grant shares to holders of convertible bonds and bonds with warrants as well as to convert participating bonds or profit-sharing rights. This contingent capital has a term until 11 May 2011.

Capital reserve

The company's capital reserve remained unchanged as at 31 December 2007 in the amount of EUR 880,608 thousand.

Subordinated liabilities

Under a loan agreement dated 7 June 2005 Hannover Finance (Luxembourg) S.A. granted Hannover Re a junior loan of EUR 500,000 thousand at an interest rate of 5.11% and with a term until 27 May 2015.

Provision for unearned premiums

Figures in EUR thousand	2007		2006	
Insurance line	gross	net	gross	net
Fire	130,016	97,476	143,787	105,666
Casualty	171,188	140,864	236,297	201,092
Accident	17,586	14,996	11,850	9,776
Motor	40,413	30,414	93,199	77,154
Aviation	92,027	72,518	126,085	99,664
Life	67,229	52,955	59,938	40,124
Other lines	202,098	151,959	181,734	130,844
Total	720,557	561,182	852,890	664,320

Life assurance provisions

Figures in EUR thousand	2007		2006	
Insurance line	gross	net	gross	net
Accident	3,637	3,118	1,802	1,767
Life	5,458,993	3,858,391	5,181,635	3,407,983
Other lines	27,643	23,071	30,411	26,625
Total	5,490,273	3,884,580	5,213,848	3,436,375

Provisions for outstanding claims

Figures in EUR thousand	2007		2006	
Insurance line	gross	net	gross	net
Outstanding loss reserve				
Fire	1,113,511	961,298	1,309,537	1,098,334
Casualty	4,040,560	3,341,791	4,089,453	3,232,175
Accident	149,720	133,046	134,539	112,360
Motor	1,587,107	1,330,157	1,581,778	1,331,419
Aviation	895,424	608,430	866,402	591,766
Marine	801,869	574,532	965,249	705,211
Life	757,768	650,920	585,077	475,065
Other lines	1,390,583	1,094,698	1,550,323	1,211,246
	10,736,542	8,694,872	11,082,358	8,757,576
Separate value adjustment on retrocessions	–	22,448	–	44,301
	10,736,542	8,717,320	11,082,358	8,801,877
Provision for annuities				
Casualty	1,207	1,116	855	771
Accident	3,590	3,580	3,042	3,032
Motor	9,833	9,343	8,530	8,137
	14,630	14,039	12,427	11,940
Total	10,751,172	8,731,359	11,094,785	8,813,817

Equalisation reserve and similar provisions

Figures in EUR thousand	2007			
Insurance line	Position at 1.1.	Addition	Withdrawal and release	Position at 31.12.
Equalisation reserve				
Fire	162,897	33,565	540	195,922
Casualty	530,985	–	114,193	416,792
Accident	67,671	–	2,004	65,667
Motor	222,493	–	47,697	174,796
Aviation	204,943	–	76,603	128,340
Other lines	416,753	67,998	170,865	313,886
	1,605,742	101,563	411,902	1,295,403
Provisions which are similar to the equalisation reserve – major risks –				
Fire	56,716	993	–	57,709
Casualty	15,211	3,553	–	18,764
Accident	314	95	–	409
Motor	46	12	–	58
Marine	4,425	1,182	–	5,607
Other lines	33,170	2	4,629	28,543
Total	1,715,624	107,400	416,531	1,406,493

Other technical provisions

Figures in EUR thousand	2007		2006	
Type of provisions	gross	net	gross	net
Profit commission	131,391	108,856	128,525	106,449
Commission	263	338	1,692	1,325
Road accident victims' assistance	7	7	7	7
Total	131,661	109,201	130,224	107,781

Technical provisions – total

Figures in EUR thousand	2007		2006	
Insurance line	gross	net	gross	net
Fire	1,514,968	1,326,946	1,691,611	1,438,781
Casualty	4,718,295	3,976,635	4,941,860	4,037,056
Accident	241,551	221,593	219,599	195,256
Motor	1,820,590	1,551,619	1,913,280	1,645,174
Aviation	1,121,950	814,092	1,204,312	901,310
Marine	814,431	585,722	975,848	714,600
Life	6,287,469	4,565,065	5,829,201	3,925,288
Other lines	1,981,573	1,629,036	2,232,591	1,836,513
	18,500,827	14,670,708	19,008,302	14,693,978
Separate value adjustment on retrocessions	–	22,448	–	44,301
Total	18,500,827	14,693,156	19,008,302	14,738,279

Provisions for other risks and charges

Figures in EUR thousand	2007	2006
Provisions for pension and similar liabilities	43,226	34,525
Provision for taxation	103,377	120,534
Sundry provisions		
Provisions for outstanding payments	11,729	10,962
Provisions for currency risks	9,090	8,080
Provisions for partial retirement	2,928	2,768
Provisions for annual accounts costs	2,489	2,511
Provision for suppliers' invoices	1,392	742
Provisions for costs of legal action	923	215
Provisions for ligitation risks	297	297
Provisions for interest and similar charges	–	12,875
Other provisions	13,861	9,050
	42,709	47,500
Total	189,312	202,559

Miscellaneous liabilities

Figures in EUR thousand	2007	2006
Accounts due to affiliated companies	21,774	30,115
Liabilities in respect of the revenue authorities	6,651	1,689
Liabilities in respect of permanent establishments	1,547	10,406
Liabilities from deliveries and services	1,088	2,426
Liabilities from interest and LOC	981	1,526
Liabilities from option premiums	928	3,182
Liabilities from outstanding social security contributions	92	187
Other liabilities	147	293
Total	33,208	49,824

Deferred items

Figures in EUR thousand	2007	2006
Disagio	660	52
Other accruals and deferred income	–	38
Total	660	90

Notes on the profit and loss account

Figures in EUR thousand	2007	2006	2007	2006	2007	2006	2007	2006
	Gross written premium		Gross premium earned		Net premium earned		Technical result for own account	
Fire	701,193	820,177	705,897	856,548	511,468	624,330	8,377	(5,049)
Casualty	717,941	1,062,137	769,206	1,098,392	632,570	911,040	(25,672)	(54,083)
Accident	151,252	137,294	145,156	136,556	123,044	115,925	12,357	1,462
Motor	470,248	611,880	519,329	620,374	404,516	493,832	(28,868)	(51,589)
Aviation	315,622	385,912	339,565	394,525	205,451	251,913	65,317	74,274
Marine	396,736	424,822	396,736	424,822	190,598	203,105	(68,943)	(170,873)
Other lines	1,737,734	1,866,631	1,705,789	1,866,033	1,278,860	1,373,867	171,424	131,594
Total property and casualty	4,490,726	5,308,853	4,581,678	5,397,250	3,346,507	3,974,012	133,992	(74,264)
Life	2,161,905	2,335,734	2,152,628	2,331,666	1,632,802	1,711,287	64,055	74,521
Total insurance business	6,652,631	7,644,587	6,734,306	7,728,916	4,979,309	5,685,299	198,047	257

Total insurance business

Figures in EUR thousand	2007	2006
Gross claims incurred	4,409,293	4,494,073
Gross operating expenses	1,590,285	1,681,278
Reinsurance balance	525,690	749,573

Expenses for personnel

Figures in EUR thousand	2007	2006
1. Wages and salaries	44,192	41,493
2. Social security payments and expenses for welfare	6,502	6,261
3. Expenses for old-age pension scheme	7,398	1,396
4. Total expenses	58,092	49,150

Expenses for investments

Figures in EUR thousand	2007	2006
Shares in affiliated companies and participations as well as loans to affiliated companies and enterprises in which the company has a participating interest	308,366	2,933
Fixed-income securities	62,594	33,415
Shares, units in unit trusts, participating interests	42,099	8,348
Administrative expenses	15,389	13,249
Deposit and bank fees	10,084	4,285
Futures and options contracts	2,252	4,101
Land and buildings	166	4,070
Deposits	83	26,223
Loss transfer	36	50
Registered bonds and other loans	51	–
Separate value adjustment on interest receivable	–	15,227
Total	441,120	111,901

Other income

Figures in EUR thousand	2007	2006
Separate value adjustment on accounts receivable and retrocessions	48,778	11,923
Exchange rate gains	19,552	18,916
Release of non-technical provisions	13,921	2,359
Payment for renewal rights	7,819	–
Profit from services	5,008	6,054
Allocated investment return	2,849	3,283
Profit from clearing transactions	1,032	550
Reimbursement of expenses	1,011	419
Amounts realised	42	30
Income from contracts with limited risk	–	20,891
Other income	1,014	1,105
Total	101,026	65,530

Other expenses

Figures in EUR thousand	2007	2006
Deposit interest	51,186	69,219
Interest pursuant to § 233a AO (Fiscal Code)	48,274	1,475
Separate value adjustment on accounts receivable and retrocessions	30,840	68,478
Exchange rate losses	27,352	29,473
Financing interest	26,044	26,226
Expenses for the whole company	17,595	17,605
Expenses from a guarantee	9,106	–
Expenses from services	4,761	6,047
Financing charges	3,770	–
Expenses for letters of credit	3,687	5,851
Interest charges on old-age pension scheme	1,787	1,942
Interest charges from reinsurance transactions	229	393
Separate value adjustment on other receivables	–	24,678
Expenses from contracts with limited risk	–	247,973
Other interest and expenses	2,254	1,942
	226,885	501,302
Less: Technical interest	39,056	53,795
Total	187,829	447,507

Other information

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

Of the units in unit trusts totalling EUR 1,381,256 (2006: 1,254,510) thousand shown under the "Other investments" in the item "Shares, units in unit trusts and other variable-yield securities", an amount of EUR 828,453 (716,882) thousand was allocated to fixed assets. The fair value amounts to EUR 940,591 (868,240) thousand. Based on the assumption that the impairments will not be permanent, write-downs of EUR 3,495 (2,441) thousand were not taken on a portfolio with a book value of EUR 51,119 (51,984) thousand.

Of the bearer debt securities and other fixed-income securities, securities with a book value of EUR 1,981,662 (2,556,161) thousand and a fair value of EUR 2,030,701 (2,526,162) thousand were allocated to fixed assets. Write-downs of EUR 4,238 (34,903) thousand were not taken on a portfolio with a book value of EUR 391,450 (2,282,644) 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.

Of the total fees paid to the auditor, EUR 857 (769) thousand related to the audit of the financial statements, EUR 142 (267) thousand to tax consulting and EUR 105 (83) thousand to other services.

Lawsuits

In connection with the acquisition of Lion Insurance Company, Trenton/USA, by Hannover Finance, Inc., Wilmington/USA – a subsidiary of Hannover Re –, a legal dispute exists with the former owners of Lion Insurance Company regarding the release of a portion of the purchase price at that time which is held in trust as well as a commitment to pay further portions of the purchase price and incentive compensation under management contracts. There is also a legal dispute regarding the release of a trust account that serves as security for liabilities of the previous owners in connection with a particular business segment.

With the exception of the aforementioned proceedings, no significant court cases were pending during the year under review or as at the balance sheet date – with the exception of proceedings within the scope of ordinary insurance and reinsurance business activities.

Contingent liabilities and commitments

Hannover Re has secured by subordinated guarantee a subordinated debt in the amount of USD 400.0 million issued in the 1999 financial year by Hannover Finance, Inc., Wilmington/USA. In February 2004 and May 2005 we bought back portions of the subordinated debt in an amount of altogether USD 380.0 million, leaving USD 20.0 million still secured by the guarantee. Effective 4 June 2007, the date of payment, the issuer repurchased the debt in an amount of USD 380.0 million from Hannover Re for the purpose of cancellation. This portion of the debt was cancelled as at 17 July 2007.

Hannover Re has placed three subordinated debts on the European capital markets through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured by subordinated guarantee both the debt issued in 2001, the volume of which now stands at EUR 138.1 million, and the debts from financial years 2004 and 2005 in amounts of EUR 750.0 million and EUR 500.0 million respectively.

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

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

As security for technical liabilities to our US clients, we have established a master trust in the USA. As at the balance sheet date this master trust amounted to EUR 2,083.3 million (EUR 2,238.8 million). The securities held in the master trust are shown as available-for-sale investments. The substantial decrease was entirely attributable to movements in exchange rates.

As security for technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount of the letters of credit, which also provide security for subsidiaries, was EUR 2,092.4 million as at the balance sheet date.

Outstanding capital commitments with respect to special investments and shares in affiliated companies exist in the amount of EUR 195.8 million (EUR 155.0 million).

Within the scope of a novation agreement regarding a life insurance contract we assumed contingent reinsurance commitments with respect to due date and amount. The financing phase was terminated effective 31 December 2004 as per the agreement. The level of Hannover Re's liability as at the date of novation (31 December 2011) in relation to future balance sheet dates may change due to fluctuations in the EURIBOR and discrepancies between the actual settlements and the projections. The estimated amount of the reinsurance commitments as at the balance sheet date was EUR 10.3 million (EUR 33.4 million). The decrease of EUR 23.1 million in the reinsurance commitment compared to the previous year resulted from the considerably more favourable run-off of the business than anticipated.

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.

Miscellaneous information

The names of the members of the Supervisory Board and Executive Board are listed on pages 1 to 6.

The average number of employees was 656 in the financial year.

HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover, holds a majority interest in our company through the subsidiaries Talanx AG, HDI Verwaltungs-Service GmbH and Zweite HDI Beteiligungsgesellschaft mbH, all based in Hannover.

Talanx AG, Hannover, and HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover, include our financial statements in their consolidated financial statements, which are deposited in the electronic company register.

Events after the balance sheet date

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

Effective 1 January 2008 the company name of Hannover Rückversicherung AG Succursale Française pour la Réassurance Vie, a branch of Hannover Re, was changed to Hannover Rückversicherung AG Succursale Française and the object of its business was expanded to include non-life reinsurance activities for the markets of France, Belgium and Luxembourg. The service company Hannover Re Gestion de Réassurance France S.A. was also merged into the new composite branch with effect from the same date.

Effective 1 January 2008 we increased the volume of the "K5" risk transaction by a further USD 10.0 million to USD 540.0 million.

We anticipate a burden of losses in the range of EUR 7 to 9 million from the snowstorms in China in January and February 2008.

In a press release dated 7 January 2008 we announced our intention to establish a branch office for life and health reinsurance in South Korea in June 2008. The Korean insurance regulator has already issued a provisional licence for the Seoul-based branch.

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

Remuneration report

The remuneration report summarises the principles used to determine the remuneration of the Executive Board of Hannover Re and explains the structure and amount of the income received by the Executive Board in the 2007 financial year. In addition, the amount of the remuneration paid to the Supervisory Board and the principles according to which this remuneration is determined are explained.

The remuneration report is based on the recommendations of the German Corporate Governance Code and contains information which forms part of the notes pursuant to § 285 of the Commercial Code (HGB). Consequently, we have not provided any further explanation of the information discussed in the remuneration report in the management report or the notes.

Remuneration of the Executive Board

Responsibility
The Supervisory Board has delegated responsibility for determination of the structure and amount of the remuneration paid to Hannover Re's Executive Board to the Standing Committee.

Objective
The purpose of the remuneration system for the Executive Board is to appropriately recompense the members of the Executive Board according to their scope of activity and responsibility. In this context, a large variable portion of the total remuneration makes direct allowance for the joint and individual performance of the Executive Board as well as for the performance of the company.

Structure of the remuneration received by the Executive Board
With this objective in mind, the remuneration system consists of three components: fixed emoluments, a variable bonus as well as a share-based remuneration component based on a virtual stock option plan with a long-term incentive effect and risk elements.

The fixed emoluments, paid in twelve monthly instalments, are guided by the professional experience and area of responsibility of the Board member in question.

The variable bonus is cash compensation measured by the performance in the financial year; half is based on the individual Board member's profit contribution and half on the net income generated by the Group as a whole.

The members of the Executive Board are entitled to receive stock appreciation rights under the virtual stock option plan implemented in 2000 for certain members of the Group's management.

The content of the stock option plan is based solely on the Conditions for the Granting of Stock Appreciation Rights. Under these conditions, stock appreciation rights are awarded separately for each financial year provided the internal and external performance criteria defined in advance by the Supervisory Board are met.

The internal performance criterion is satisfied upon achievement of the target diluted earnings per share (EPS). The external performance criterion is the increase in the value of the Hannover Re share. The benchmark used to measure this increase in value is the weighted ABN Amro Rothschild Global Reinsurance Index. The benchmarks cannot be retrospectively altered.

Exercise of the stock appreciation rights does not give rise to any entitlement to the delivery of Hannover Re stock, but merely to payment of a cash amount linked to the performance of the Hannover Re share. The amount paid out is limited to a maximum calculated as a quotient of the total volume of compensation to be granted in the allocation year and the total number of stock appreciation rights awarded in the year in question.

Amount of remuneration received by the Executive Board
The total remuneration received by the Executive Board of Hannover Re is calculated from the sum of all compensation accruing in cash as well as in pecuniary advantages from non-cash compensation. It can be broken down as follows in the year under review:

Total remuneration received by the Executive Board

Figures in EUR thousand	2007	2006
Compensation in cash		
Fixed emoluments	1,246.5	1,210.2
Variable bonuses for the previous year	1,560.1	1,022.6
Remuneration from Group companies netted with the bonus	102.0	93.8
(Stock appreciation rights awarded	838.5	–)
Stock appreciation rights exercised	303.7	729.0
	3,212.3	3,055.6
Taxable amount from non-cash compensation	59.4	57.3
Total	3,271.7	3,112.9

In the 2007 financial year stock appreciation rights totalling EUR 0.8 million (previous year: none) were granted for the 2006 allocation year; stock appreciation rights granted in previous years were exercised in an amount of EUR 0.3 million (EUR 0.7 million).

As at 31 December 2007 the members of the Executive Board had at their disposal a total of 223,611 (121,012) granted, but not yet exercised stock appreciation rights with a fair value of EUR 1.5 million (EUR 1.0 million).

The Annual General Meeting of Hannover Re held on 12 May 2006 resolved by a voting majority of 85.5% to avail itself until 31 December 2010 of the option contained in the Act on the Disclosure of Management Remuneration (VorstOG) not to specify the remuneration of the Executive Board on an individualised basis by name for a period of at most five years from the date when the resolution is adopted.

Retirement provision

The pension agreements of the members of the Executive Board with Hannover Re contain commitments to an annual retirement pension calculated as a percentage of the fixed annual emoluments. There were seven individual commitments to the active Board members in the year under review. An amount of EUR 1.5 million was allocated to the provision for pensions in the year under review. This includes the allocation to the employee-funded provision constituted from deferred compensation – an allocation that was made from the variable bonus for the previous year. The provision for pensions stood at EUR 6.3 million (EUR 4.8 million) as at 31 December 2007.

The remuneration paid to former members of the Executive Board and their surviving dependants totalled EUR 0.6 million (EUR 0.5 million) in the year under review. Altogether, an amount of EUR 6.5 million (EUR 6.0 million) has been set aside for these commitments.

Sideline activities of the members of the Executive Board

The members of the Executive Board require the approval of the Supervisory Board to take on sideline activities. This ensures that neither the remuneration granted nor the time required for this activity can create a conflict with their responsibilities on the Executive Board. If the sideline activities involve seats on supervisory boards or comparable control boards, these are listed and published in the Annual Report of Hannover Re. The remuneration received for supervisory board seats at Group companies is deducted when calculating the variable bonus and shown separately in the above table.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is determined by the Annual General Meeting of Hannover Re and regulated by the Articles of Association.

In accordance with § 12 of the Articles of Association as amended on 3 August 2007, the members of the Supervisory Board receive fixed annual remuneration of EUR 10,000 per member in addition to reimbursement of their expenses. Furthermore, each member of the Supervisory Board receives variable remuneration of 0.03‰ of the operating profit (EBIT) reported by the company in the consolidated financial statement drawn up in accordance with International Financial Reporting Standards (IFRS). Variable remuneration is not paid if the EBIT is negative.

In addition, the members of the Balance Sheet Committee formed by the Supervisory Board receive an emolument of 30% of the previously described fixed and variable remuneration for their committee work. The members of the Standing Committee formed by the Supervisory Board receive an additional emolument of 15% of the previously described fixed and variable remuneration for their committee work.

The Chairman of the Supervisory Board or of a Committee receives three times the aforementioned amounts, while a Deputy Chairman receives one-and-a-half times the said amounts.

No remuneration was approved for the members of the Nomination Committee that was set up in the year under review.

The remuneration for a financial year is due upon completion of the Annual General Meeting that ratifies the acts of the Supervisory Board for the financial year in question. Value-added tax payable upon the remuneration is reimbursed by the company.

Individual remuneration received by the members of the Supervisory Board in the year under review

Figures in EUR thousand		2007
Name	**Function**	
Wolf-Dieter Baumgartl	Chairman of the – Supervisory Board – Standing Committee – Balance Sheet Committee – Nomination Committee	185.6
Dr. Klaus Sturany	Deputy Chairman of the Supervisory Board (since 3 May 2007) Member of the Standing Committee	49.7
Dr. Paul Wieandt	Deputy Chairman of the Supervisory Board (until 20 March 2007)	74.1
Herbert K. Haas	Member of the – Supervisory Board – Standing Committee – Balance Sheet Committee – Nomination Committee	66.2
Karl Heinz Midunsky	Member of the – Supervisory Board – Nomination Committee	43.6
Dr. Erhard Schipporeit	Member of the – Supervisory Board (since 3 May 2007) – Balance Sheet Committee	3.6
Dr. Immo Querner	Member of the Supervisory Board	23.6
Ass. jur. Otto Müller*	Member of the Supervisory Board	43.6
Ass. jur. Renate Schaper-Stewart*	Member of the Supervisory Board (until 2 May 2007)	42.4
Dipl.-Ing. Hans-Günter Siegerist*	Member of the Supervisory Board (until 2 May 2007)	35.7
Uwe Kramp*	Member of the Supervisory Board (since 3 May 2007)	1.2
Gert Waechtler*	Member of the Supervisory Board (since 3 May 2007)	1.2
Total		570.5

* *Employee representatives*

All the members of the Supervisory Board receive an attendance allowance of EUR 500 for their participation in each meeting of the Supervisory Board and the Committees. These fees are included in the reported remuneration.

In the year under review no payments or benefits were granted to members of the Supervisory Board in return for services provided individually outside the committee work described above, including for example consulting or mediation services, with the exception of the remuneration paid to employee representatives on the basis of their employment contracts.

Loans to members of the management boards and contingent liabilities

In order to avoid potential conflicts of interest, Hannover Re may only grant loans to members of the Executive Board or the Supervisory Board or their dependants with the approval of the Supervisory Board.

In 2007 no loan relationships existed with members of Hannover Re's Executive Board or Supervisory Board, nor did the company enter into any contingent liabilities for members of the management boards.

Securities transactions and shareholdings (directors' dealings)

Dealings in shares, options and derivatives of Hannover Rückversicherung AG effected by members of the Executive Board or Supervisory Board of Hannover Re or by other persons with managerial functions who regularly have access to insider information concerning the company and who are authorised to take major business decisions – as well as such dealings conducted by certain persons closely related to the aforementioned individuals – in excess of EUR 5,000 are to be reported pursuant to § 15a Securities Trading Act (WpHG). The following reportable transactions took place in the 2007 financial year:

Security transactions

Name	Type of transaction	Type of security	ISIN	Transaction date	Number of securities	Price in EUR
André Arrago	Purchase	Share	DE 000 8402215	20.11.2007	5,000	30.95
André Arrago	Purchase	Share	DE 000 8402215	21.11.2007	10,000	30.40

Members of the Supervisory Board and Executive Board of Hannover Re as well as their spouses or registered partners and first-degree relatives hold less than 1.0% of the issued shares. As at 31 December 2007 the total holding amounted to 0.031% (0.024%) of the issued shares, i.e. 37,096 (29,110) shares.

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Hannover, 5 March 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 Hannover 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, 6 March 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Dahl	Schuster
Wirtschaftsprüfer	Wirtschaftsprüfer

REPORT OF THE SUPERVISORY BOARD
of Hannover 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 and its major subsidiaries. We advised the Executive Board on the direction of the company and monitored the management of business on the basis of written and verbal reports from the Executive Board. The Supervisory Board held five meetings in order to adopt the necessary resolutions after appropriate discussion. Resolutions were adopted by a written procedure with respect to three 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 and the Group pursuant to § 90 German Stock Corporation Act. Purely on the basis of the company's economic position no audit measures pursuant to § 111 Para. 2 German Stock Corporation Act were required in the 2007 financial year. The reports provided by the Executive Board contain, inter alia, up-to-date details of the current planned and expected figures for the individual business groups. The reporting also covers strains from major losses as well as the investment portfolio, investment income, the ratings of the various Group companies and the development of the Group's global workforce. The quarterly reports with the quarterly financial statements and key figures for the Hannover Re Group constituted a further important source of information for the Supervisory Board. We received an analysis of the 2006 results in non-life and life/health reinsurance as well as a presentation from the Executive Board covering the profit expectations for the 2007 financial year and the operational planning for the 2008 financial year. In addition, the Chairman of the Supervisory Board was constantly advised by the Chairman of the Executive Board of major developments and impending decisions as well as of the risk situation within the company and the Group. All in all, we were involved in decisions taken by the Executive Board and assured ourselves of the lawfulness, regularity and efficiency of the company's management as required by our statutory responsibilities and those placed upon us by the company's Articles of Association.

Key points of deliberation

As part of its discussion of important individual projects the Supervisory Board considered, inter alia, the acquisition by Hannover Rück Beteiligung Verwaltungs-GmbH (HRBV) of the 10 percent interest held by CiV Lebensversicherung AG in E+S Rückversicherung AG and the subsequent sale of a 2 percent interest held by HRBV in E+S Rückversicherung to WGV Holding AG. In addition, we gave our consent to the purchase of the 50 percent stake previously held by E+S Rückversicherung AG in Hannover Life Re of Australasia Ltd. The Supervisory Board also approved the establishment of a life reinsurance company in Bermuda with a capitalisation of EUR 120 million. Furthermore, we closely examined the issue of "insurance-linked securities", a concept for the securitisation of insurance risks that is currently attracting considerable attention as an alternative to traditional retrocession in the context of the risk management of catastrophe risks. Additionally, we were briefed by the Executive Board on the relevance of Solvency II and the EU Reinsurance Directive to Hannover Re. Questions relating to business tax reform in Germany and the crisis on the US mortgage market were also explored at length. In this connection the Executive Board explained that Hannover Re is scarcely affected by this crisis.

Committees of the Supervisory Board

Of the committees formed by the Supervisory Board within the meaning of § 107 Para. 3 German Stock Corporation Act, the Balance Sheet Committee met four times and the Standing Committee met on three occasions. The Chairman of the Supervisory Board updated the full Supervisory Board on the committees' major deliberations at the next meeting.

The Balance Sheet Committee considered inter alia the consolidated financial statement drawn up in accordance with IFRS and the individual financial statement of the parent company Hannover Re drawn up in accordance with the German Commercial Code (HGB) and discussed with the auditors the reports submitted by the independent auditor on these financial statements. In addition, an expert opinion on the adequacy of the loss reserves in non-life reinsurance was reviewed and the accumulated prefinancing volume in life reinsurance was discussed. The risk report pursuant to the Act on Control and Transparency in Business (KonTraG) and the report on compliance with Corporate Governance principles were received and discussed. Furthermore, the Committee examined the balance sheet treatment of certain reinsurance contracts in the commercial-law annual financial statements for the years 2001 to 2005, to which the Federal Financial Supervisory Authority (BaFin) had objected, and for the purpose of clarification obtained an expert opinion from a major international accountancy firm that had not previously examined the transactions. In its opinion the latter concludes that no compulsory accounting rules were violated by the balance sheet treatment. The investment structure and investment income – including stress tests with regard to the investments and their implications for net income and the equity base –, the criteria used for equity allocation within the Group and a comparison of target returns with the actual returns delivered by the individual business groups constituted further key areas of deliberation.

The Standing Committee determined the performance bonuses of the members of the Executive Board for the 2006 financial year and the overall number of stock participation rights to be awarded to the Executive Board. The basic number of stock participation rights for the 2007 financial year was defined. In addition, with an eye to the reappointment of members of the Executive Board recommendations were drawn up for the full Supervisory Board and the medium- and long-term personnel planning for the Executive Board were discussed.

Corporate Governance

The Supervisory Board again devoted considerable attention to the issue of Corporate Governance. The findings of an efficiency audit of the Supervisory Board's work conducted in strict confidentiality were discussed by the Supervisory Board at the beginning of 2007. In this context it was established that appreciable improvements had been achieved compared to the last audit in 2004 and that the measures agreed upon at that time had been successful. Further optimisations were approved in order to organise the work of the Supervisory Board even more efficiently in the future. In accordance with a new recommendation of the German Corporate Governance Code (DCGK), the Supervisory Board formed a Nomination Committee. The considerable importance that the Supervisory Board attaches to the standards of good and responsible enterprise management set out in the Corporate Governance Code is also evident from the Declaration of Conformity pursuant to § 161 Stock Corporation Act regarding compliance with the German Corporate Governance Code: the company is in compliance with all recommendations of the Code. The reader is further referred to the Corporate Governance report printed in the annual report of the Hannover Re Group and the company's publications in the Internet.

The information included as a consequence of the Takeover Directive Implementation Act in the management reports of the parent company Hannover Re and the Hannover Re Group in accordance with § 289 Para. 4 and § 315 Para. 4 German Commercial Code is to be explained by the Supervisory Board pursuant to § 171 Para. 2 Sentence 2 German Stock Corporation Act. With respect to all these additional reporting items, including for example the composition of the common shares and of the direct or indirect participating interests which are relevant in this context, there have been no changes compared to the previous year. There is no restriction or control of voting rights. The appointment and withdrawal of members of the Executive Board and the amendment of the Articles of Association are guided by the provisions of stock corporation law and specified in detail in the Articles of Association. The conditions under which the Executive Board is empowered to issue or buy back shares of the company are also set out in the Articles of Association. The major agreements entered into by the company that are subject to reservation in the event of a change of control are described in the management report.

Audit of the annual financial statements and consolidated financial statements

The accounting, annual financial statements, consolidated financial statements and the corresponding management reports were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG DTG), Hannover. The Supervisory Board selected the auditor for the audit and the Chairman of the Supervisory Board awarded the concrete audit mandate. In addition to the usual audit tasks, the audit focused particularly on the accounting treatment of securitisations as well as the correct calculation and carrying of additional and segmental reserves. In the context of the consolidated financial statements to be drawn up by Hannover Re in accordance with International Financial Reporting Standards (IFRS), the auditors were required to subject the reporting (mapping of the local systems to the package collector accounts) as well as the regular and consistent preparation of the cash flow statement to special scrutiny. For the first time the mandate for the review report by the independent auditors on the interim financial report as at 30 June 2007 was also awarded. The special challenges associated with the international aspects of the audits were met without reservation. Since the audits did not give rise to any objections KPMG DTG issued unqualified audit certificates. The Balance Sheet Committee discussed the annual financial statements and the management reports with the participation of the auditors and in light of the audit reports, and it informed the Super visory Board of the outcome of its examination. The audit reports were distributed to all members of the Supervisory Board and scrutinised in detail – with the participation of the auditors – at the Supervisory Board meeting held to consider the annual results. The auditors will also be present at the Annual General Meeting.

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 have examined

a) the annual financial statements of the company and the management report prepared by the Executive Board,

b) the consolidated financial statements of the Hannover Re Group and the Group management report prepared by the Executive Board and

c) the report of the Executive Board pursuant to of § 312 German Stock Corporation Act (Report on relations with affiliated companies)

– in each case drawn up as at 31 December 2007 – and have no objections. Nor do we have any objections to the statement reproduced in the dependent company report. The Supervisory Board thus concurred with the opinions of the auditors and approved the annual financial statements and the consolidated financial statements; the annual financial statements are thereby adopted. We concur with the Executive Board's proposal regarding the appropriation of the disposable profit for 2007 after studying all relevant aspects.

Changes on the Supervisory Board

On 20 March 2007 Dr. Paul Wieandt, a long-standing member of our Supervisory Board, passed away. For ten years Dr. Wieandt helped to shape the company's development. From 1997 until his death he belonged to the company's Supervisory Board, serving as its Deputy Chairman during this time. He was similarly unfailing in applying his considerable expert knowledge and vast experience to the work of the Balance Sheet Committee. Dr. Wieandt earned our deep esteem with his sense of responsibility and farsightedness. We shall honour his memory.

With effect from the end of the Annual General Meeting on 3 May 2007 Ms. Renate Schaper-Stewart – who had served on the Supervisory Board for 15 years – and Mr. Hans-Günter Siegerist stepped down from the Supervisory Board in their role as staff representatives. The Supervisory Board thanked them for their many years of constructive work and praised their contribution to the company's development. As their successors, Mr. Uwe Kramp and Mr. Gert Waechtler were elected as staff representatives to the Supervisory Board effective 3 May 2007. The Annual General Meeting elected Dr. Erhard Schipporeit as a new member of the Supervisory Board.

Word of thanks to the Executive Board and members of staff

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, 11 March 2008

For the Supervisory Board

Wolf-Dieter Baumgartl
Chairman

DECLARATION
of conformity

Declaration of Conformity pursuant to § 161 Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code at Hannover Rückversicherung AG

The German Corporate Governance Code sets out major statutory requirements governing the management and supervision of German listed companies. It contains both nationally and internationally recognised standards of good and responsible enterprise management. The purpose of the Code is to foster the trust of investors, clients, employees and the general public in German enterprise management. Under § 161 Stock Corporation Act (AktG) it is incumbent on the Management Board and Supervisory Board of German listed companies to provide an annual declaration of conformity with the recommendations of the "German Corporate Governance Code Government Commission" published by the Federal Ministry of Justice or to explain which recommendations of the Code were/are not applied. Implementation of the recommendations by Hannover Rückversicherung AG does not diverge from the German Corporate Governance Code (amended version of 14 June 2007) in any respect.

With respect to the non-mandatory provision of the Code requiring individualised specification of the remuneration received by members of the Executive Board, we are following the resolution of the Annual General Meeting of 12 May 2006, according to which the disclosures required in § 285 Clause 1 No. 9 Letter a Sentences 5 to 9 and § 314 Para. 1 No. 6 Letter a Sentences 5 to 9 German Commercial Code as amended by the Act on Disclosure of Executive Board Compensation (Vorstandsvergütungs-Offenlegungsgesetz) shall be omitted.

Hannover, 6 November 2007

For the Executive Board | For the Supervisory Board

GLOSSARY

Accumulation loss: sum of several individual losses incurred by various policyholders as a result of the same loss event (e.g. windstorm, 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 business: this term is used to designate business activities in our life and health reinsurance business group.

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.

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-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.

Property and casualty (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.

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.

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.

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.

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.

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