

# Best's Rating Report

# hannover re<sup>®</sup>

**HANNOVER RUECKVERSICHERUNG AG - CONSOLIDATED**

30625 Hannover, Germany



**A**

## Composite Reinsurer

### HANNOVER RUECKVERSICHERUNG AG - CONSOLIDATED

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Publicly Traded Corporation: Hannover Rueckversicherung AG  
XETRA: HNR 1

## BEST'S RATING

Based on our opinion of the company's Financial Strength, it is assigned a Best's Rating of A (Excellent). The company's Financial Size Category is Class XV.

## RATING RATIONALE

**Rating Rationale:** The ratings reflect Hannover Re's excellent consolidated risk-adjusted capitalisation and maintained underwriting discipline. Offsetting factors remain the company's limited financial flexibility and high exposure to catastrophe losses.

Excellent Risk-Adjusted Capitalisation: A.M. Best expects Hannover Re's risk-adjusted capitalisation to remain excellent despite fair value adjustments in the first six months of 2008 from an increase in interest rates and impairments in its equity portfolio. Hannover Re continues to deleverage its balance sheet through higher net retentions in non-life. A.M. Best acknowledges Hannover Re's proven ability to transfer risk to the capital markets, hence to limit its dependence on the vagaries of the retrocession market. In A.M. Best's view, Hannover Re continues to have limited financial flexibility as its ability to raise equity remains dependent upon its majority shareholder, Talanx AG, which is a non-listed intermediate holding company. In addition, Hannover Re has exhausted the maximum credit for hybrid equity of 20% of total adjusted capital.

Maintained Underwriting Discipline: Despite pressure on premium rates during the 2008 renewal season, Hannover Re's combined ratio improved to 98.4% (including interest on funds withheld), compared to 102.1% in the first half of 2007. A.M. Best expects a similar underwriting result for the full year, subject to catastrophe losses remaining within Hannover Re's own limits. Overall earnings for the full year 2008 will depend on further impairments in Hannover Re's investment portfolio. Hannover Re has only limited exposure to the subprime in the United States.

Excellent Business Profile: Hannover Re's business profile remains excellent in the global reinsurance market. The company now focuses only on reinsurance following the sale of Praetorian Financial Group in 2007. A.M. Best expects that growth in 2008 is likely to be generated by the life/health segment, despite a decline in gross written premiums by 2.8% to EUR 1.5 billion in the first six months of 2008. In non-life, A.M. Best expects a further decline in premiums due to deteriorating rates but also due to the impact of a weaker U.S. dollar. Gross written premiums already declined by 10.3% to EUR 2.7 billion in the first six months of 2008.

**Best's Rating: A**

**Outlook: Positive**

## FIVE YEAR RATING HISTORY

| Date     | Best's<br>Rating | Date     | Best's<br>Rating |
|----------|------------------|----------|------------------|
| 07/16/08 | A                | 11/08/05 | A u              |
| 03/13/08 | A                | 12/21/04 | A                |
| 09/11/07 | A                | 06/10/04 | A                |
| 08/29/06 | A                | 10/30/03 | A                |

## BUSINESS REVIEW

Hannover Rueckversicherung AG (Hannover Re) maintains an excellent business position in the worldwide reinsurance markets and ranks among the five largest reinsurers.

The group is majority owned by the German industrial insurance group, Haftpflichtverband der Deutschen Industrie V.a.G. (HDI), through its intermediate holding company, Talanx AG, with 50.2% of share capital while the remainder is free-float.

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Hannover Re remains a well-diversified reinsurer despite the sale of its primary specialty subsidiary, Praetorian, in 2006. A.M. Best expects the consolidated gross written premiums to remain relatively stable at EUR 8.3 billion in 2008 as growth in the life/health segment balances a further premium decline in non-life as a result of deteriorating rates in combination with the impact of a weaker US Dollar. In 2007, 63% of the premium income stemmed from non-life and 37% from life/health reinsurance. This proportion remained stable in the first half of 2008 with 64%/ 36% premium split. The company's main market remains the US with approximately 27% of gross premiums followed by Germany with approximately 17% of gross premiums. Other European countries contribute approximately 37% of gross written premiums.

## NON-LIFE:

Hannover Re remains a market-leading non-life reinsurer with a strong market focus on the US and Germany. The premium income stems primarily from casualty business (43%) and property (34%). Seven percent of the gross premium income is generated in marine, 6% aviation and 7% in Credit/Surety. Non-traditional reinsurance is likely to contribute approximately 10% to the overall premium income. Hannover shifted its treaty portfolio to proportional due to gaining a number of reinsurance mandates for E&S (Hannover Re's subsidiary focusing on the German market) from E&S's mutual shareholders in Germany. As result the treaty portfolio comprises 54% proportional and the remainder 46% non-proportional premiums.

Hannover Re's gross written premiums in property/casualty decreased by 20% to EUR 5.2 billion in 2007 mainly due to the sale of Praetorian which was only slightly compensated by organic premium growth.

Hannover Re's total domestic non-life premium income increase in 2007, despite higher client retention in property, as the company gained several new clients in its casualty business at the January renewals.

Premium income from US property increased slightly as rates remain attractive. However, as part of Hannover Re's active cycle management the company has reduced its exposure to the D&O and US casualty lines which suffered from substantial rate declines. Hannover Re has reduced its exposure to marine and aviation substantially in 2007 as rates in aviation continue to fall sharply despite the increase in claims in 2006 and 2007 and only selective marine rates are still at an attractive level.

In 2007, Hannover Re established its subsidiary Hannover Re Takaful in Bahrain. The entity will target regional clients and offer reinsurance products compliant with Islamic law. However, the overall impact on Hannover Re's business profile is likely to remain limited for the foreseeable future as it will take time to build up a sizeable portfolio despite the good growth prospects in these markets.

Hannover Re remains the third-largest market participant in the financial reinsurance market on a worldwide basis. The business is underwritten mainly through the group's Irish subsidiaries. Hannover Re has seen a strong recovery of the business in 2006 after the accounting fraud charges against competitors of Hannover Re were settled and demand for surplus relief lines from mutual and non-listed insurers in the United States accelerated. However, the premium development can be volatile due to nature of mostly single premium transactions.

## LIFE/HEALTH

Hannover Re continues to be one of the leading life reinsurers worldwide. The life reinsurance segment operates in the five business fields: Stochastic partnerships (11% of gross written premiums), new life re markets (20%), bancassurance (14%), multinational life groups (15%), and risk reinsurance (40%). The United Kingdom remains Hannover Re's largest life market with 30% of gross written premiums underwritten followed by North America (21%) and Germany (14%).

Total life premiums increased by 10% in 2007 to EUR 3.1 billion as the company increased its activities to explore new markets and product development. The strong growth in the United Kingdom was primarily due to the impaired annuity business as Hannover Re continues to specialize in this product segment. In Germany, A.M. Best expects the premium income to continue to be supported by growth from the strong "Riester" annuity sales in the primary market, which will partly compensate for premium decline resulting from a high number of maturing life policies sold in the 1990s after the country's unification.

Hannover Re is expected to continue to grow strongly in emerging markets such as Asia and the Middle East as quickly developing primary markets drive the demand for reinsurance products.

## FINANCIAL PERFORMANCE

**Overall Earnings:** In A.M. Best's view, overall earnings for the full year 2008 will be influenced by the current turmoil in the financial markets. In the first six months of 2008, Hannover Re improved its underwriting results. However, lower investment income due to impairments had a negative impact on earnings and this is likely to continue for the full year 2008.

**Underwriting Income:** Hannover Re's combined ratio improved in the first six months of 2008 by 3.7 percentage points to 98.4% (including interest on funds withheld) as the reduction in larger catastrophe and other major claims more than compensated for declining premium rates. A.M. Best expects a similar development for the full year 2008 subject to natural catastrophe losses remaining within Hannover Re's budget.

Non-life underwriting results increased in 2007 as the combined ratio improved to 100.6% from 101.5%. This follows the negative one-off effects in 2006 caused by additional reinsurance cost for Florida windstorm risks at Clarendon and an adverse reserve development relating to hurricane losses in 2005. These improvements are partially offset by rate declines and higher catastrophe claims, such as winterstorm Kyrill, with a net loss of approximately EUR 116 million. In addition, flooding in the UK and Oman as well as hurricane losses in Australia had an impact on 2007 results.

Rate declines are expected to affect, in particular, the US casualty and aviation business and - albeit a lesser extent - property. However, Hannover Re's active cycle management should limit the impact of these rate declines on the company's underwriting results. Clarendon - which is in run-off - continues to have a slightly deteriorating effect on the combined ratio due to the high reinsurance cost in 2007 despite an improvement following the one-off effect in 2006 caused by additional reinsurance cost for Florida windstorm risks. The life technical results increased significantly in 2007 to EUR 177 million from EUR 117 million. The improvement is mainly supported by strong investment returns in 2007. While the growth in the company's foreign markets with higher new business margins than in Germany should support the long-term profitability, A.M. Best remains concerned about the ongoing margin compression, in particular in the UK market, due to increasing competition.

**Investment Income:** Hannover Re's investment income declined by 24% to EUR 445 million in the first six months of 2008 mainly due to impairments in its equity portfolio whilst regular investment income remained relatively stable. A.M. Best expects that further write-downs will be necessary for the full year 2008 as a result of the continued decline of share prices.

A.M. Best believes that Hannover Re pursues a prudent investment strategy, with approximately 9% of the company's investment portfolio invested in quoted equities. Private equity exposure is expected to remain at approximately 2% of the portfolio. Fixed income investments comprise 81% of the investment portfolio. Of these, 74% of fixed income securities are invested in high quality bonds rated "AAA" or "AA". Only 3% of the bonds are non-investment grade. The average duration of the bond portfolio remains at 4.0 years, and A.M. Best believes that maturities match the liabilities adequately. Short-term investments and cash remained stable in 2007 at 6% of the total investment portfolio. Hannover Re's exposure to the subprime market is limited.

## CAPITALIZATION

A.M. Best expects Hannover Re's risk-adjusted capitalisation to remain excellent despite fair value adjustments in the first six months of 2008 from an increase in interest rates and impairments in its equity portfolio. Hannover Re continues to deleverage its balance sheet through higher net retentions in non-life. The company's capitalization is supported by extensive use of hybrid capital issues for which A.M. Best gives credit of up to 20% of total adjusted capital. Interest expense for hybrid capital is expected to remain at EUR 78 million in 2008. A.M. Best expects operating earnings to cover sufficiently the current interest expense as well as dividend payments to resume with a payout ratio of approximately 35-40%.

Hannover Re's financial flexibility remains to some extent dependent on its majority shareholder, Talanx, which as immediate holding company of the mutual groups has a limited flexibility to raise additional funds.

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Hannover Re continues to transfer risks to the capital markets. During 2007, the company securitized a stop loss cover on the retained portion of the natural catastrophe portfolio K5 which itself has been securitized in 2005. A.M. Best has given credit for this transaction as it provides full indemnity for this part of the portfolio. In addition, Hannover Re extended the K5 transaction by USD 116 million in order to optimize the group's catastrophe protection.

In 2007, Hannover Re was the first insurer to securitize parts of its reinsurance recoverable portfolio. The synthetic CDO transaction "Merlin" transferred the default risk of a portfolio of recoverables with a nominal value of EUR 1 billion to the capital market. Investors bear the risk of default losses of up to EUR 95 million in excess of Hannover Re's net retention of EUR 60 million.

The sale of Praetorian and the termination of most of the fronting business of Clarendon have reduced the company's exposure to its retrocessionaires substantially. Reinsurance recoverables have reduced to 70% of shareholders' equity (including minorities) in the first six months of 2008, down from 168% in 2005.

**Reserve Quality:** A.M. Best believes that overall reserves of Hannover Re are adequate.

Notwithstanding this, the US casualty reserves for the underwriting years 1997-2001 continued to experience adverse development which was more than compensated by reserves redundancies for subsequent and preceding underwriting years. The company also continues to commute business from underperforming underwriting years in order to reduce the potential for adverse development.

In A.M. Best's view, the results of the underwriting years 2002-05 indicate sufficient reserve levels. Hannover Re also holds substantial incurred but not reported (IBNR) reserves for its US casualty book. However, A.M. Best will continue to closely follow the development of the US casualty book.

**Reinsurance Utilization:** A.M. Best regards Hannover Re's retrocession programme as adequate. Principally, the group has whole account protection for catastrophe claims above prudent net retentions. The retrocession programme is largely placed with high quality reinsurers. Life retrocession cover is on an excess of loss basis with relatively low retention levels.

Hannover Re has continuously transferred part of its catastrophe exposure into the capital market (referred to as K-securitizations). The latest transaction is K5, through a special purpose vehicle based in Bermuda, which provides quota share reinsurance protection.

In order to alleviate new business strain from financing life business, Hannover Re has also securitized future profits from its life insurance portfolio through high quality banks and reinsurers (L1 - L6). The last transactions L6 and the penultimate L5 are still utilized.

## LIQUIDITY

**Overall Liquidity:** A.M. Best believes that Hannover Re's liquidity is sufficient to meet future cash flow requirements. Cash and short-term investments in the investment portfolio remained stable at 6% of total investments in 2007.

Liquid assets improved slightly to 56.1 % in 2007 following 48.5% of total liabilities. However, a significant amount of technical reserves is matched by cedants' deposits thus distorting the liquidity ratio. In 2008, A.M. Best anticipates that this ratio will increase further due to the run-off of recoverables and the reduction of recoverables following the sale of Praetorian.

**SOURCE OF INFORMATION:** Company Annual Report

## Summarized Accounts as of December 31, 2007 USD per Local Currency Unit 1.4729 = 1 Euro (EUR)

### STATEMENT OF INCOME

|   | 12/31/2007<br>EUR(000) | 12/31/2007<br>USD(000) |
|---|------------------------|------------------------|
| <b>General technical account:</b>                         |                        |                        |
| Reinsurance premiums assumed                              | 5,189,508              | 7,643,626              |
| Gross premiums written                                    | 5,189,508              | 7,643,626              |
| Reinsurance ceded   | 691,911                | 1,019,116              |
| Net premiums written                                      | 4,497,597              | 6,624,511              |
| Net premiums earned                                       | 4,497,597              | 6,624,511              |
| Total underwriting income                                 | 4,497,597              | 6,624,511              |
| Net claims paid   | 3,359,951              | 4,948,872              |
| Net claims incurred                                       | 3,359,951              | 4,948,872              |
| Management expenses                                       | 147,642                | 217,462                |
| Acquisition expenses                                      | 1,016,676              | 1,497,462              |
| Net operating expenses                                    | 1,164,318              | 1,714,924              |
| Total underwriting expenses                               | 4,524,269              | 6,663,796              |
| Balance on general technical account                      | -26,672                | -39,285                |
| <b>Life technical account:</b>                            |                        |                        |
| Reinsurance premiums assumed                              | 3,082,904              | 4,540,809              |
| Gross premiums written                                    | 3,082,904              | 4,540,809              |
| Reinsurance ceded   | 287,571                | 423,563                |
| Net premiums written                                      | 2,795,333              | 4,117,246              |
| Net premiums earned                                       | 2,795,333              | 4,117,246              |
| Net investment income                                     | 293,850                | 432,812                |
| Total revenue   | 3,089,183              | 4,550,058              |
| Net claims paid   | 1,672,196              | 2,462,977              |
| Net claims incurred                                       | 1,672,196              | 2,462,977              |
| Net increase/(decrease) in long term business provision   | 397,934                | 586,117                |
| Management expenses                                       | 61,194                 | 90,133                 |
| Acquisition expenses                                      | 780,548                | 1,149,669              |
| Net operating expenses                                    | 841,742                | 1,239,802              |
| Total expenses  | 2,911,872              | 4,288,896              |
| Balance on long term technical account                    | 177,311                | 261,161                |
| <b>Combined technical account:</b>                        |                        |                        |
| Reinsurance premiums assumed                              | 8,258,901              | 12,164,535             |
| Gross premiums written                                    | 8,258,901              | 12,164,535             |
| Reinsurance ceded   | 1,036,950              | 1,527,324              |
| Net premiums written                                      | 7,221,951              | 10,637,212             |
| Increase/(decrease) in gross unearned premiums            | -298,490               | -439,646               |
| Increase/(decrease) in reinsurers share unearned premiums | -227,511               | -335,101               |
| Net premiums earned                                       | 7,292,930              | 10,741,757             |
| Net investment income                                     | 338,464                | 498,524                |
| Other technical income                                    | 1,130                  | 1,664                  |
| Total revenue   | 7,632,524              | 11,241,945             |
| Net claims paid   | 5,031,071              | 7,410,264              |
| Net claims incurred                                       | 5,031,071              | 7,410,264              |
| Net increase/(decrease) in long term business provision   | 397,934                | 586,117                |
| Management expenses                                       | 204,358                | 300,999                |
| Acquisition expenses                                      | 1,771,581              | 2,609,362              |
| Net operating expenses                                    | 1,975,939              | 2,910,361              |
| Other technical expenses                                  | 20,081                 | 29,577                 |
| Total underwriting expenses                               | 7,425,025              | 10,936,319             |
| Balance on combined technical account                     | 207,499                | 305,625                |



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|   | 12/31/2007<br>EUR(000) | 12/31/2007<br>USD(000) |
|---|------------------------|------------------------|
| <b>Non-technical account:</b>                 |                        |                        |
| Net investment income                         | 783,282                | 1,153,696              |
| Other income/(expense)                        | <u>-128,384</u>        | <u>-189,097</u>        |
| Profit/(loss) before tax                      | 862,397                | 1,270,225              |
| Taxation                                      | <u>47,452</u>          | <u>69,892</u>          |
| Profit/(loss) after tax                       | 814,945                | 1,200,332              |
| Dividend to shareholders                      | 192,955                | 284,203                |
| Exceptional income/(expense)                  | 35,085                 | 51,677                 |
| Other adjustments                             | 6,946                  | 10,231                 |
| Minority interests                            | <u>116,372</u>         | <u>171,404</u>         |
| Retained profit/(loss) for the financial year | 547,649                | 806,632                |
| Retained profit/(loss) brought forward        | <u>1,981,521</u>       | <u>2,918,582</u>       |
| Retained profit/(loss) carried forward        | 2,529,170              | 3,725,214              |

## ASSETS

|  | 12/31/2007<br>EUR(000) | 12/31/2007<br>% of total | 12/31/2007<br>USD(000) |
|--|------------------------|--------------------------|------------------------|
| Cash & deposits with credit institutions         | 1,266,243              | 3.4                      | 1,865,049              |
| Bonds & other fixed interest securities          | 15,662,500             | 42.3                     | 23,069,296             |
| Shares & other variable interest instruments     | <u>2,000,390</u>       | <u>5.4</u>               | <u>2,946,374</u>       |
| Liquid assets                                    | 18,929,133             | 51.1                     | 27,880,720             |
| Real estate                                      | 16,962                 | 0.0                      | 24,983                 |
| Real estate for own use                          | 40,758                 | 0.1                      | 60,032                 |
| Inter-company investments                        | 170,839                | 0.5                      | 251,629                |
| Other investments                                | <u>698,342</u>         | <u>1.9</u>               | <u>1,028,588</u>       |
| Total investments                                | 19,856,034             | 53.6                     | 29,245,952             |
| Reins. sh. of tech. reserves - unearned premiums | 86,217                 | 0.2                      | 126,989                |
| Reinsurers' share of technical reserves - claims | 2,372,987              | 6.4                      | 3,495,173              |
| Reinsurers' share of technical reserves - life   | <u>365,353</u>         | <u>1.0</u>               | <u>538,128</u>         |
| Total reinsurers share of technical reserves     | 2,824,557              | 7.6                      | 4,160,290              |
| Deposits with ceding companies                   | 8,610,554              | 23.2                     | 12,682,485             |
| Inter-company debtors                            | 861                    | 0.0                      | 1,268                  |
| Other debtors                                    | <u>3,167,898</u>       | <u>8.5</u>               | <u>4,665,997</u>       |
| Total debtors                                    | 3,168,759              | 8.5                      | 4,667,265              |
| Fixed assets                                     | 25,781                 | 0.1                      | 37,973                 |
| Prepayments & accrued income                     | 2,386,299              | 6.4                      | 3,514,780              |
| Other assets                                     | 150,985                | 0.4                      | 222,386                |
| Goodwill   | <u>45,438</u>          | <u>0.1</u>               | <u>66,926</u>          |
| Total assets                                     | 37,068,407             | 100.0                    | 54,598,057             |

## LIABILITIES

|   | 12/31/2007<br>EUR(000) | 12/31/2007<br>% of total | 12/31/2007<br>USD(000) |
|---|------------------------|--------------------------|------------------------|
| Capital                                       | 120,597                | 0.3                      | 177,627                |
| Paid-up capital                               | 120,597                | 0.3                      | 177,627                |
| Non-distributable reserves                    | 692,840                | 1.9                      | 1,020,484              |
| Other reserves                                | 6,482                  | 0.0                      | 9,547                  |
| Retained earnings                             | <u>2,529,170</u>       | <u>6.8</u>               | <u>3,725,214</u>       |
| Capital & surplus                             | 3,349,089              | 9.0                      | 4,932,873              |
| Minority interests                            | 572,744                | 1.5                      | 843,595                |
| Gross provision for unearned premiums         | 1,148,723              | 3.1                      | 1,691,954              |
| Gross provision for outstanding claims        | 15,259,752             | 41.2                     | 22,476,089             |
| Gross provision for outstanding claims - life | 1,477,861              | 4.0                      | 2,176,741              |
| Gross provision for long term business - life | <u>6,181,119</u>       | <u>16.7</u>              | <u>9,104,170</u>       |
| Total gross technical reserves                | 24,067,455             | 64.9                     | 35,448,954             |
| Long term borrowings                          | 41,583                 | 0.1                      | 61,248                 |
| Other borrowings                              | <u>1,373,294</u>       | <u>3.7</u>               | <u>2,022,725</u>       |
| External borrowings                           | 1,414,877              | 3.8                      | 2,083,972              |
| Deposits received from reinsurers             | 956,912                | 2.6                      | 1,409,436              |
| Insurance/reinsurance creditors               | 1,141,067              | 3.1                      | 1,680,678              |
| Inter-company creditors                       | 552                    | 0.0                      | 813                    |
| Other creditors                               | <u>3,937,762</u>       | <u>10.6</u>              | <u>5,799,930</u>       |
| Total creditors                               | 5,079,381              | 13.7                     | 7,481,420              |
| Accruals & deferred income                    | 1,369,361              | 3.7                      | 2,016,932              |
| Other liabilities                             | <u>258,588</u>         | <u>0.7</u>               | <u>380,874</u>         |
| Total liabilities & surplus                   | 37,068,407             | 100.0                    | 54,598,057             |

## HISTORY

The company was founded in Germany in 1966 as a reinsurance and direct insurance company and was incorporated under the name Aktiengesellschaft fuer Transport-und Rueckversicherung. In 1976, Hannover Rueckversicherung-Aktiengesellschaft adopted its present title, after transferring its direct marine portfolio to its parent company, the HDI Haftpflichtverband der Deutschen Industrie V.a.G. Since then the company has been writing only reinsurance.

The company played a pioneering role in the securitizing of insurance risk, and announced in 1998 the first financing securitized by life insurance policies. In 1997, Hannover Re acquired parts of the in-force reinsurance portfolios of Skandia International Insurance Company of Stockholm, as well as Skandia's related infrastructure. The transaction complements Hannover Re's activity in targeted growth segments, namely, life and health reinsurance, facultative reinsurance and aviation/space insurance. The transaction provided further geographic diversification and consequently positioned the group as a leader in the worldwide aviation market. The financing of the transaction imposed no material financial impact on the group's future earnings or capitalization. Hannover Re also acquired the renewal rights of all the property and casualty reinsurance business as of Jan. 1, 1998.

Subscribed capital as of December 31, 2007, was EUR 120.6 million (Nominal Value EUR 120.6 million).

## MANAGEMENT

Hannover Re has a highly experienced and well-respected management team. The group's corporate structure is based on business units (such as life/health reinsurance) and the heads of each business unit are represented on the executive board.

The strategic profit target is a return on equity of 750 basis points above the five-year average yield on government bonds and a double-digit EBIT growth per year.

Hannover Re intends to grow mainly organically in non-life subject to meeting profitability targets. Acquisitions are only sought in life reinsurance. The group also excludes holding equity stakes in primary insurers following the sale of Praetorian except for its participation in Compass in South Africa and Inter-Hannover in the UK.

# Best's Rating Report

A.M. Best believes that Hannover Re has a comprehensive enterprise risk management framework in place which addresses the relevant risks Hannover Re is facing. However, A.M. Best believes that Hannover Re's risk tolerance is slightly higher than that of some of its competitors as it is geared towards protection of capital rather than earnings. Hannover Re is also more leveraged than some its peers in terms of relying on capital substitutes, such as securitizations or hybrid equity.

**Supervisory Board:** Wolf-Dieter Baumgartl (Chairman), Herbert K. Haas, Uwe Kramp (Employee Representative), Karl Heinz Midunsky, Otto Mueller (Employee Representative), Dr. Immo Querner, Dr. Erhard Schipporeit, Dr. Klaus Sturany, Gert Waechter (Employee Representative).

**Board of Management:** Andre Arrago, Dr. Wolf Becke, Juergen Graeber, Dr. Elke Koenig (Chief Financial Officer), Dr. Michael Pickel, Ulrich Wallin, Wilhelm Zeller (Chief Executive Officer).

## REINSURANCE

In 2007, Hannover Re has substantially reduced its dependence on the highly concentrated and limited retrocession market. The company's non-life net retention increased substantially following the sale of Praetorian to 86.7% at the end of 2007 from 72.6%. The life net retention increased only slightly from 85% in 2006 to 90.7% in 2007.

In 2007, Hannover Re restructured its whole account catastrophe protection to reduce its aggregates. The company did not renew its structured reinsurance covers and relies now on traditional covers and its securitization program. Most of Hannover Re's natural catastrophe exposure is covered by a 44% quota share retrocession to K5. The retention is limited by whole account catastrophe excess of loss protection with a capacity of EUR 297 million in excess of EUR 250 million in the major peak zones as well as swaps and ILWs of up to approximately EUR 140 million covering higher layers. In 2007, Hannover Re extended the cover of K5 by USD 116 million and added a stop loss cover with a capacity of USD 200 million on the company's net retention on catastrophe losses through the "Kepler" securitization. In 2006, Hannover Re issued the Euris catastrophe bond covering European windstorm risks which should only be triggered by events with a return period exceeding 50 years. However, A.M. Best considers the basis risk of this transaction to be substantial due to its parametric triggers.

The quality of its retrocessionaires is expected to remain stable following a strong improvement in 2006. Hannover Re actively manages counterparty risks and developed appropriate monitoring tools. Cession limits are highly transparent and strictly enforced.

## GEOGRAPHICAL DISTRIBUTION OF PREMIUMS WRITTEN

|                     | EUR<br>(000)        |                          | EUR<br>(000)        |
|---------------------|---------------------|--------------------------|---------------------|
|                     | 12/31/2007<br>Gross | 12/31/2007<br>% of total | 12/31/2006<br>Gross |
| Other Africa        | 262,427             | 3.2                      | 273,309             |
| Total Africa        | 262,427             | 3.2                      | 273,309             |
| Other Asia          | 563,461             | 6.8                      | 550,500             |
| Total Asia          | 563,461             | 6.8                      | 550,500             |
| France              | 386,054             | 4.7                      | 434,581             |
| Germany             | 1,385,552           | 16.8                     | 1,356,733           |
| Other Europe        | 1,131,846           | 13.7                     | 1,188,114           |
| United Kingdom      | 1,512,164           | 18.3                     | 1,401,468           |
| Total Europe        | 4,415,616           | 53.5                     | 4,380,896           |
| United States       | 1,879,555           | 22.8                     | 3,058,830           |
| Total North America | 2,269,930           | 27.5                     | 3,448,460           |
| Australia           | 476,560             | 5.8                      | 403,868             |
| Other World-Wide    | 270,907             | 3.3                      | 232,290             |
| Total               | 8,258,901           | 100.0                    | 9,289,323           |

## BALANCE SHEET ITEMS

|                          | EUR<br>(000) | EUR<br>(000) | EUR<br>(000) | EUR<br>(000) | EUR<br>(000) |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
|                          | 2007         | 2006         | 2005         | 2004         | 2003         |
| Liquid assets            | 18,929,133   | 18,653,447   | 18,124,196   | 15,135,862   | 13,497,425   |
| Total investments        | 19,856,034   | 19,534,200   | 19,120,592   | 16,025,665   | 14,408,856   |
| Total assets             | 37,068,407   | 41,386,356   | 39,789,207   | 36,177,471   | 32,974,744   |
| Gross technical reserves | 24,067,455   | 25,487,282   | 28,157,331   | 25,523,367   | 24,970,566   |
| Net technical reserves   | 21,242,898   | 21,644,331   | 22,841,252   | 20,759,607   | 19,758,837   |
| Total liabilities        | 33,719,318   | 38,488,521   | 37,188,173   | 33,652,318   | 30,570,094   |
| Capital & surplus        | 3,349,089    | 2,897,835    | 2,601,034    | 2,525,153    | 2,404,650    |

## INCOME STATEMENT ITEMS

|                                 | EUR<br>(000) | EUR<br>(000) | EUR<br>(000) | EUR<br>(000) | EUR<br>(000) |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
|                                 | 2007         | 2006         | 2005         | 2004         | 2003         |
| Gross premiums written          | 8,258,901    | 9,289,323    | 9,317,351    | 9,566,568    | 11,588,058   |
| Net premiums written            | 7,221,951    | 7,089,964    | 7,379,979    | 7,423,706    | 8,256,400    |
| Balance on technical account(s) | 207,499      | 102,566      | -578,347     | -150,826     | -260,638     |
| Profit/(loss) before tax        | 862,397      | 742,152      | 17,392       | 471,438      | 748,370      |
| Profit/(loss) after tax         | 814,945      | 517,075      | 60,829       | 333,280      | 474,309      |

## LIQUIDITY RATIOS (%)

|   | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|------|------|------|------|------|
| Total debtors to total assets           | 8.5  | 7.8  | 9.3  | 9.7  | 10.3 |
| Liquid assets to net technical reserves | 89.1 | 86.2 | 79.3 | 72.9 | 68.3 |
| Liquid assets to total liabilities      | 56.1 | 48.5 | 48.7 | 45.0 | 44.2 |
| Total investments to total liabilities  | 58.9 | 50.8 | 51.4 | 47.6 | 47.1 |

## PROFITABILITY RATIOS (%)

|  | 2007  | 2006  | 2005  | 2004  | 2003  |
|--|-------|-------|-------|-------|-------|
| Loss ratio                                   | 74.7  | 73.7  | 86.6  | 81.6  | 86.3  |
| Operating expense ratio                      | 25.9  | 27.8  | 27.1  | 23.3  | 15.3  |
| Combined ratio                               | 100.6 | 101.5 | 113.7 | 104.9 | 101.6 |
| Other technical expense or (income) ratio    | ...   | ...   | ...   | ...   | 0.8   |
| Net investment income ratio                  | 17.4  | 17.6  | 15.7  | 14.6  | 17.2  |
| Operating ratio                              | 83.2  | 83.9  | 98.0  | 90.3  | 85.2  |
| Benefits paid to net premiums written (Life) | 74.1  | 71.1  | 74.1  | 74.3  | 81.0  |
| Expense ratio (Life)                         | 30.1  | 37.1  | 32.9  | 33.0  | 24.7  |
| Return on net premiums written               | 11.3  | 7.3   | 0.8   | 4.5   | 5.7   |
| Return on total assets                       | 2.2   | 1.5   | 0.2   | 1.0   | 1.4   |
| Return on capital & surplus                  | 27.2  | 21.9  | 3.2   | 13.5  | 22.2  |

# Best's Rating Report

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A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

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|            |           |
|------------|-----------|
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| A and A-   | Excellent |
| B++ and B+ | Good      |

### Vulnerable Best's Ratings

|            |                              |
|------------|------------------------------|
| B and B-   | Fair                         |
| C++ and C+ | Marginal                     |
| C and C-   | Weak                         |
| D          | Poor                         |
| E          | Under Regulatory Supervision |
| F          | In Liquidation               |
| S          | Rating Suspended             |

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