

Annual Report | **2006**

CALENDAR OF EVENTS

in 2007

24/25 April 2007	Expert conference "Settlement of Bodily Injury Claims in Foreign European Markets – Early Experiences in Poland, Bulgaria and Romania after EU Accession"
26/27 April 2007	Reinsurance Seminar I: Basic Reinsurance Know-how
4 June 2007	Hannover Forum "Motor Insurance"
4 June 2007	Examination Concert held by E+S Rückversicherung AG
21/22 June 2007	Reinsurance Seminar II: Specialist Reinsurance Topics
6/7 September 2007	Reinsurance Seminar III: Workshop: "Development of a Reinsurance Programme"
10 October 2007	Expert conference "Legal Protection Products"
11/12 October 2007	Reinsurance Seminar IV: Reinsurance of Natural Hazards

CONTENTS

1	Address of the Executive Board
3	Boards and officers
4	Executive Board
6	Hannover Polytrauma Longitudinal Study – a cooperation between E+S Rück and Hannover Medical School
10	Management report
10	Economic climate
11	Business development
14	Development of the individual lines of business in Germany
19	Results of our foreign business
23	Investments
25	Human resources
27	Sustainability report
29	Risk report
33	Forecast
36	Affiliated companies
36	Other information
37	Capital, reserves and technical provisions
37	Proposal for the distribution of profits
38	Accounts of E+S Rückversicherung AG
38	Balance sheet as at 31 December 2006
42	Profit and loss account for the 2006 financial year
44	Notes
47	Notes on assets
51	Notes on liabilities
56	Notes on the profit and loss account
58	Other information
60	Auditors' report
61	Report of the Supervisory Board
63	Glossary

KEY FIGURES

of E+S Rückversicherung AG

Figures in EUR million	2006	+/- previous year	2005	2004	2003	2002
Gross written premium	2,437.7	+10.1%	2,213.7	2,149.5	2,232.9	2,483.1
Net premium earned	1,841.3	+34.4%	1,370.5	1,327.9	1,464.3	1,384.3
Underwriting result ¹⁾	35.5	+163.1%	(56.3)	40.3	147.5	(33.5)
Change in the equalisation reserve and similar provisions	84.3	-2.1%	86.1	86.1	201.9	26.5
Investment result	276.5	-0.5%	277.9	229.1	189.6	169.5
Pre-tax profit	100.2	+215.1%	31.8	87.5	80.8	46.8
Profit or loss for the financial year	70.4	+220.0%	22.0	44.0	39.0	20.0
Investments	7,737.2	+7.0%	7,231.4	6,179.9	4,283.4	4,390.8
Capital and reserves	420.3	–	420.3	420.3	461.2 ²⁾	461.2 ²⁾
Equalisation reserve and similar provisions	755.0	+12.6%	670.6	584.6	498.5	296.6
Net technical provisions	5,875.5	+5.7%	5,556.5	4,998.3	3,533.8	3,282.3
Total capital, reserves and technical provisions	7,050.8	+6.1%	6,647.4	6,003.2	4,493.5	4,040.1
Number of employees	235	+6	229	227	220	215
Retention	75.1%		62.4%	61.7%	65.8%	58.2%
Loss ratio ¹⁾³⁾	74.8%		76.7%	71.3%	72.2%	80.8%
Expense ratio ³⁾	21.3%		26.1%	20.9%	17.1%	18.8%
Combined ratio ¹⁾³⁾	96.1%		102.8%	92.2%	89.3%	99.6%

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

²⁾ incl. surplus debenture (Genussrechtskapital)

³⁾ excluding life reinsurance

Wilhelm Zeller
Chairman of the
Executive Board



Dear clients and shareholders,

It is with particular pleasure that I am able to report to you here on a return to normality: we can look back with satisfaction on an outstanding 2006 financial year. With the natural disasters of 2005 still fresh in our minds, the financial year just-ended provided a gratifying lack of headlines as far as catastrophe losses were concerned. Leaving aside specific localised events – such as a hailstorm in Baden-Württemberg and a tornado in Hamburg – Germany was spared major natural disasters. E+S Rück has returned to its former earning power: the results posted by the company this year build on numerous successful financial years of the past.

With the German insurance industry facing softening rates and growing competitive pressure from international providers in the year under review, it is becoming increasingly vital for E+S Rück – as the specialist reinsurer for Germany – to position itself in the market with a distinctive business model.

We have consequently built up our know-how, thanks to which we are able to offer our clients individualised services. For a number of years now the senior citizens' segment has been a focus of our activities, and we successfully advise our clients on the conceptual design of innovative insurance products for seniors. What is more, we offer a comprehensive claims service, apply the scientific insights gained from cooperation with the medical research sector and support our clients in the assessment of natural hazards exposures. This special customer orientation again set us apart in the year under review as the second-largest reinsurer on the German market.

While the gross premium volume booked by E+S Rück showed gratifying growth of 10.1% to reach EUR 2,437.7 million, the underwriting result surged even more impressively. The most significant factor here was the minimal burden of losses incurred in the year under review. In property and casualty reinsurance, the largest business group in our portfolio, the framework conditions in Germany developed thoroughly satisfactorily. Contrary to the general market trend, for example, E+S Rück fared successfully in motor reinsurance because we write this business highly selectively and prudently.

Life reinsurance, which accounts for 36.5% of the gross premium written by E+S Rück, also developed very favourably. Thanks to innovative service concepts and products we continued to steadily enlarge our customer base.

In light of the impressions of the 2006 financial year, we can look to the future with considerable optimism. We shall consistently move E+S Rück forward in accordance with our exacting quality standards.

This business performance could not have been accomplished without strong and trusting cooperation. In this respect we would like to extend our sincerest thanks to our clients, shareholders and staff.

We are pleased to report that our shareholders will again be able to share in the healthy profit for the year of EUR 70.4 million (EUR 22.0 million) with an attractive dividend – one which will be especially favourable after the difficult 2005 financial year.

Yours sincerely,



Wilhelm Zeller
Chairman of the Executive Board

BOARDS AND OFFICERS of E+S Rückversicherung AG

Supervisory Board (Aufsichtsrat)

Herbert K. Haas Burgwedel Chairman (since 10 August 2006)	Chairman of the Executive Board Talanx AG HDI Haftpflichtverband der Deutschen Industrie V.a.G.
Gerd Kettler Münster Deputy Chairman	Chairman of the Executive Board LVM Landwirtschaftlicher Versicherungs- verein Münster a.G.
Dr. Heinrich Dickmann Freiburg	Former Chairman of the Executive Board VHV Vereinigte Hannoversche Versicherung V.a.G.
Dr. Heiner Feldhaus Hannover	Chairman of the Executive Board CONCORDIA Versicherungs-Gesellschaft a.G.
Frauke Heitmüller* Hannover	
Ass. jur. Tilman Hess* Hannover	
Marga Hetzel* Wedemark	
Rolf-Peter Hoenen Coburg	Speaker of the Executive Boards HUK-COBURG Versicherungsgruppe
Dr. Immo Querner Ehlershausen (since 10 August 2006)	Member of the Executive Board Talanx AG HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Advisory Board (Beirat)

Wolf-Dieter Baumgartl Berg Chairman of the Supervisory Board (until 10 August 2006) Member of the Advisory Board (since 10 August 2006)	Chairman of the Supervisory Board Talanx AG HDI Haftpflichtverband der Deutschen Industrie V.a.G.
Dr. Edo Benedetti Trento	President ITAS Mutua, Trento, Italy
Dr. h. c. Josef Beutelmann Wuppertal	Chairman of the Executive Boards Barmenia Versicherungen
Wolfgang Bitter Itzehoe	Chairman of the Executive Board Itzehoer Versicherung/ Brandgilde von 1691 Versicherungsverein a.G.
Hans-Joachim Haug Stuttgart	Chairman of the Executive Board Württembergische Gemeinde-Versicherung a.G.
Dr. Erwin Möller Hannover (until 10 August 2006)	Former Member of the Board of Management HDI Haftpflichtverband der Deutschen Industrie V.a.G.

*Staff representative

EXECUTIVE BOARD of E+S Rück

Dr. Michael Pickel

Property and Casualty Treaty Reinsurance Germany, Austria, Switzerland and Italy; Credit, Surety & Political Risk worldwide; Group Legal Services; Run Off Solutions

Ulrich Wallin

Specialty Division (worldwide Facultative Business in Casualty and Property Lines; worldwide Treaty and Facultative Business Marine, Aviation and Space); Property and Casualty Treaty Reinsurance Great Britain and Ireland; Retrocessions

André Arrago

Property and Casualty Treaty Reinsurance Arab, European Romance and Latin American countries, Northern and Eastern Europe, Asia and Australasia

Wilhelm Zeller

Chairman

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

Dr. Elke König

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

Dr. Wolf Becke

Life and Health markets worldwide

Jürgen Gräber

Coordination of entire Non-Life Reinsurance; Property and Casualty Treaty Reinsurance North America and English-speaking Africa; Financial Reinsurance worldwide; Quotations

(from left to right)



HANNOVER POLYTRAUMA LONGITUDINAL STUDY – a cooperation between E+S Rück and Hannover Medical School

Severely injured persons suffer serious problems – and not only directly after their accident. Even after ten years or more they can still clearly feel its effects, first and foremost in their professional and social lives. This is the finding of the Hannover Polytrauma Longitudinal Study (HPLS), which E+S Rück conducted in cooperation with Hannover Medical School (MHH) in the period from September 2000 to March 2006.

The purpose of this study was to document the social and economic circumstances of the accident victims, assess the long-term psychological consequences of a serious accident, analyse the mortality after such accidents, draw up a long-range prognosis for persons who have suffered severe accidents and evaluate the work of insurers in handling accident-related claims. The requirements for participation in the study were that the accident occurred at least ten years previously, patients were between the ages of three and 60 at the time of the accident and the accident resulted in polytrauma – i.e. several serious injuries to various areas of the body or organs, which individually or in combination are

life-threatening. Based on the polytrauma register of Hannover Medical School, a sample survey identified altogether 1,558 cases of people who suffered serious accidents – of which 637 (158 female, 479 male) ultimately took part in follow-up examinations; a further 558 patients had died in the intervening period; 397 persons were traced but could not be examined. This study is therefore the largest observational study of polytrauma conducted in the world to date.

Immediately after a very serious accident doctors do everything in their power to save the life of the accident victim. It is a great success if the patient survives the accident. But what happens then? What are the long-term health, social and financial consequences of the accident? These questions are interesting not only from the medical standpoint, but also from the social and insurance perspectives.

In the largest observational study of persons suffering severe accident-related injuries, E+S Rück and Hannover Medical School also explored these hitherto largely neglected aspects.

Economic and social consequences of serious accidents

Patients aged 18 years or older	Men (n=389)	Women (n=117)
Financial aspects		
Financial losses	41.1%	44.4%
Deterioration in net monthly income	30.3%	35.9%
No financial security whatsoever	21.7%	18.4%
Unemployment		
Unemployment before the accident	8.0%	6.0%
Unemployment after the accident	30.1%	27.4%
Retraining		
Retraining after the accident	19.0%	12.8%
Retraining of 18-39-year-olds after the accident	28.9%	20.8%
Pensioning		
Accident-related early pensioning	19.8%	27.6%
Permanent drawing of a pension		
Statutory accident insurance pension/strict "any occupation" disability pension/disability pension	44.6%	37.9%

Economic and social consequences

Individuals are particularly hard hit financially by accidents if they do not belong to one of the following groups of victims:

- persons who suffer injuries as a consequence of accidents at work or on the way to or from work;
- persons who suffer accidents that are the responsibility of third parties;
- younger persons with adequate claims under the system of social provision.

This exclusion applied to 21.7% of the male and 18.4% of the female study participants. They were unable to assert any claims whatsoever and consequently – apart from their own private assets – had no financial security. For a country with such a tight-knit social network as Germany such a finding would certainly not have been anticipated (see table "Economic and social consequences of serious accidents").

The injuries had far-reaching implications for professional life: 16.6% of victims had to be retrained, approximately 20% suffered strict "any occupation" disability as a consequence of the accident and had to retire, 30% lost their job due to the accident.

Psychological consequences

The final part of the polytrauma study concluded in the spring of 2006 dealt with the long-term psychological consequences after serious accidents. The study indicated that after their release from rehabilitation the number of pa-

In the case of 247 participants that had private accident insurance, the study team evaluated the degree of disability (see the table "Average degree of disability" on page 8). The indicated low levels of disability have fatal implications for the actual security of the accident victims: the benefits accruing from the accident insurance fall well short of making up for the financial constraints, unemployment or disability of the accident sufferers. This is particularly tragic inasmuch as a large group of severely injured persons are impacted by financial losses. What is more, for more than 20% of those affected accident insurance would have been the only and most cost-effective form of insurance protection for offsetting the incurred financial losses.

In addition to these economic constraints, the patients suffered enormously under social problems: almost half indicated that their circle of friends was smaller after their accident, and 60% stated that the accident injuries had restricted their leisure activities. Almost 40% complained that their partnership or family life had been adversely affected by the consequences of the accident.

tients who had to seek psychotherapy doubled. 11.8% of the men and 20.5% of the women participating in the study suffered some form of post-traumatic stress disorder as a result of their accident.

Mortality of patients

E+S Rück's analysis of the study results revealed, inter alia, that there was a far higher number of deceased than originally assumed. The mortality of the polytrauma patients at Hannover Medical School was evaluated in relation to the mortality of the population of Germany as a whole. This analysis was carried out using the ratios for the relative risk or the excess mortality; the former denotes the ratio of patient mortality to population mortality, while the latter

refers to the difference between the mortalities of patients and the population relative to the population mortality.

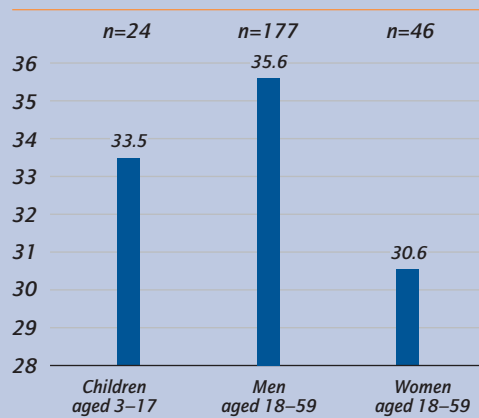
As a result of the study, it emerged that very severe accidents – even decades after the trauma – displayed an increased mortality relative to the normal population (see table "Excess mortalities at five-year intervals after the accident").

Evaluation of the work of insurers in the handling of accident claims

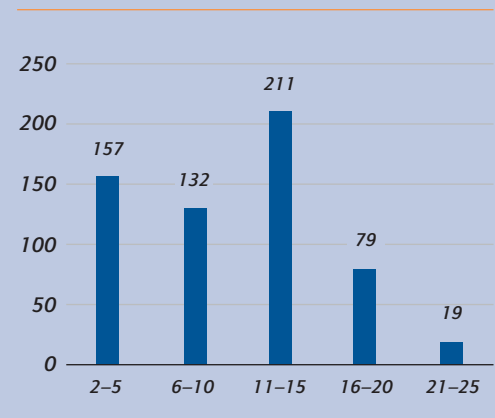
Last but not least, the participants in the study also assessed the claims handling of the insurers involved: more than half of the HPLS patients rated the work of their insurance company as poor or barely acceptable, whereas less than one-quarter assessed it as good. This evaluation can doubtless also be attributed to the fact that 27.1% of men and 35% of women had to take legal action to enforce their claims.

From the insurance perspective, too, the introduction or intensification of management for bodily injury claims (rehabilitation management) could therefore bring about a significantly improved result.

Average degree of disability in %



Excess mortalities at five-year intervals after the accident per year in %



Five-year intervals after the accident

Outlook

Although by no means all the data from the HLPS have been analysed – in particular the cost aspects arising out of the numerous injury patterns –, it is clear that the cooperation between insurance and clinical physicians has delivered highly informative findings for specific issues associated with bodily injuries.

The study is of considerable importance for the insurance industry, since together with E+S Rück it now has key data for better predicting claim experiences and costs. What is more, it became clear that the existing products in accident insurance do not yet fully provide adequate security. The available results thus provide valuable incentives for risk protection and product development.

In view of the successful cooperation and the insights gained, further collaboration in other areas of injury would seem sensible. For casualty insurers, for example, it would be advisable to explore the especially cost-intensive bodily injuries associated with spinal column injuries involving paraplegia as well as the long-term consequences of craniocerebral trauma.

Given the fact that – as shown by the polytrauma study – the financial and social consequences of severe accidents are often more ser-

ious for women than they are for men, this would suggest the development of separate accident insurance products for women. Furthermore, in light of the increasing number of accident products geared especially to older persons, it would be interesting to investigate the medium- and long-term consequences of accident-related injuries among this group of individuals.

As the specialist reinsurer for the German market, E+S Rück has therefore decided to continue the successful interplay between science and practice and conduct further prognostic studies in cooperation with clinical institutions. Our goal, then, is to bring together medical research and insurance expertise to the benefit of policyholders and our clients. We will be pleased to assist our cedants with product development and the design of more effective measures for claims settlement, and we hope to provide fresh insights for claims settlement both with the study presented here and with further studies to be carried out in the years ahead.

MANAGEMENT REPORT

of E+S Rückversicherung AG

Economic climate

The expansion of the global economy was sustained in 2006, although it flagged somewhat as the year progressed. This can be attributed in particular to weaker cyclical impetus in the industrialised nations; developments nevertheless varied in the major economic zones. The Eurozone emerged as a driver of growth for the global economy in the year under review. The rise in output here and growing domestic demand were key factors in offsetting negative effects from the USA and Japan.

The fact that the German economy similarly enjoyed a vigorous surge in momentum in the year under review despite the upward revalu-

ation of the euro against the US dollar and the yen also suggests that economic consolidation will be sustained. This development was driven in part by rising export figures and a more competitive position in international markets. The business climate was also boosted by increased spending on construction. Yet this growth in residential construction in Germany can probably be attributed primarily to the discontinuation of home-building subsidies and the increase in value-added tax in 2007. Thanks not least to the cyclical turnaround on the labour market, private consumption picked up for the first time since 2001.

The German insurance industry

The German insurance industry faced more exacting demands in 2006 as a consequence of progressive market globalisation. With the current measures geared to putting it on a more efficient, flexible and customer-oriented footing, the industry is well on the way to meeting these more exacting demands. Yet growth, which could have been anticipated in light of the favourable underlying economic mood in Germany, proved unsatisfactory. The German insurance industry profited only to a limited extent due to the already high market penetration, increased competitive pressure and the continued caution that can be observed among consumers.

Amounting to a good EUR 161 billion, the premium volume booked by the entire German primary insurance sector in 2006 was thus just 2.2% higher than in the previous year. In the individual lines the trend of the previous years was sustained. While life and private health insurers posted a gain of some 4.2%, property and casualty insurers suffered a decline in premium income – the current intensity of competition in these lines is evident here.

In property and casualty insurance the contraction in premium income went hand-in-hand with a rise in claims expenditure, prompting a marked deterioration in the underwriting result.

Motor insurance experienced another drop in premium of around 4.4% in the year under review. This was triggered by the fiercer competition: assisted by greater transparency, many insured switched to a more reasonable provider or had their insurance company move them to tariffs that offered better value for money. This development was for the first time reflected in a clearly negative impact on the underwriting performance of the German insurance industry in 2006.

A large number of fire claims were recorded in industrial property insurance. Based on this development and in tandem with a 3.7% drop in premium income, the combined ratio thus climbed to almost 95%.

Casualty insurance again booked only a modest premium increase that derived first and foremost from the possibility of a 5% premium adjustment permitted from 1 July 2006 onwards. Since claims expenditure increased to the same extent, however, the combined ratio rose to around 87% in the year under review.

The situation in credit and surety insurance was most gratifying: the underwriting result improved for the fourth year in succession. Along with a 2% increase in premium, this develop-

ment can be attributed primarily to the substantially lower claims expenditure associated with the resurgent economy and the associated reduction in the insolvency rate.

In marine insurance the pressure on conditions continues to rise unchecked, coming in particular from economic sectors that are themselves struggling with intense price pressure (e.g. the automobile component industry). On the other hand, premium income in 2006 – after a sharp decline in the previous year – held stable. The combined ratio consequently closed on a par with the previous year at 91%.

Possible climate change was again a central concern for the German insurance industry in the year under review. Rising loss expenditure from natural catastrophes and man-made disasters are forecast for the future. Yet only limited

cover is available for catastrophe exposures on the retrocession market, and insurers are consequently carrying higher retentions in many areas. Generally speaking, then, terms and conditions are currently more than adequate.

Insurers continued to improve the quality of their investment portfolios in the year under review in accordance with regulatory requirements, ensuring that they are able to meet their benefit commitments to policyholders. The industry refined stress tests for portfolios in cooperation with the Federal Financial Supervisory Authority (BaFin) so as to be able to cope with even extreme crash scenarios. The development of the global economy and movements on equity markets not only made it possible to boost current income – they also enabled life insurers, in particular, to entirely eliminate hidden obligations from the last crisis on capital markets.

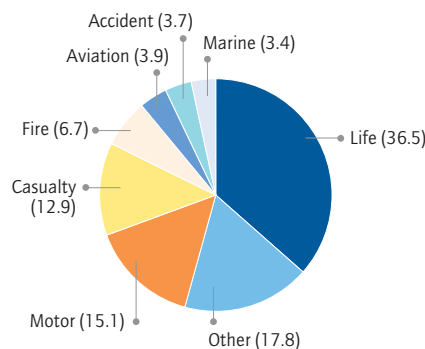
Business development

As the specialist reinsurer for the German market, E+S Rück further cemented its position as one of the leading reinsurers in the year under review. This was due not least to new customer relationships that we were able to acquire despite progressive market consolidation in the primary insurance sector. What is more, we enlarged our participations under existing long-term relationships – and hence boosted our overall market share, too. We were particularly able to expand our portfolio with respect to mutual insurers, an especially gratifying achievement in view of the increasing market penetration by foreign providers. In Germany – after the United States the largest non-life reinsurance market in the world – we therefore continue to rank as the number two player. Under an internal retrocession arrangement we also assume foreign business from Hannover Re so as to achieve significantly better risk spreading and geographical diversification across our portfolio.

In addition to professional reinsurance protection, we offer our cedants a wide-ranging array of services: among other things, we assist our clients with product development (especially in the field of insurance offerings for senior citizens),

portfolio analysis in accident business and innovative projects such as the "Pay as you drive" system – the use of which lends itself particularly to novice drivers. A feature of this system is permanent monitoring via a recording/transmission device installed in the vehicle that logs individual driving habits; the premium calculation is guided by this data and adjusted according to the driver's behaviour behind the wheel. In concrete terms, this means that as a policyholder adopts progressively less risky driving habits, so his or her premium is reduced.

Line-of-business breakdown in %



In Germany the good results of recent years served to intensify competitive pressure on the primary insurance sector. The market environment on the reinsurance side nevertheless remained positive in the year under review, with adequate rates and conditions.

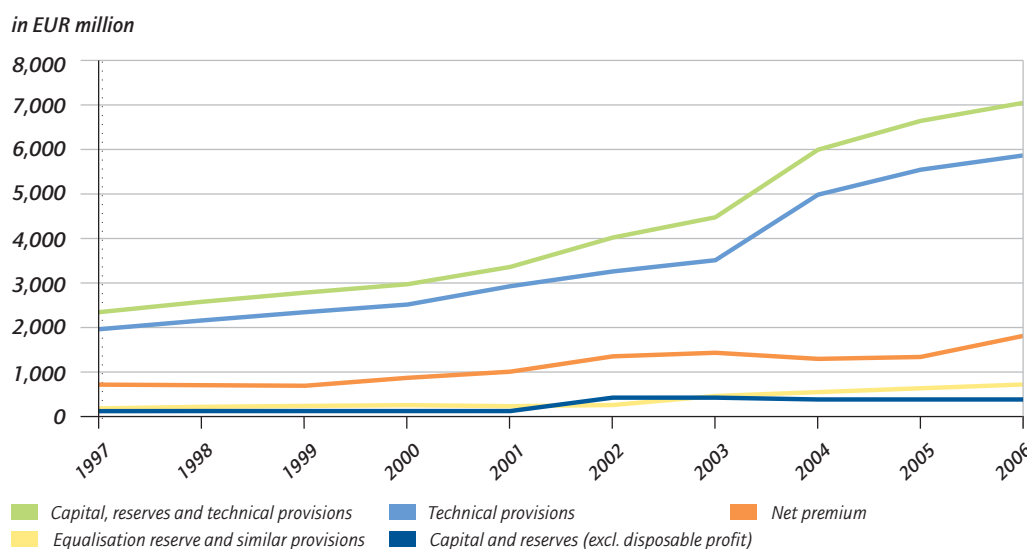
Our good market position was also reflected in premium growth: the gross premium volume was boosted by 10.1% to EUR 2,437.7 million (EUR 2,213.7 million). In addition, E+S Rück again increased its retention. Net premium earned climbed by 34.4%.

The share of our total portfolio attributable to property and casualty reinsurance remained virtually unchanged in the year under review at 63.5% (63.9%). The decline in rates as well as the tense claims situation in industrial fire and fire loss of profits insurance gave rise to an unsatisfactory result here. On the other hand, developments in motor reinsurance – our largest line in this business group with gross premium income of roughly EUR 367.9 million (EUR 379.0 million) – and casualty insurance – with a stable premium volume – were favourable.

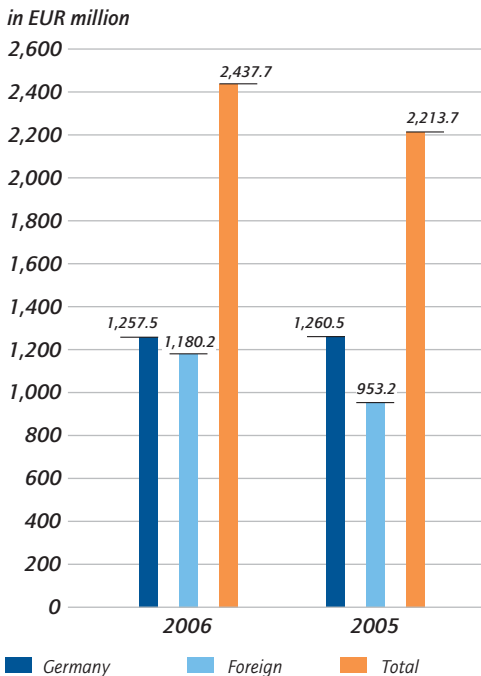
Following the highly eventful 2005 financial year, which was impacted by losses from foreign business, loss expenditure in the year under review was satisfactory. The most notable major losses involved three industrial fire claims. Net incurred claims in property and casualty reinsurance climbed 3.9% year-on-year to EUR 809.4 million (EUR 779.4 million).

The underwriting result for total business before allocations to and withdrawals from the equalisation reserve and similar provisions improved on the previous year to EUR 35.5 million (-EUR 56.3 million). An amount of EUR 84.3 million was allocated to the equalisation reserves on the basis of the positive underwriting result. In this context we exercised the option of largely writing back the equalisation reserves constituted in other property insurance and other indemnity insurance in light of the amendment of the Ordinance Concerning the Reporting by Insurance Undertakings to the Federal Insurance Supervisory Office (BerVersV).

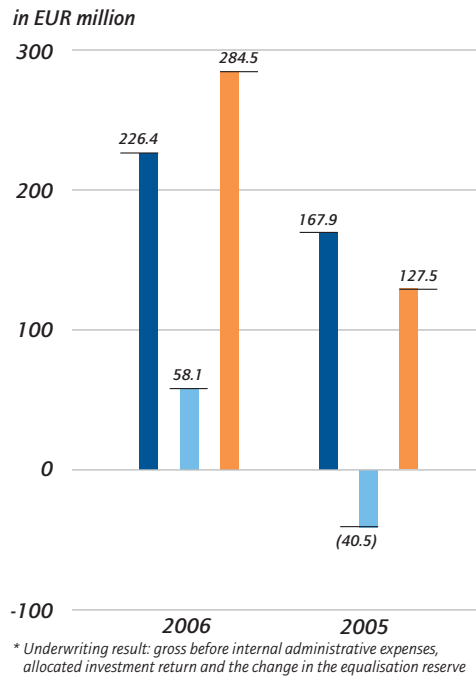
Growth in capital, reserves and technical provisions and in net premium



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



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



In the life and health lines E+S Rück cemented and extended its excellent position, as reflected in the sharp rise of 32.7% in premium income. The stronger interest in annuity and innovative risk-oriented products ensured that we were able to act on our growth strategies in this business segment.

Investment income developed favourably on the basis of another highly positive underwriting cash flow and the associated growth of around 7.0% in the volume of assets. Our net investment result came in on a par with the previous year at EUR 276.5 million (EUR 277.9 million).

At the end of the 2006 financial year a multi-year retrocession arrangement was cancelled by mutual agreement ahead of the scheduled termination date after negotiations with the retrocessionaire. In past years the treaty had alleviated the strains from natural catastrophe

events. The risk transfer under this arrangement was limited on the basis of contractual clauses. The premature termination led to a strain on E+S Rück's account in the 2006 financial year.

The commutation of the contract by mutual agreement consequently gave rise to additional contractual clauses that limit the risk. In light of the further limitation of the risk transfer, the existing disclosure in the technical amount was therefore replaced with recognition in other income. This resulted in a strain on the non-technical account; the aforementioned treaty had no effect on (claims) expenditures for the current year.

The good conditions on both the premium and claims side delivered a result in the year under review that surpassed even that of favourable past years. The profit for the year surged to EUR 70.4 million (EUR 22.0 million).

Development of the individual lines of business in Germany

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

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

Fire

In the year under review the hallmark of the industrial fire insurance market in Germany was again progressive concentration on just a few large providers. Although the financial year just-ended closed with a major loss burden that was similar to the unsatisfactory years of 1999 to 2001, prices and conditions steadily deteriorated. The market consolidation that had begun to set in failed to halt this trend. On the contrary, various German providers that had abandoned the industrial segment years ago were encouraged by the good results of the years 2003 to 2005 to recommence their underwriting activities towards the end of the year. What is more, foreign competitors entered the market so as to share in the growth of Europe's largest industrial market and profit from the potential frictional losses arising out of the mergers.

These circumstances caused rates in industrial fire business to come under further pressure and soften in the course of the year. Consequently, it may be stated that in view of a roughly 15% higher loss burden premiums can no longer be considered commensurate with the risks. What is more, far-reaching concessions were often made with respect to conditions. In some cases, major industrial clients are frequently no longer prepared to run high retentions. Given the fact that sufficient capacity will be available for insurance protection in the future as a consequence of these changes in the competitive situation, no significant easing is to be anticipated in the tense state of the market over the coming years.

Facultative fire business experienced a similar development: premium erosion of up to 20% was observed under specific treaties. In such cases we relinquished our participations if conditions were no longer commensurate with the risks. It should, however, be noted that facultative business was not affected by the various major losses in this line.

The tense situation in this line was not reflected in the performance of our business: gross written premium from our German fire portfolio contracted by 15.1% to EUR 45.5 million (EUR 53.6 million) due to our profit-oriented underwriting policy. On the claims side business fared well despite a number of major losses. The loss ratio improved to 26.0% (61.6%), producing a pleasing underwriting result of EUR 18.5 million (EUR 2.6 million).

An amount of altogether EUR 43.5 million was allocated to the equalisation reserve and similar provisions.

Fire

in EUR million	2006	2005
Gross written premium	45.5	53.6
Loss ratio (%)	26.0	61.6
Underwriting result (gross)	18.5	2.6

Casualty

Developments in casualty insurance were very largely positive; with a few exceptions, re-insurance prices and conditions were broadly stable. The year under review passed off without significant claims.

In the primary insurance sector, however, growing competition caused conditions to soften. Private and commercial lines, in particular, saw not only falling rates but also concessions over the scope of coverage that led to extensions in insurance protection.

As far as industrial major risks were concerned, we stood by our cautious underwriting policy and continue to prefer portfolios that place the emphasis on private and commercial business.

Directors' and officers' (D&O) covers also saw rate reductions. On risk management grounds E+S Rück writes this business on a predominantly facultative basis.

In the current year the Environmental Damage Act (*Umweltschadengesetz*) enacted into national law the EU Directive on "Environmental liability with regard to the prevention and remedying of environmental damage". Under the leadership of the German Insurance Association

Accident

Accident insurance continued to move forward in the year under review. We were successful in divorcing ourselves from the sluggish premium trend in the primary market. Prices and conditions were largely unchanged.

The main focus for E+S Rück in this line is on advising our clients and expanding the range of services offered. We further extended our accident expertise in the German market by offering a range of services: we developed new products in various areas (for example in the senior

(GDV) a new insurance product has been designed to meet this standard. The requirement to provide coverage for damage caused to biodiversity (protected species or natural habitats) poses a special challenge for insurers. E+S Rück will support its clients with the launch of these new insurance terms and conditions.

The premium volume climbed 13.0% in the year under review to EUR 154.3 million (EUR 136.6 million). Despite higher overall claims expenditure – reflected in a loss ratio of 56.3% – casualty insurance generated an improved underwriting result of EUR 41.7 million (EUR 26.7 million).

An amount totalling EUR 26.2 million was allocated to the equalisation reserve and similar provisions.

Casualty

in EUR million	2006	2005
Gross written premium	154.3	136.6
Loss ratio (%)	56.3	31.7
Underwriting result (gross)	41.7	26.7

citizens' market) and promoted a vigorous knowledge transfer by holding expert conferences.

Gross written premium came in 13.6% higher than in the previous year at EUR 71.1 million (EUR 62.6 million). The underwriting result was slightly negative at -EUR 7.5 million (EUR 0.4 million), and the loss ratio climbed to 70.8% (53.5%) due to an increased burden of losses.

We allocated an amount of altogether EUR 1.8 million to the equalisation reserve and similar provisions.

Motor

Motor business, our largest line in the non-life segment, saw increasing competition on the primary market in 2006. The average premium currently generated per policyholder in this line is already on a par with the lowest point of the previous cycle (1999). German motor insurers were nevertheless just able to achieve a marginal underwriting profit.

E+S Rück was affected only to a limited extent by this competitive pressure in the primary sector. Thanks to our highly selective underwriting policy and the assumption of profitable portfolios, we achieved satisfactory results even in proportional business. Non-proportional treaties – which are the focus of our activities – performed even better than in previous years. We secured rate increases on a wide scale in this area.

As far as terms and conditions are concerned, it can be observed that under most policies insured limits of EUR 100 million for do-

Aviation

After seeing rates surge to a record level in the wake of the attacks of 11 September 2001, the aviation insurance market now has surplus capacities. Rates in the primary sector consequently again softened markedly relative to the previous year.

On the reinsurance side, however, excess capacities are limited, and ceding companies continue to attach considerable importance to

Accident

in EUR million	2006	2005
Gross written premium	71.1	62.6
Loss ratio (%)	70.8	53.5
Underwriting result (gross)	(7.5)	0.4

mestic claims are gradually becoming established in the portfolios.

The premium volume booked by E+S Rück in the motor line contracted by a modest 1.3% to EUR 296.5 million (EUR 300.3 million). A number of individual claims pushed the loss ratio up to 92.2%. The underwriting result normalised after the special effects of the previous year at -EUR 37.4 million (EUR 31.9 million).

We contributed an amount of altogether EUR 5.8 million to the equalisation reserve and similar provisions.

Motor

in EUR million	2006	2005
Gross written premium	296.5	300.3
Loss ratio (%)	92.2	71.9
Underwriting result (gross)	(37.4)	31.9

the financial quality of their reinsurers. Against this backdrop the price erosion was moderate. We wrote our business selectively – i.e. guided strictly by profitability considerations – and maintained our leading position in this segment despite slightly scaling back our market shares. The diversification of our portfolio was further improved as we continued to reduce the dominance of fleet business.

All in all, we were thoroughly satisfied with developments in aviation reinsurance. Although the premium volume contracted by 30.7% to EUR 26.0 million (EUR 37.5 million), the low claims frequency – reflected in a loss ratio of 31.9% (41.3%) – enabled us to post a gratifying underwriting profit of EUR 15.3 million (EUR 16.0 million) despite the decline in premium income.

An amount of altogether EUR 9.6 million was allocated to the equalisation reserve and similar provisions.

Marine

German marine business was very largely stable in the year under review. Unlike in international business, it was not possible to push through a clear distinction between catastrophe-exposed business and risks with no catastrophe correlation on the German market. Non-proportional business was spared price reductions as a consequence of the hurricane losses incurred in 2005.

In the primary sector, however, and especially in cargo insurance, there was no let-up in the pressure on rates. Developments on the insurance side have a minimal impact on our portfolio, since we concentrate principally on writing non-proportional business.

All in all, we were thoroughly satisfied with our results in marine business, which is one of our smaller lines; our portfolio was not affected

Life

Following the two exceptional years of 2004 and 2005, the German life insurance market saw a return to normality in 2006. Most notable was a further shift in demand towards annuity products, which are now offered in a broad array of guises – not only in traditional forms with interest guarantees but also embedded in unit-linked concepts. Particularly successful in this respect has been the so-called "Riester-Rente", an annuity product for which policyholders receive direct government assist-

Aviation

in EUR million	2006	2005
Gross written premium	26.0	37.5
Loss ratio (%)	31.9	41.3
Underwriting result (gross)	15.3	16.0

by any exceptional major losses. The premium volume booked in this line gained 15.1% to reach EUR 6.1 million (EUR 5.3 million). The year under review passed off uneventfully, as reflected in the underwriting profit of EUR 4.2 million (EUR 2.8 million).

An amount of EUR 1.3 million was withdrawn from the equalisation reserve and similar provisions.

Marine

in EUR million	2006	2005
Gross written premium	6.1	5.3
Loss ratio (%)	14.2	28.1
Underwriting result (gross)	4.2	2.8

ance in the early years. Yet the "Rürup-Rente", an annuity product featuring a tax advantage upon policy inception, is also enjoying growing resonance with customers and marketing organisations.

As far as risk-oriented products are concerned, disability covers purchased for the policyholder's own protection continue to be the primary focus, although whole life insurance is also taken out to provide for surviving dependants.

Critical illness covers, which pay a benefit upon occurrence of specific severe illnesses, are making some progress on the German market; unlike in the United Kingdom, for example, they do not yet play a significant role.

The German client base of E+S Rück expanded in the year under review. We now have a clientele of 38 German insurers and occupational pension funds. The ceded gross premium amounted to EUR 544.1 million, an increase of 1.2% compared to the previous year's figure of EUR 537.6 million made possible by vigorous new business with unit-linked products.

The underwriting results of our German business fully lived up to our expectations. We enjoyed a favourable biometric risk experience, coupled with satisfactory persistency of the business in force.

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, windstorm, plate glass, engineering, loss of profits, hail and livestock lines. In this context, a separate technical profit and loss account is drawn up for the engineering line. Other indemnity insurance encompasses legal protection, fidelity as well as other pure financial losses and property damage. In this regard, a separate technical profit and loss account is drawn up for fidelity insurance. We exercised the option of fully writing back the equalisation reserve in lines where no separate profit and loss account is drawn up. Equalisation reserves of EUR 36.6 million were written back in this connection.

Reflecting their significance, our comments on the other lines will concentrate on natural hazards covers and credit and surety insurance.

Thanks to falling insolvency figures and the improved state of the economy, loss ratios in

Since the in-force business now accounts for a large share of the portfolio in the life and health lines, new business no longer places a significant strain on results. This was impressively borne out by the underwriting profit, which moved up superbly to reach EUR 157.0 million (EUR 23.3 million).

Life

in EUR million	2006	2005
Gross written premium	544.1	537.6
Underwriting result (gross)	157.0	23.3

credit and surety insurance in Europe retreated to a record low. The sustained good results of late led to pressure on conditions in the reinsurance sector, which – unlike in the previous year – it proved impossible to entirely resist. Large insurance groups, in particular, were able to push through their demands owing to a surplus of capacity.

On the other hand, ceding companies continued to focus on reinsurers noted for their financial soundness and professionalism, a situation from which we benefited. In the year under review we were therefore able to maintain our position as one of the market leaders. The line generated further outstanding results in the financial year just-ended. No major losses were recorded. Total gross premium volume of EUR 23.8 million (EUR 34.1 million) and an underwriting profit of EUR 12.0 million (EUR 8.4 million) were booked.

Our natural hazards portfolio developed rather unremarkably in the year under review. Prices and conditions held stable. Germany was impacted by a number of localised natural disasters in the course of 2006: at the beginning

of the year under review southern parts of Germany were affected by numerous claims due to snow pressure; there was also an increased frequency of regional weather-related damage, including for example tornadoes and hailstorms.

The gross written premium in all the other lines combined declined by 10.3% to EUR 113.9 million (EUR 127.0 million) on account of our selective underwriting policy. The loss ratio of 40.1% (40.7%) was virtually unchanged, producing a modestly improved underwriting profit of EUR 34.4 million (EUR 33.6 million).

An amount of altogether EUR 1.3 million was withdrawn from the equalisation reserve and similar provisions constituted in the other lines.

Other lines

in EUR million	2006	2005
Gross written premium	113.9	127.0
Loss ratio (%)	40.1	40.7
Underwriting result (gross)	34.4	33.6

Results of our foreign business

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

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

Europe

United Kingdom

The basic environment on the UK insurance market remained unchanged from the previous year: while the primary insurance sector is seeing appreciable competition, conditions on the reinsurance market are largely stable.

Owing to the enormous losses associated with the 2005 hurricanes, the international property catastrophe business written on the London Market showed particularly significant rate increases. Prices up to 150% higher were obtained due to the shortage of capacity. This development went hand-in-hand with appreciably improved conditions for reinsurers. As part of its strategic risk management Hannover Re nevertheless scaled back its peak exposures. On the claims side, no sizeable loss events occurred in the year under review.

Due to the massive surplus capacity in aviation insurance, rates softened again appreciably in comparison to the previous year. On the reinsurance side, however, the excess capacities are limited because ceding companies continue to attach considerable importance to their reinsurer's financial standing. Against this backdrop the price erosion was moderate. Hannover Re wrote its business selectively, i.e. guided strictly by profitability considerations, and retained its leading position in aviation reinsurance despite modestly reducing its market shares. At the same time the company continued to improve the diversification of its portfolio, thereby further scaling back the dominant role played by fleet business. All in all, Hannover Re was highly satisfied with the development of its aviation reinsurance business.

The market climate in marine reinsurance in the year under review was heavily influenced by the substantial losses from the 2005 hurricanes. Hannover Re achieved appreciable rate rises here. As part of its risk management activities the company restricted its limit of liability for windstorm-exposed programmes; it is often the case, for example, that reinstatements of such programmes are now entirely excluded. The bulk of the business is written on a non-proportional basis, although Hannover Re accepts proportional arrangements in segments that promise high margins. With insured market losses of roughly EUR 6 to 8 billion each for

France

Hannover Re is the second-largest provider of reinsurance coverage in France and the market leader for personal accident and builder's risk insurance. Overall, the company does not pursue any specific growth targets, preferring to ensure that terms and conditions are commensurate with the risks. In segments offering attractive conditions it extends its involvement.

The French insurance market suffered a further contraction in premium volume in motor lines; with accident numbers falling, insurers again posted good results in the year under review, leading to greater pressure on rates. On the reinsurance side rates proved to be inadequate in the year under review: although the number of accidents was down, spending on seriously injured victims of traffic accidents moved

North America

The North American (re-)insurance market is the largest and most important single market for Hannover Re. Property catastrophe business developed particularly favourably for reinsurers in the year under review: in the aftermath of the previous year's severe hurricane events this segment was notable for an imbalance between supply and demand. The marked capacity shortage and the updating of pricing and rating models to include hitherto neglected or inadequately reflected components led to substantial price hikes on the reinsurance side.

Particularly in the renewals as at 1 July 2006 – once the catastrophe modelling agen-

hurricanes "Katrina" and "Rita" 2005 went down as by far the most costly year in the history of marine reinsurance; the year under review, by contrast, passed off quietly without any major losses. The underwriting result was nevertheless again burdened by belated claim notifications.

United Kingdom

in EUR million	2006	2005
Gross written premium	163.7	171.0
Underwriting result (gross)	(14.9)	(57.3)

higher. The situation was exacerbated by the entry of new providers: in order to gain market shares they were even willing to accept insufficient rates, thus depressing the level even further – when in fact rate increases were needed.

No significant loss events were recorded in the year under review; however, due to the unfavourable development of French motor business, the result failed to live up to expectations.

France

in EUR million	2006	2005
Gross written premium	53.2	48.9
Underwriting result (gross)	2.4	8.1

cies had also recalibrated their models –, Hannover Re obtained another appreciable increase in rates under programmes impacted by the hurricanes. Some of these rate rises even exceeded 100% relative to the premium booked in the previous year. At the same time, as part of its strategic risk management, the company scaled back its peak exposures – for example in coastal regions – and thereby significantly improved its risk profile. Were another hurricane on the scale of "Katrina" to occur in 2007, the repercussions for Hannover Re would be nowhere near as serious.

Property business with no natural catastrophe exposure was for the most part characterised by premium erosion in the year under review. For this reason Hannover Re wrote this business opportunistically and with the aid of systematic cross-selling: when Hannover Re accepted catastrophe covers, clients ceded other attractive property business at the same time.

The underwriting policy in the casualty sector is geared primarily to non-proportional business. In this segment Hannover Re writes risks highly selectively and was again able to generate attractive business in the year under review. Despite rate decreases in some casualty lines, the market was more stable than initially anticipated.

In credit insurance the portfolio again developed highly favourably; the surety line was also characterised by an attractive rate level. Hannover Re maintained – and in some instances even extended – its influential market position, while recording above-average profitability. The premium volume in the area of political risks was significantly enlarged.

The situation in marine reinsurance in the year under review was also heavily influenced

Asia

For Hannover Re Japan is by far the largest Asian market. The company is one of the market leaders here and thanks to its presence in Tokyo, where it maintains a service company, it is able to stay in constant contact with clients.

In natural catastrophe business Hannover Re obtained rate rises of up to 10% for both windstorm and earthquake covers in the year under review. This increase was made possible primarily by the recalibration of simulation models following the severe hurricanes of 2005. Against this backdrop Hannover Re modestly expanded its windstorm and earthquake portfolio. All in all, the company's business in Japan developed very favourably. The result was not affected by any significant major claims.

Southeast Asian markets witnessed rate reductions in both the primary and reinsurance sectors. Particularly in Malaysia, Indonesia and

by the losses from the 2005 hurricanes, which not only prompted rate hikes but also ushered in extensive restructuring of the reinsurance programmes: many programmes now distinguish between catastrophe-exposed regions and risks that have no correlation with natural catastrophe events. The market hardened appreciably in catastrophe-exposed business, on both the insurance and reinsurance sides. Conditions for other reinsurance business were stable. In both offshore/energy business and in the rest of the marine portfolio Hannover Re achieved appreciable rate rises.

All in all, the company can look back on a good financial year in North America that was notable for an exceptionally low loss burden. Market conditions were broadly attractive.

North America

in EUR million	2006	2005
Gross written premium	238.5	274.6
Underwriting result (gross)	10.9	(75.7)

Pakistan, the year under review was notable for the establishment of takaful companies ("takaful" is an Arabic term meaning "guaranteeing each other"). This business model – which has similarities to that of a mutual insurance society – takes full account of Islamic standards. Since takaful insurers are required to reinsure their business primarily with Sharia-compliant, so-called retakaful companies, the establishment of new retakaful players in the year under review came as no surprise. Hannover Re sees considerable potential in this emerging market and has set up a subsidiary in Bahrain which will serve the Islamic insurance market on an exclusive and worldwide basis.

Hannover Re's strategic objective throughout the entire region continues to be the expansion of its non-proportional portfolio. The company is, however, also focused on writing profitable proportional business in lines with

no correlation to natural catastrophe exposures. In this respect, the year under review offered additional attractive opportunities. With the exception of the Surat flooding in India in August 2006, no major losses were incurred.

The strongest growth market in Asia along with India is China. This is especially true of motor insurance, although the reinsurance density of this business is not yet particularly marked. China continues to be a target market for the international insurance and reinsurance industry, and competition is correspondingly intense.

In Taiwan Hannover Re stepped up its focus on non-proportional business, thereby further optimising the structure of its portfolio.

International life and health reinsurance

In the year under review E+S Rück continued to participate in Hannover Re's international life and health reinsurance business through a global quota share reinsurance treaty, thereby considerably enhancing the regional and technical diversification of its own portfolio. In this context a worldwide premium volume of EUR 516.5 million was written outside Germany, a significant increase of 97.1% compared to the previous year (EUR 262.0 million). The proportion of E+S Rück's total premium income generated by life reinsurance continued to grow, with altogether 43.5% (34%) attributable to life, annuity and health business in the year under review.

Particularly notable growth drivers were the markets of the United Kingdom (enhanced annuities), France (bancassurance) and South Africa (individual life policies).

In the US market the company's position in selected niche segments – such as block assumptions of closed portfolios and the health insurance market for senior citizens – was strengthened. Special mention should be made here of the 2006 launch of the Medicare Part D program in the United States – an extension of state health insurance coverage for senior citizens

Similarly, in South Korea and Hong Kong the company writes almost exclusively non-proportional covers. In view of the attractive prices in accident and casualty insurance the premium volume was further boosted in these lines.

All in all, Hannover Re was highly satisfied with its results in Asia.

Asien

in EUR million	2006	2005
Gross written premium	43.7	38.7
Underwriting result (gross)	14.5	5.9

which also involves the private insurance sector. Gross premium income in health reinsurance grew in this connection to EUR 170.4 million (EUR 37.4 million). In Australia and New Zealand the role of market leader was successfully consolidated.

We also achieved notable advances in the Far East, especially in the Chinese-speaking economic region and in Korea. In November 2006 Hannover Re received a licence from the China Insurance Regulatory Commission to establish a life office in China. This opens up the prospect of being able to tap into the rapid growth of the Chinese life insurance market to an even greater extent than has hitherto been possible.

International life and health reinsurance business

in EUR million	2006	2005
Gross written premium	516.5	262.0
Underwriting result (gross)	6.7	7.8

Investments

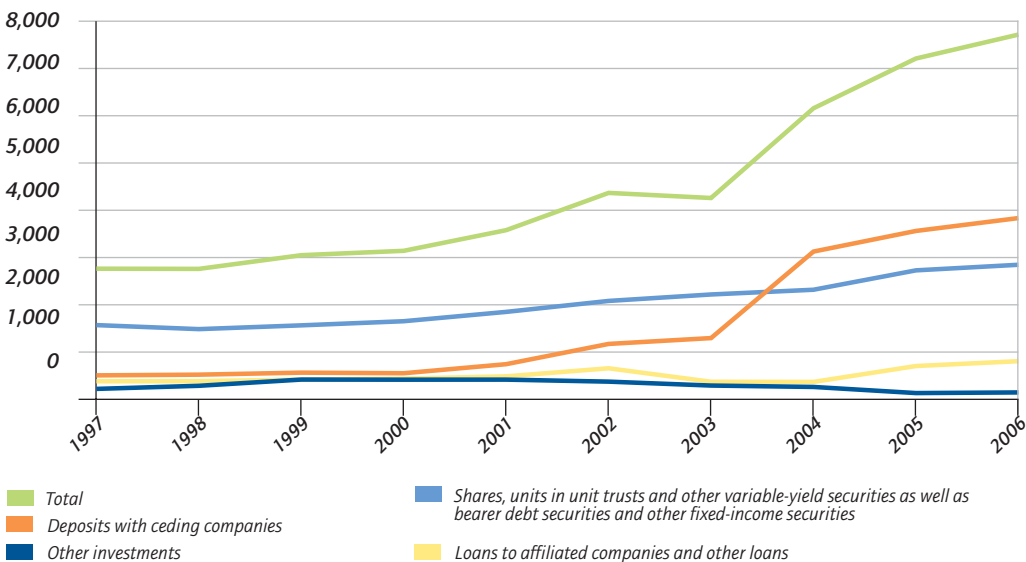
Aside from a brief but pronounced corrective phase from the middle of May to June, international equity markets enjoyed a consistent upward trend. The Dax put on 22.0% for the year, reaching its highest level of 6,611 points on 28 December 2006. The German bellwether index thus outperformed the DJ EuroStoxx 50 (+15.1%) and the S&P 500 (+15.8%).

Prime rates moved sharply higher by 100 basis points in both the USA (to 5.25%) and the Eurozone (to 3.50%). The yield curve in the

Eurozone flattened gradually in the course of the year, albeit without inverting markedly as was the case in the USA. Ten-year US treasury bonds yielded average returns of 4.8%, while the average yield in the Eurozone was a mere 3.8%. The corporate bond market saw only isolated increases in the risk premium for selected instruments, while the overall market generally moved within a very tight spread. The euro closed the year under review at USD 1.3181 (USD 1.1834).

Investments

in EUR million

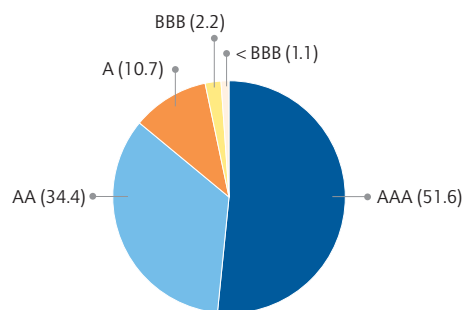


The investment policy is guided by the following core principles. We seek to:

- generate stable, plannable and tax-optimised returns while at the same time maintaining the high quality standard of the portfolio;
- ensure liquidity and solvency at all times;
- diversify risks within the scope of our investment strategy;
- act in accordance with the principle of matching currencies when managing our currency exposures.

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 ensure that at all times we are able to meet our payment obligations in light of our liabilities profile.

Rating of fixed-income securities in %



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.

Our performance was in line with the planned parameters thanks to the neutral/defensive posture of our bond portfolio. Based on the strong cash inflow from the technical account, our portfolio of assets under own management grew to EUR 3.9 billion (EUR 3.6 billion).

Interest from funds withheld and expenses contributed EUR 101.0 million (EUR 97.1 million) on balance to the investment result. Gains of altogether EUR 64.4 million (EUR 103.3 million) were realised on the disposal of assets under own management in the reporting period, as against losses of EUR 9.4 million (EUR 13.1 million). The positive balance was therefore lower than in the previous year at EUR 55.0 million (EUR 90.2 million). Due to higher ordinary income of EUR 237.9 million (EUR 218.6 million) and lower write-downs, the net investment result contracted only marginally year-on-year to EUR 276.5 million (EUR 277.9 million) despite reduced profit-taking and the special effect associated with the restructuring of participations in 2005.

As in previous years, we actively managed the duration of our fixed-income portfolio, thereby not only optimising our returns but also conserving our shareholders' equity. The modified

duration of our bond portfolio was kept stable over the reporting period, standing at 4.2 years as at 31 December 2006 – the same level as at the end of the previous year.

The portfolio of fixed-income securities (including bond funds) as at 31 December 2006 amounted to EUR 3.2 billion (EUR 3.0 billion), a rise of 5.5%. In view of the sustained low interest rate level and the minimal yield advantages of corporate bonds over government bonds we attached special importance to high quality in the year under review. Our holdings of corporate bonds were consequently only modestly expanded. Preferred asset classes in Europe were debt securities issued by semi-governmental entities. New investments were made primarily in medium-duration instruments. Net unrealised losses in our portfolio of fixed-income securities totalled EUR 23.4 million, compared to net gains of EUR 40.5 million in the previous year.

In light of the favourable trend on stock markets we realised targeted gains on equities. The equity allocation increased to 13.2% (11.1%). New equity investments were made predominantly in the Eurozone – especially in index-tracking instruments and an opportunistically managed equity mandate. By using systematic option strategies we exploited market volatilities to a modest extent in order to optimise our portfolio.

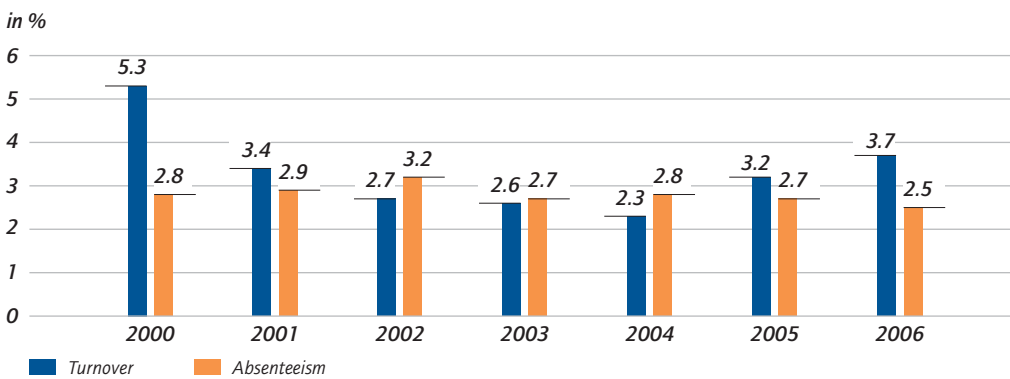
Human resources

E+S Rück employed 235 (229) staff as at 31 December 2006. The low staff turnover and absenteeism figures once again clearly demonstrate that employee satisfaction is also reflected in key personnel data – even allowing for the fact that the difficult state of the labour market in Germany undoubtedly plays a role here too. Absentee rates further serve as a seismograph for detecting the existence of in-house conflicts. By holding our conflict management

seminar for executives and employees we help to defuse any such tensions that may arise.

More than half of our workforce can draw on a rich store of professional experience based on their age. The average length of service of nine years in combination with an average age of 39.4 indicates that new recruits regularly join our company shortly after completing their university studies.

Staff turnover and absenteeism



Balance between career and leisure

Employee loyalty is also fostered by flexible working-time models. This is impressively underscored by our various models for part-time working arrangements. They harmonise the company's interests with those of our staff in a broad

range of life situations. Many of our employees work from home as telecommuters, thereby also playing their own modest part in helping the environment.

University marketing activities

E+S Rück energetically maintains a tightly knit network of contacts with German universities. Our focus is directed firstly towards local (technical) universities, such as the Leibniz University of Hannover, the University of Lüneburg, the University of Göttingen and Hannover University of Applied Sciences, and secondly at prominent institutions of higher learning nationwide which offer courses in insurance science, such as Cologne University of Applied Sciences. A lively dialogue between scientific theory and business practice takes place within the scope of these contacts, first and foremost in the form of joint

events held on campus or at our offices. In the year under review, for example, we held a seminar event at our premises in Hannover in cooperation with the University of Leipzig for those of its students reading insurance business management.

We continue to feel a lasting commitment to personnel development. Over the past three years many of our staff participated in personnel development workshops: the total investment in further and advanced training amounted to six days for each staff member per year.

Staff participation in the company's success – the Group Performance Bonus

In 2004 we had launched the Group Performance Bonus, a performance-based compensation system for staff in Hannover. This tool was geared to the earnings per share and hence directly linked to the company's performance; it replaced salary components that were previously guaranteed.

Discussions with staff and the Employee Council ultimately led to the adoption of a new calculation base, namely the minimum return on

equity of 750 basis points above the risk-free interest rate (moving five-year average on 10-year government bonds). This was applied for the first time in the year under review and generated additional performance-based compensation due to the favourable development of business.

Our range of training opportunities

We attach considerable importance to the training of young people, as borne out by the excellent qualifications obtained by our trainees. Personnel development involves the timely recognition of opportunities and risks on the labour market. After a protracted demand-driven job market, we expect the supply side to take the lead in the coming years. This can be deduced from the demographic population trend for the next 20 years in Germany. We consider a differ-

entiated, medium-term training initiative to be an appropriate, well-timed instrument for preempting this trend. So far, training has only been available for the occupational profile of certified insurance practitioner. Going forward, we intend to take a close look at other areas where opportunities for professional qualification may be available, including for example the Bachelor's degree in business informatics.

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 appreci-

ation to the representatives of staff and senior management for their critical yet always constructive cooperation.

Sustainability report

Our strategy, like our actions in daily business, is founded on high ethical and legal standards. As a service provider, we recognise that the public image of E+S Rück is crucially shaped by the manners, actions and conduct of every member of staff.

Sustainability and social responsibility are in no way at odds with our strategic objective of being the leading specialist reinsurer for the German market. On the contrary, successful business

management establishes the basis for playing a positive role in society, consistently fostering and advancing staff and supporting projects that are in the public interest.

The responsible underwriting of risks and diligent risk management are vital preconditions for safeguarding the quality of our business over the long term and for preserving and multiplying the value of our company. Our goal is to continue to act with this level of responsibility.

Social commitment

E+S Rück responds to its social responsibility with active involvement: thus, for example, we support young musicians at Hannover University of Music and Drama. In cooperation with the university E+S Rück organises so-called "examination concerts". Three or four of the university's "master students" perform at these concerts each year accompanied by a large orchestra and are thereby able to satisfy the requirements for embarking on a career as a soloist. Were it not for the involvement of E+S Rück these advanced students would face a long wait until their final examination, since opportunities for them to play with a large orchestra are few and far between. At the same time E+S Rück is able to offer

clients a musical highlight as part of its traditional "Hannover Forum" seminar event.

The reinsurance of catastrophe risks is part of our core business; a constant knowledge transfer between business and research that enables our company to apply the very latest insights is indispensable. With this in mind E+S Rück supports the highly respected Geo Research Center in Potsdam. The institute conducts systematic research into earthquakes and their early identification. We also seek to maintain an ongoing dialogue with universities. Our own experts are welcome speakers at conferences and institutions of higher learning.

Performance Excellence

Performance Excellence (PE) is a forward-looking, holistic management system for E+S Rück, with the aid of which we seek to sustainably increase the value of our company. It takes its lead from the "Excellence Model" of the European Foundation for Quality Management (EFQM) and is based on the evaluation and en-

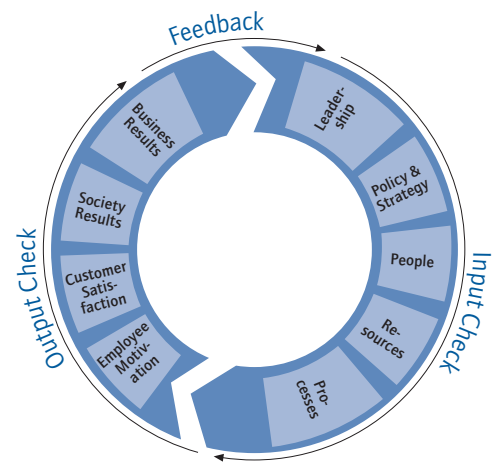
hancement of methods, practices and procedures used, supported by external expert assessments. This comprehensive approach encompasses inter alia concepts such as the Balanced Scorecard, Customer Relationship Management, Leadership Feedback and Management by Objectives (MbO).

Performance Excellence 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 resources and process management. In so doing, our goal is to achieve optimal results in terms of customer and employee satisfaction as well as business performance.

E+S Rück demonstrated its sophisticated quality management by delivering a superb result in the first external IBEC assessment (IQNet Business Excellence Class) covering several areas of the company. Our Home Office in Hannover was praised for its excellent management. With this advanced management system we also have at our disposal an outstanding tool that will enable us to fully satisfy future requirements. Not only that, in the year under review E+S Rück received the international certificate for Business

Excellence in accordance with DIN EN 9001: 2000 for its management system – the first reinsurer in Europe to gain this distinction.

Integrated assessment (IBEC)



Employee responsibility

As an employer in the Hannover area, E+S Rück creates a high-calibre environment for its employees that facilitates a harmonious balance between work and leisure and makes the company one of Germany's best employers. E+S Rück offers ambitious and performance-minded people attractive jobs, combined with continuous skills enhancement, motivation and an entrepreneurial mindset on every level.

By means of company-wide guidelines, including for example our business principles, we have defined standards that are valid for all employees worldwide. They are intended to help our staff successfully cope with the often complex ethical and legal challenges facing them in their daily tasks. What is more, 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 guidelines are regularly updated in order to keep them in tune with changing socio-political standards.

Criteria for establishing a balance between career and leisure are also applied at E+S Rück: not least in the form of a varied range of part-time working and telecommuting arrangements as well as a flexi-time system for flexible structuring of working hours. Among other things, this puts in place an optimal foundation for enabling staff to harmoniously balance personal and professional matters at their own responsibility. A family-friendly approach is also reflected in the assistance offered for childcare and in job-sharing opportunities. Furthermore, active steps are taken to promote healthy living, ranging from company sports to the availability of a mobile massage service and flu shots.

Risk report

Overall system of risk monitoring and management

We always take our opportunities in a targeted manner by weighing up the associated risks. Only if an increase in the value of the company is to be expected do we systematically and purposefully enter into these risks. Risk management is an integral component of our value-based enterprise management. Risk management is therefore accorded a special status in our strategy. In the year under review we adjusted the risk management approach that has been in place at E+S Rück for many years. The key qualitative and quantitative elements of risk management were – under the leadership of the Chief Risk Officer (CRO) – concentrated in the newly created Central Division Group Risk Management so as to be able to control our assets-side and liabilities-side risks on a holistic basis going forward. In addition, we have set up a Risk Committee which is charged with bringing transparency to the entire risk situation and highlighting the essential action fields. In this context, the Risk Committee's decision-making power is limited to the degree of risk defined by the full Executive Board. In functional terms, the Risk Committee is composed of the Chairman of the Executive Board, the Chief Financial Officer, the members of the Board with primary responsibility for worldwide life and non-life reinsurance business, the Central Divisional Manager Controlling and the Chief Risk Officer. The Risk Committee meets quarterly and on an ad hoc basis when needed. The following elements are

the hallmarks of our risk management organisation:

- E+S Rück's risk management is centrally coordinated, but based on local responsibility in the various areas.
- The essential components of risk management are documented in binding instructions that are applicable to the entire E+S Rück organisation.
- In light of the information currently available, all conceivable risks that could jeopardise the company's net income or survival are recorded thoroughly and systematically.
- The up-to-date status of our risk portfolio is ensured by defined reporting procedures and an annual risk inventory.
- We have at our disposal various indicators geared to individual risks that immediately flag any potential imbalances.
- We have a large number of efficient steering and controlling systems. The structure of the systems and the granularity of the reporting depend on the nature of the risk in question.
- The systems are constantly reviewed in light of efficiency considerations and they are adjusted in line with the changing business environment.

Risk categories

Global risks

We take global risks to mean external risks that are beyond our direct sphere of influence. Global risks derive, inter alia, from changes in legislation and court practice, political developments and social changes, liability issues, natural disasters and environmental changes. Such sources of risk can scarcely be reduced and there are limits to the extent to which they can be avoided. Our risk management activities are

therefore geared to early detection. We counter these potential risks, inter alia, by means of the following measures:

- monitoring of claims trends as well as analyses of claims and catastrophe losses (e.g. analysis of the frequency and extent of losses associated with natural disasters due to climate changes),

- review and, as appropriate, adjustment of the underwriting policy (e.g. through contractual exclusions, defined limits),
- close tracking of developments in
 - relevant legal areas (e.g. liability),
 - regulatory requirements (e.g. Minimum Requirements for Risk Management [MaRisk], Solvency II),
 - accounting standards (e.g. IFRS),
 - rating agency requirements (e.g. Enterprise Risk Management).

Strategic risks

The hallmark of strategic risks is their causal relationship to the company's objectives. These risks derive primarily from an imbalance between the defined corporate strategy and the continually changing general economic conditions. We therefore regularly review our strategy and adjust our structures and processes accordingly. Every three years – most recently in 2005 – the assumptions underlying our corporate strategy are systematically re-examined. Members of staff from various levels of E+S Rück participate in the strategy review.

Technical operating risks

The technical risk is primarily associated with the fact that cash flows which are essential for (re-)insurance business may diverge from their expected values. These risks can be subdivided into risks of random fluctuation, risks of error and risks of change.

The default risk on reinsurance recoverables is of relevance to our company because we do not always fully retain the business that we accept, but instead retrocede portions where necessary (e.g. peak exposures). The credit status of our retrocessionaires is therefore a criterion that assumes paramount importance in the selection process. As a further risk reduction measure, our receivables from reinsurance business are to some extent secured by deposits or letters of credit. What is more, in the case of most of our retrocessionaires we also have the possibility of offsetting against our own liabilities.

Property and casualty reinsurance

In property and casualty reinsurance the main methods used to reduce risks are as follows:

- Our loss reserves are determined on an actuarial basis. The point of departure for our calculations is the information provided by 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 probably already occurred but have not yet been reported to us. This applies primarily to claims in the liability lines. Our own actuarial calculations regarding the adequacy of the reserves are subject to annual quality assurance reviews conducted by external actuaries and auditors.
- We pass on portions of our risks using traditional retrocession tools, on the one hand, and through transfers to the capital market, on the other. Both measures support diversification within the total portfolio and promote risk reduction with the goal of protecting our capital against peak exposures, such as those associated with natural disasters.
- In order to assess the risks posed by natural hazards E+S Rück uses simulation models that incorporate the latest expert insights of leading climatologists into possible changes in the frequency and intensity of such events due to climate changes. In addition, E+S Rück's natural hazards specialists continuously monitor the findings of all available scientific research with an eye to possible changes in the risk situation. In various segments we also determine additional safety loadings that are added to the output of the simulation models in order to adjust our calculation base to adequately reflect the risks.
- Within the scope of aggregate risk control – i.e. monitoring of the natural hazards exposure of E+S Rück's portfolio – maximum underwriting limits ("capacities") are defined for various scenarios and return periods/probabilities on the basis of the company's overall risk strategy. The portfolio risk for the scenarios in question is then calculated in the form of probability

distributions on a gross basis, in other words our simulation models for natural hazards are used to determine the expected loss for specific occurrence probabilities. 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 is also an integral component of our reporting to internal bodies, regulators and rating agencies.

- The extreme events caused by natural disasters in recent years have also demonstrated that it makes sense not only to use purely probabilistic natural hazards models for the purposes of aggregate risk control, but also to supplement the individual scenarios with the inclusion of realistic extreme loss scenarios. We are now in the process of progressively adding these deterministic scenario analyses and integrating their insights into probabilistic aggregate risk control.

Life and health reinsurance

Biometric risks (miscalculation of mortality, life expectancy and disability probabilities) as well as lapse and credit risks are of special importance in life and health reinsurance.

- 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.
- 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 of E+S Rück. They are supplemented by country-specific "Special Underwriting Guidelines" that cater to the special features of individual markets. Regular audits verify compliance with these guidelines.
- Further quality assurance measures are carried out at the level of Hannover Re's subsidiaries in the context of the actuarial reports and documentation required by local regulators as part of Corporate Governance.

- In addition, our Hannover location conducts a number of relevant spot checks every year, for example regarding the amount of the technical provisions constituted for our worldwide health business. The findings of these checks are also submitted to the full Executive Board.
- In this connection we devoted special attention in the year under review to the risk of a worldwide pandemic (caused, for example, by avian influenza). Within the scope of the Enterprise Risk Management (ERM) analysis required by Standard & Poor's, the quantitative effects on our existing portfolio were modelled for the first time.
- The interest guarantee risk, on the other hand, is of only minimal risk relevance due to contractual exclusions.

Investment operating risks

Since investment income is a major revenue source for a reinsurance enterprise, volatility on the capital markets can have serious repercussions for the statement of income. Risks in the investment sector primarily consist of market, credit and liquidity risks as well as currency exposures. The hallmarks of our risk strategy with respect to the investment portfolio are as follows:

- Risk limitation in the investment sector takes precedence over return maximisation. The goal is to generate an optimal contribution margin while adhering to defined maximum risk limits.
- Investments are guided by the requirements of the reinsurance business (e.g. with respect to currencies and to maturities).
- Systematic adherence to the principle of matching currency cover.
- Asset management and liability management – and the synthesis of both segments under the umbrella of our asset/liability management approach – in order to optimise E+S Rück's overall position according to a single financial risk/return target.
- Definition of our investment guidelines on the basis of our asset/liability management approach.

- Clear distinction between trading, settlement and risk control based on the principle of separation of functions applied through to the level of management.
- The implemented management and control mechanisms take their lead from the standards adopted by the Federal Financial Supervisory Authority (BaFin) and foreign regulators as well as the risk preferences specified by the Executive Board.
- 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. The contracts are concluded solely with first-class counterparties and compliance with the standards defined in the investment guidelines is strictly controlled in order to avoid risks associated with the use of such transactions.

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%	(54.1)
	Stock prices - 20%	(108.2)
	Stock prices +10%	54.1
	Fair value as at 31.12.2006	541.4
Fixed-income securities	Yield increase +50 Basispunkte	(72.6)
	Yield increase +100 Basispunkte	(140.9)
	Yield decrease -50 Basispunkte	64.1
	Fair value as at 31.12.2006	3,226.0

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	58.9	1,315.9	25.6	187.7	90.2	137.9	–	–
AA	35.0	783.6	41.1	301.6	7.3	11.1	–	–
A	5.2	116.4	29.6	217.6	–	–	8.6	5.1
BBB	0.2	3.7	1.7	12.5	–	–	91.4	54.2
<BBB	0.7	16.4	2.0	15.0	2.5	3.9	–	–
Total	100.0	2,236.0	100.0	734.4	100.0	152.9	100.0	59.3

* Securities from investment funds were allocated to the appropriate categories

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. The most significant operational risks include those of business interruption and system failure. As part of our examination of the consequences of a possible pandemic we have drawn up, inter alia, special contingency plans intended to minimise the effects of a disruption in our business.

Assessment of the risk situation

As a specialist reinsurer for the German market, we are exposed to a diverse spectrum of potential risks that are not necessarily always directly correlated with our business activities. These risks can have a not inconsiderable impact on our net earnings, financial position and assets. Yet such risks always go hand-in-hand with opportunities, since opportunity and risk are closely interrelated. Only with the aid of effective controlling tools – that ensure risks can be identified and opportunities maximised in a timely manner – can practical realisation of our strategic objectives be safeguarded. E+S Rück has at its disposal sophisticated systems and methods which we use to steer our business over an appropriate

E+S Rück's internal control system is a vital management tool for minimising operational risks. The system consists of organisational measures and checks that have been integrated into all key processes and workflows.

Irrespective of these fixed procedures, the application and effectiveness of the internal control system is reviewed by our Internal Audit unit on a line-independent basis in all functional areas of E+S Rück.

planning horizon, thereby enabling us to satisfy the requirements of effective and holistic risk/opportunity management. What is more, these mechanisms ensure that any potential need for improvement or adjustment can be proactively translated into concrete measures.

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 earnings, financial position or assets.

Forecast

The upturn in the industrialised nations, which had already lost impetus in the course of the year under review, is likely to slow still further in the current year. Monetary policy is expected to be neutral or modestly expansionary.

Irrespective of the moderating influences associated with the appreciation of the euro and a rather restrictive monetary policy, the economy should be able to maintain its upward momen-

tum in Europe, albeit at a reduced tempo. Among other things, the increase in value-added tax in Germany is likely to make itself felt here. Nevertheless, the improved state of the job market will help to stimulate private consumption and corporate spending should also serve as a positive stimulus. All in all, the German economy looks set to continue its upward trend in the current year.

The German insurance industry is seeing considerably fiercer competition in 2007 and hence substantial rate cuts coupled with increased pressure on conditions. Although prices on the reinsurance side will not come under the same degree of pressure that they have on the original market, premium erosion will likely be observed across all lines. Following the devastating winter storm "Kyrill", which impacted Europe in January 2007 and caused particularly heavy damage in Germany, rates should nevertheless pick up across a broad front in the 2008 renewals. The reported claims exceeded the expectations of many primary insurers and will probably give rise to increased demand for reinsurance protection. For E+S Rück, "Kyrill" produced a net loss burden in the double-digit million euros before tax.

The above developments notwithstanding, E+S Rück will succeed in further expanding its market position in 2007: in the January renewals we boosted our premium volume in Germany by 16%. Thanks to new client relationships and increased treaty shares under existing accounts we lived up to our role as a leading reinsurer in the German market.

In *industrial fire insurance* we were able to secure improved conditions compared to the previous year. E+S Rück will continue its efforts to push through limits on natural hazards exposures in this line. Particularly in facultative business, we shall therefore stand by our selective and prudent underwriting policy.

In *casualty insurance* further price reductions are evident on the primary side in both private and commercial liability business. Competitive pressure continues to grow in view of the good combined ratios recorded in recent years. Thanks to our excellent rating we are a preferred partner and will therefore stand by our margin requirements. In our assessment, the premium level in 2007 will remain stable. The implementation of the 2006 German General Insurance Conditions for Liability Insurance (AHB 2006) and the launch of the new Product Recall Model could cause profound changes in casualty business in 2007. E+S Rück is optimally poised to respond to all these developments.

In *accident insurance* we expect the profitable conditions that were already emerging in 2006 to be sustained in 2007, and hence we are looking to further positive development of our portfolio. Since terms and conditions on the primary side are being extended in some areas (e.g. with respect to infectious disease clauses), we are keeping a very close eye on the basic environment in this generally lucrative line of business.

On account of persistent competition German *motor insurers* are likely to post an underwriting loss for the first time in 2007. With this in mind E+S Rück will continue to prefer non-proportional covers, under which we can control the prices in accordance with our own requirements. Thanks to our good client relationships in Germany – which are developing considerably better and more profitably than in the market as a whole – we shall again be able to hold our ground despite the general trend in the primary insurance sector.

Terms and conditions in German *marine business* are currently stable. The hard market in catastrophe-exposed business should be sustained. Ceding companies will, however, continue to raise their retentions so as to cut their reinsurance costs. Overall, we expect the gross premium volume to contract slightly in 2007.

In the area of *natural hazards covers* there were signs of slight pressure coming to bear on prices and conditions under both smaller regional programmes and business involving brokers during this year's round of renewals. The premium level should come in somewhat lower than in the previous year; influenced by the more intense season of winter storms that was ushered in by "Kyrill", significant rate increases will have to come in the future – especially in this line.

Credit and surety reinsurance is again faring well in the current financial year, although pressure on rates and conditions has intensified owing to the very good results posted so far. We were able to acquire new accounts and increase our shares under existing relationships, thereby offsetting some of the premium erosion. All in all, we expanded our position while maintaining a good level of profitability.

In the countries of *Northern Europe* a continued positive trend is expected, although the markets have tended to soften overall. Rates for natural catastrophe covers, for example, have declined due to the absence of windstorm events in the year under review. In France Hannover Re sees further attractive business opportunities in builder's risk insurance, a line that it consequently intends to expand over the long term. Price increases are anticipated in motor liability insurance.

Following significant rate increases in the year under review as a consequence of the severe hurricane losses of 2005, the property insurance market in *North America* proved to be generally robust during the treaty renewals as at 1 January 2007. Although rates in catastrophe-exposed property business fell somewhat short of the mid-year renewal date as at 1 July 2006, they were still most gratifying and around 35% higher than the previous year's level. In light of more exacting capital adequacy requirements and adjusted risk models, these price increases are also likely to be sustained. Rates slipped back moderately for programmes with no catastrophe exposure. The strategy of requiring simultaneous cessions of other attractive business when writing catastrophe covers was therefore retained. Hannover Re also keeps a close eye on special segments in which rate movements are less volatile. The company is pressing ahead with its policy of reorganising the portfolio in favour of more profitable non-proportional business at the expense of proportional arrangements. All in all, Hannover Re was satisfied with the treaty renewals in its largest and most important market.

The treaty renewals in *East Asian* markets take place predominantly as at 1 April. In Taiwan, on the other hand, most treaties are renewed as at 1 January. The Japanese market appears to be broadly stable, with rate increases expected for windstorm and hurricane covers. Hannover Re intends to enlarge its business in Japan with small mutual aid societies (known as the Kyosai market). Given the absence of catastrophe losses, Asian markets are likely to see progressive softening.

In *Australia* the focus remains on niche business; Hannover Re therefore again expects to generate stable income in the current financial year. The premium volume is forecast to come in slightly higher.

Life reinsurance promises a continuing favourable environment for the current year and for 2008, which should enable E+S Rück to achieve its growth targets on an organic basis. The reinsurance market remains fiercely competitive, although in recent years Hannover Life Re has assured itself of a sufficient number of interesting and profitable market niches. With a five-pillar model, encompassing – along with traditional life and health business – new business financing, the development of new markets and products, the bancassurance sector and partnerships with large multinational clients, the business group is well placed to share in the development of major life and annuity markets.

In *Europe* significant stimuli are anticipated from the United Kingdom (enhanced annuities) and France (bancassurance), while in the *United States* new opportunities will open up in the area of private healthcare for seniors.

The market prominence of Hannover Life Re in *South Africa* is constantly growing, and the company's positioning as the leading reinsurer for the new generation of risk products can therefore be further expanded.

One area of concentration for the company's activities in 2007/2008 will be the expansion of its infrastructure in Asia – with a focus on the Chinese-speaking economic region (inter alia through the establishment of a life branch in China) and Korea.

Overall, E+S Rück expects 2007 to bring a further significant increase in premium income in the life reinsurance business group – even allowing for the strong foundation already in place following the above-average growth achieved in the year under review.

The expected positive underwriting cash flow should lead to further growth in our assets. Income from *investments* under own management is therefore likely to rise again. In the area of fixed-income securities we continue to stress the high quality of our portfolio. Combined with our other investments in equities and alternative asset categories, we should be able to generate a stable profit contribution.

Bearing in mind the current market conditions in the individual business groups, we expect the 2007 financial year to offer further attractive

business opportunities; this should be especially true of life reinsurance. Provided the loss experience in natural catastrophe business is within the expected bounds and as long as capital markets remain fairly stable, we expect our result to build on the achievements of past years, thereby enabling us to pay our shareholders the accustomed gratifying dividend.

Affiliated companies

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

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

Other information

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

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.

Capital, reserves and technical provisions

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

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

in EUR million	2006	2005
Subscribed capital and reserves	420,3	420,3
Equalisation reserve and similar provisions	755,0	670,6
Technical provisions	5.875,5	5.556,5
Total capital, reserves and technical provisions	7.050,8	6.647,4

The capital, reserves and technical provisions amounted to 385.3% (481.4%) of net pre-

mium; this includes the capital and reserves at 23.0% (30.4%) of net premium.

Proposal for the distribution of profits

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

	EUR
Distribution of a dividend on the participating paid-up subscribed capital of EUR 42 621 941.81	70.400.000,00

The dividend is payable on 13 March 2007.

BALANCE SHEET

as at 31 December 2006

Figures in EUR thousand	2006	2005
Assets		
A. Investments		
I. Land and buildings, rights to land and buildings, leasehold	5,249	25,439
II. Investments in affiliated companies and participation interests		
1. Shares in affiliated companies	90,876	79,119
2. Loans to affiliated companies	40,000	40,000
3. Participating interests	12,704	12,704
	<u>143,580</u>	131,823
III. Other financial investments		
1. Shares, units in unit trusts and other variable-yield securities	635,695	585,339
2. Bearer debt securities and other fixed-income securities	2,236,040	2,168,139
3. Mortgages and loans secured on land and buildings	80	324
4. Other loans		
a) Registered debt securities	255,452	194,903
b) Debentures and loans	478,940	430,179
c) Sundry loans	59,316	66,097
	<u>793,708</u>	691,179
5. Deposits with banks	55,898	42,357
6. Other investments	8,365	5
	<u>3,729,786</u>	3,487,343
IV. Deposits with ceding companies	3,858,632	3,586,792
	<u>7,737,247</u>	7,231,397

Figures in EUR thousand	2006	2005
Liabilities		
A. Capital and reserves		
I. Subscribed capital	42,622	42,622
II. Capital reserve	372,166	372,166
III. Retained earnings		
1. Statutory reserve	256	256
2. Other retained earnings	5,237	5,237
	5,493	5,493
IV. Disposable profit	70,400	22,000
	490,681	442,281
B. Technical provisions		
I. Provision for unearned premiums		
1. Gross	230,578	267,204
2. Less: reinsurance ceded	58,194	70,487
	172,384	196,717
II. Life assurance provision		
1. Gross	3,366,561	3,006,260
2. Less: reinsurance ceded	766,276	634,112
	2,600,285	2,372,148
III. Provisions for outstanding claims		
1. Gross	3,782,929	3,825,295
2. Less: reinsurance ceded	724,573	878,838
	3,058,356	2,946,457
IV. Provision for bonuses and rebates		
1. Gross	293	312
2. Less: reinsurance ceded	50	–
	243	312
V. Equalisation reserve and similar provisions	754,958	670,621
VI. Other technical provisions		
1. Gross	52,394	47,679
2. Less: reinsurance ceded	8,169	6,842
	44,225	40,837
	6,630,451	6,227,092

Figures in EUR thousand	2006	2005
Assets		
B. Receivables		
I. Accounts receivable arising out of reinsurance operations	302,879	271,892
from affiliated companies:		
156,862 (2005: 157,671)		
II. Other receivables	20,120	22,070
from affiliated companies:		
8,543 (2005: 6,863)		
	322,999	293,962
C. Other assets		
I. Tangible assets and stocks	1	3
II. Current accounts with banks, cheques and cash in hand	11,468	16,243
	11,469	16,246
D. Prepayments and accrued income		
I. Accrued interest and rent	56,290	50,427
II. Other accrued income	193	64
	56,483	50,491
	8,128,198	7,592,096

Figures in EUR thousand	2006	2005
Liabilities		
C. Provisions for other risks and charges		
I. Provisions for pensions and similar obligations	13,735	13,439
II. Provisions for taxation	55,118	46,358
III. Other provisions	13,049	11,720
	81,902	71,517
D. Deposits received from retrocessionaires		782,890
E. Other liabilities		
I. Accounts payable arising out of reinsurance operations	49,400	66,953
to affiliated companies:		
703 (2005: 39,615)		
II. Miscellaneous liabilities	13,206	1,302
from taxes:		
12,207 (2005: 168)		
for social security:		
– (2005: 282)		
to affiliated companies:		
155 (2005: 124)		
F. Accruals and deferred income		61
	8,128,198	7,592,096

PROFIT AND LOSS ACCOUNT

for the 2006 financial year

Figures in EUR thousand	2006		2005
	1.1.–31.12.		1.1.–31.12.
I. Technical account			
1. Earned premiums, net of retrocession			
a) Gross written premiums	2,437,737		2,213,668
b) Retrocession premiums	608,029		832,741
		1,829,708	1,380,927
c) Change in the gross provision for unearned premiums (+/-)	23,325		(27,638)
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	(11,730)		17,179
		11,595	(10,459)
		1,841,303	1,370,468
2. Allocated investment return transferred from the non-technical account, net of retrocession		79,832	77,898
3. Claims incurred, net of retrocession			
a) Claims paid			
aa) Gross	1,407,288		1,227,250
bb) Retrocessionaires' share	362,241		411,019
		1,045,047	816,231
b) Change in provisions for outstanding claims ¹⁾			
aa) Gross	(105,978)		(268,164)
bb) Retrocessionaires' share	(130,106)		78,582
		(236,084)	(189,582)
		1,281,131	1,005,813
4. Change in other technical provisions, net of retrocession			
a) Net life assurance provision		(186,995)	(111,060)
b) Other net technical provisions		579	373
		(186,416)	(110,687)
5. Bonuses and rebates, net of retrocession		214	(68)
6. Operating expenses, net of retrocession			
a) Gross acquisition expenses		462,465	583,167
b) Less: commissions and profit commissions received on retrocession		46,684	196,723
		415,781	386,444
7. Other technical charges, net of retrocession		2,044	1,758
8. Subtotal		35,549	(56,268)
9. Change in the equalisation reserve and similar provisions		(84,336)	(86,061)
10. Net technical result		(48,787)	(142,329)

¹⁾ From the 2006 financial year onwards the option of including special allocations to the provisions for outstanding claims in the non-technical account rather than the technical account will no longer be exercised. The figures for the 2005 financial year have been adjusted accordingly for the sake of improved comparability.

Figures in EUR thousand	2006		2005
	1.1.–31.12.		1.1.–31.12.
Balance brought forward:		(48,787)	(142,329)
II. Non-technical account			
1. Investment income			
a) Income from participating interests	11,789		5,640
affiliated companies:			
11,789 (2005: 3,140)			
b) Income from other investments			
affiliated companies:			
49,846 (2005: 50,477)			
aa) Income from land and buildings, rights to land and buildings, leasehold	1,863		3,881
bb) Income from other investments	224,240		209,049
		226,103	212,930
c) Appreciation on investments		2,844	441
d) Gains on the realisation of investments		64,372	103,259
		305,108	322,270
2. Investment charges			
a) Investment management charges, including interest	8,735		8,802
b) Depreciation	10,445		22,494
extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB):			
150 (2005: 2,974)			
c) Losses on the realisation of investments	9,441		13,090
		28,621	44,386
		276,487	277,884
3. Allocated investment return transferred to the technical account		(89,278)	(87,283)
		187,209	190,601
4. Other income		21,166	18,142
5. Other charges ¹⁾		59,395	34,576
		(38,229)	(16,434)
6. Profit or loss on ordinary activities before tax		100,193	31,838
7. Taxes on profit and income		30,024	10,237
8. Other taxes		(231)	(399)
		29,793	9,838
9. Disposable profit		70,400	22,000

¹⁾ From the 2006 financial year onwards the option of including special allocations to the provisions for outstanding claims in the non-technical account rather than the technical account will no longer be exercised. The figures for the 2005 financial year have been adjusted accordingly for the sake of improved comparability.

NOTES

Valuation of assets

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

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

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

Loans to affiliated companies were valued at nominal value 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.

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

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

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

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

Valuation of liabilities

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

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

Where the provisions indicated by the ceding companies are not expected to be adequate, they have been increased by appropriate additional amounts. Where no information was available from cedants, the provisions were estimated in the light of the business experience to date. The results of new treaties were at least neutralised. In some cases, provisions have been determined on an actuarial basis. If necessary, additional or complete estimates of the corresponding portfolio or profit elements were carried out where ceding company accounts with substantial premium income were outstanding. Outstanding ceding company accounts involving a low premium income are included in the following year. The estimated gross premium income for treaties of the 2006 underwriting year is 22.8% of the total volume.

In the casualty and motor third party liability lines IBNR reserves have been set up for excess of loss treaties. The calculation was largely carried out in accordance with statistical mathematical methods.

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

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

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

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

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

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

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

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

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

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

The other liabilities were valued at the amounts repayable.

Currency conversion

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

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

Miscellaneous

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

Notes on assets

Figures in EUR thousand	2005			2006			
	Book values 31.12.	Additions	Reclassi- fication	Disposals	Write-ups	Depre- ciation	Book values 31.12.
Change in asset items A.I. to A.III.							
A. I. Land and buildings, rights to land and buildings, leasehold	25,439	–	–	19,145	–	1,045	5,249
A. II. Investments in affiliated companies and participating interests							
1. Shares in affiliated companies	79,119	26,020	–	14,263	–	–	90,876
2. Loans to affiliated companies	40,000	–	–	–	–	–	40,000
3. Participating interests	12,704	–	–	–	–	–	12,704
4. Total A. II.	131,823	26,020	–	14,263	–	–	143,580
A. III. Other financial investments							
1. Shares, units in unit trusts and other variable-yield securities	585,339	513,978	–	462,476	10	1,156	635,695
2. Bearer debt securities and other fixed-income securities	2,168,139	881,137	(3,033)	802,718	757	8,242	2,236,040
3. Mortgages and loans secured on land and buildings	324	–	–	244	–	–	80
4. Other loans							
a) Registered debt securities	194,903	75,095	–	14,546	–	–	255,452
b) Debentures and loans	430,179	70,000	–	21,239	–	–	478,940
c) Sundry loans	66,097	1,583	(5,321)	3,043	–	–	59,316
5. Deposits with banks	42,357	15,066	–	1,525	–	–	55,898
6. Other	5	6	8,354	–	–	–	8,365
7. Total A. III.	3,487,343	1,556,865	–	1,305,791	767	9,398	3,729,786
Sum total	3,644,605	1,582,885	–	1,339,199	767	10,443	3,878,615

Land and buildings and rights to land and buildings

As at 31 December 2006, the company owned a developed site in Leipzig. The company also owned a share worth EUR 2,755 thousand in a developed site in Frankfurt as well as a share of EUR 1,242 thousand in land without buildings in Hannover.

Shares in affiliated companies and participations

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

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

Name and registered office of the company Figures in currency units of 1,000	Participations (in %)	Capital and reserves (§ 266 (3) of the Commercial Code)		Result for the last financial year	
Shares in affiliated companies					
Companies resident in Germany					
GbR Hannover Rückversicherung AG/ E+S Rückversicherung AG Grundstücksgesellschaft, Hannover/Germany	50.00	EUR	60,655	EUR	968
Companies resident abroad					
Hannover Life Re of Australasia Ltd, Sydney/Australia	50.00	AUD	165,095	AUD	23,715
Hannover Re Real Estate Holdings, Inc., Orlando/USA	13.49	USD	232,259	USD	28,027
Participations					
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany	20.00	EUR	65,613 ¹⁾	EUR	4,885 ¹⁾

¹⁾ Financial year ending 31 December 2005

Other notes on investments

Assets with a balance sheet value of EUR 43,390 (EUR 51,871) thousand have been blocked as security for ceding companies. Security deposits were sometimes made available to banks for security loan transactions in favour of third parties. A guarantee fund of EUR 177 (EUR 69) thousand has been established to secure commitments under partial retirement arrangements.

Fair values pursuant to § 54 RechVersV

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

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

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

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

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

Figures in EUR thousand	2006		
Fair values pursuant to § 54 RechVersV of asset items A.I. to A.III. for the 2006 financial year	Book values 31.12.	Fair values 31.12.	Difference 31.12.
A. I. Land and buildings, rights to land and buildings, leasehold	5,249	7,700	2,451
A. II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	90,876	151,182	60,306
2. Loans to affiliated companies	40,000	40,000	–
3. Participating interests	12,704	15,431	2,727
4. Total A. II.	143,580	206,613	63,033
A. III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	635,695	814,823	179,128
2. Bearer debt securities and other fixed-income securities	2,236,040	2,216,974	(19,066)
3. Mortgages and loans secured on land and buildings	80	80	–
4. Other loans			
a) Registered debt securities	255,452	246,664	(8,788)
b) Debentures and loans	478,940	471,460	(7,480)
c) Sundry loans	59,316	62,847	3,531
5. Deposits with banks	55,898	55,898	–
6. Other investments	8,365	9,518	1,153
7. Total A. III.	3,729,786	3,878,264	148,478
Sum total	3,878,615	4,092,577	213,962

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

Of the units in unit trusts totalling EUR 515,264 (EUR 546,456) thousand shown under the "Other financial investments" in the item "Shares, units in unit trusts and other variable-yield securities", an amount of EUR 321,705 (EUR 330,780) thousand was allocated to fixed assets. The fair value amounts to EUR 422,227 (EUR 396,057) thousand. Based on the assumption that the impairments will not be permanent, write-downs of EUR 646 (EUR 1,082) thousand were not taken.

Of the bearer-debt securities and other fixed-income securities, securities with a book value of EUR 1,070,242 (EUR 10,511) thousand and a fair value of EUR 1,048,402 (EUR 12,435) thousand were allocated to fixed assets. Write-downs of EUR 24,808 (EUR 186) thousand were not taken 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.

The portfolio did not contain any derivative financial instruments as at the balance sheet date.

Of the total fees paid to the auditor, EUR 330 (EUR 304) thousand related to the audit of the financial statements, EUR 114 (EUR 84) thousand to tax consulting and EUR 36 (EUR 50) thousand to other services.

Other receivables

Figures in EUR thousand	2006	2005
Receivables from reinsured pension schemes	8,920	8,212
Receivables from affiliated companies	8,543	6,863
Receivables from the revenue authorities	2,365	900
Interest and rent due	231	284
Receivables from land and buildings	16	325
Claims from settlement of the purchase price of a participation	–	5,375
Other receivables	45	111
Total	20,120	22,070

Accruals and deferred income

Figures in EUR thousand	2006	2005
Accrued interest and rent	56,290	50,427
Accrued administrative expenses	65	59
Other	128	5
Total	56,483	50,491

Notes on liabilities

Subscribed capital

The subscribed capital of the company amounted to EUR 42,622 thousand as at 31 December 2006. It consists of 75,783 no-par-value registered shares.

Provision for unearned premiums

Figures in EUR thousand	2006		2005	
	gross	net	gross	net
Insurance line				
Fire	26,663	22,856	33,905	25,138
Casualty	44,287	40,951	69,357	62,281
Accident ¹⁾	5,797	3,941	5,380	3,668
Motor ¹⁾	20,445	18,640	18,485	13,529
Aviation	31,359	25,767	38,426	30,605
Life	58,207	27,835	55,074	27,577
Other lines	43,820	32,394	46,577	33,919
Total	230,578	172,384	267,204	196,717

¹⁾ From the 2006 financial year onwards the motor accident line is included under accident rather than motor. The figure for the previous year has not been adjusted.

Life assurance provisions

Figures in EUR thousand	2006		2005	
	gross	net	gross	net
Insurance line				
Accident ¹⁾	55	17	3	3
Life	3,362,719	2,596,481	3,002,073	2,367,961
Other lines	3,787	3,787	4,184	4,184
Total	3,366,561	2,600,285	3,006,260	2,372,148

¹⁾ From the 2006 financial year onwards the motor accident line is included under accident rather than motor. The figure for the previous year has not been adjusted.

Provisions for outstanding claims

Figures in EUR thousand	2006		2005	
	gross	net	gross	net
Insurance line				
Provision for reimbursements and surrenders (except annuities)				
Fire	187,261	156,183	219,646	160,417
Casualty	1,169,537	997,635	1,182,985	1,002,177
Accident ¹⁾	98,070	51,468	74,868	45,798
Motor ¹⁾	1,375,968	1,134,247	1,318,018	1,071,765
Aviation	225,227	154,107	235,578	163,011
Marine	194,099	174,304	194,539	152,813
Life	70,435	49,278	96,954	53,225
Other lines	396,756	279,203	458,626	262,926
Separate value adjustment on retrocessions	3,717,353	2,996,425	3,781,214	2,912,132
Provision for annuities	–	9,200	–	–
Casualty	3,717,353	3,005,625	3,781,214	2,912,132
Accident ¹⁾				
Motor ¹⁾	3,901	3,654	3,009	2,862
	9,687	7,648	4,956	3,667
Total	51,988	41,429	36,116	27,796
	65,576	52,731	44,081	34,325
Total	3,782,929	3,058,356	3,825,295	2,946,457

¹⁾ From the 2006 financial year onwards the motor accident line is included under accident rather than motor. The figure for the previous year has not been adjusted.

Equalisation reserve and similar provisions

Insurance line	2006			
	Position at 1.1.	Addition	Withdrawal and release	Position at 31.12.
Equalisation reserve				
Fire	104,603	39,335	153	143,785
Casualty	127,038	25,166	–	152,204
Accident ¹⁾	26,987	1,766	–	28,753
Motor ¹⁾	214,382	5,853	–	220,235
Aviation	47,887	9,646	–	57,533
Marine	1,798	–	1,798	–
Other lines	121,242	35,098	36,621	119,719
	643,937	116,864	38,572	722,229
Provisions which are similar to the equalisation reserve – major risks –				
Fire	11,054	4,304	–	15,358
Casualty	5,148	1,069	–	6,217
Accident ¹⁾	53	21	–	74
Motor ¹⁾	16	5	10	11
Aviation	25	–	25	–
Marine	607	471	–	1,078
Other lines	9,781	210	–	9,991
Total	670,621	122,944	38,607	754,958

¹⁾ From the 2006 financial year onwards the motor accident line is included under accident rather than motor. The figure for the previous year has not been adjusted.

Other technical provisions

Figures in EUR thousand	2006		2005	
	gross	net	gross	net
Profit commission	51,264	43,080	45,748	38,826
Premium cancellation	567	567	1,146	1,146
Commissions	541	563	785	865
Road accident victims' assistance	22	15	–	–
Total	52,394	44,225	47,679	40,837

Technical provisions – total

Figures in EUR thousand	2006		2005	
	gross	net	gross	net
Fire	377,759	342,184	374,240	305,811
Casualty	1,391,836	1,215,996	1,401,816	1,213,640
Accident ¹⁾	142,671	92,023	112,425	80,269
Motor ¹⁾	1,680,014	1,425,413	1,594,895	1,335,023
Aviation	316,241	238,786	323,919	242,921
Marine	196,427	176,613	198,033	156,293
Life	3,491,797	2,674,029	3,154,957	2,449,618
Other lines	590,968	456,207	657,086	443,517
	8,187,713	6,621,251	7,817,371	6,227,092
Separate value adjustment on retrocessions	–	9,200	–	–
Total	8,187,713	6,630,451	7,817,371	6,227,092

¹⁾ From the 2006 financial year onwards the motor accident line is included under accident rather than motor. The figure for the previous year has not been adjusted.

Provisions for other risks and charges

Figures in EUR thousand	2006	2005
Provisions for pensions and similar liabilities	13,735	13,439
Provisions for taxation	55,118	46,358
Sundry provisions		
Provisions for outstanding payments	4,708	3,436
Provisions for interest	4,180	3,722
Provisions for partial retirement	1,183	417
Provisions for annual accounts costs	935	909
Provisions for currency risks	867	1,512
Provisions for suppliers' invoices	468	921
Provisions for litigation risks	327	327
Provisions for costs of legal action	118	167
Other provisions	263	309
	13,049	11,720
Total	81,902	71,517

Miscellaneous liabilities

Figures in EUR thousand	2006	2005
Liabilities in respect of the revenue authorities	12,207	168
Liabilities from LOC	654	–
Accounts due to affiliated companies	155	124
Liabilities from interest not yet due	–	458
Liabilities from outstanding social security contributions	–	282
Liabilities from leases	–	159
Other liabilities	190	111
Total	13,206	1,302

Deferred items

Figures in EUR thousand	2006	2005
Disagio	37	36
Other accruals and deferred income	30	25
Total	67	61

Contingent liabilities

Liabilities for remaining calls exist with respect to shares in affiliated companies and special investments in the amount of EUR 91,348 (EUR 118,310) thousand. There were no other contingent liabilities or other financial commitments not shown in the annual balance sheet which are relevant to an assessment of the financial position.

Events after the balance sheet date

Winter storm "Kyrill", which caused damage across Europe in January 2007, will probably produce a strain in the double-digit millions of euros for our account.

Notes on the profit and loss account

Figures in EUR thousand	2006	2005	2006	2005	2006	2005	2006	2005
	Gross written premiums		Gross premiums earned		Net premiums earned		Technical result for own account	
Fire	162,826	180,126	167,375	178,878	144,270	124,061	733	(7,709)
Casualty ¹⁾	314,189	313,806	335,271	295,574	298,266	248,431	8,177	(14,310)
Accident ²⁾	88,759	77,927	88,318	77,612	49,420	42,201	3,017	2,855
Motor ²⁾	367,893	379,007	365,316	377,174	300,201	284,616	(51,898)	(57,934)
Aviation	95,994	116,085	100,050	115,566	65,070	75,361	11,239	9,512
Marine	83,381	72,168	83,381	72,168	52,102	61,772	(40,460)	(7,457)
Other lines	434,418	312,424	434,920	306,411	359,422	212,439	33,563	(40,312)
Total property and casualty insurance	1,547,460	1,451,543	1,574,631	1,423,383	1,268,751	1,048,881	(35,629)	(115,355)
Life	890,277	762,125	886,431	762,647	572,552	321,587	(13,158)	(26,974)
Total insurance business	2,437,737	2,213,668	2,461,062	2,186,030	1,841,303	1,370,468	(48,787)	(142,329)

Total insurance business

Figures in EUR thousand	2006	2005
Gross claims incurred ¹⁾	1,513,266	1,495,414
Gross operating expenses	462,465	583,167
Reinsurance balance ¹⁾	340,940	129,238

¹⁾ From the 2006 financial year onwards the option of including special allocations to the provisions for outstanding claims in the non-technical account rather than the technical account will no longer be exercised. The figures for the 2005 financial year have been adjusted accordingly for the sake of improved comparability.

²⁾ From the 2006 financial year onwards the motor accident line is included under accident rather than motor. The figure for the previous year has not been adjusted.

Expenses for personnel

Figures in EUR thousand	2006	2005
1. Wages and salaries	17,787	15,714
2. Social security payments and expenses for welfare	2,666	2,617
3. Expenses for old-age pension scheme	690	671
4. Total expenses	21,143	19,002

Expenses for investments

Figures in EUR thousand	2006	2005
Fixed-income securities	15,319	19,662
Administrative expenses	7,422	7,551
Shares, units in unit trusts	3,520	3,805
Deposit and bank fees	1,313	558
Land and buildings	1,045	2,826
Deposits	2	1,808
Registered debt securities and sundry loans	–	6,625
Participating interests	–	1,551
Total	28,621	44,386

Other income

Figures in EUR thousand	2006	2005
Profit from services	8,038	7,328
Exchange rate gains	6,901	4,278
Cancellation of value adjustments	2,631	3,429
Allocated investment return	2,313	1,662
Release of non-technical provisions	826	504
Other income	457	941
Total	21,166	18,142

Other expenses

Figures in EUR thousand	2006	2005
Expenses from contracts with limited risk	20,892	–
Separate value adjustment on accounts receivable and retrocessions	12,958	2,624
Deposit interest	10,626	11,933
Expenses from services	8,035	7,325
Expenses for the whole company	7,448	6,345
Exchange rate losses	6,577	13,030
Interest charges on old-age pension scheme	794	746
Expenses for letters of credit	537	764
Allocation to interest provisions	483	459
Interest charges on reinsurance operations	120	311
Depreciation on receivables	57	239
Other interest and expenses	314	185
	68,841	43,961
Less: Technical interest	9,446	9,385
Total	59,395	34,576

Other information

The names of the members of the Supervisory Board, Advisory Board and Executive Board are listed on pages 3 to 5.

The emoluments paid to the Supervisory Board in the year under review totalled EUR 126 thousand, those to the Advisory Board EUR 56 thousand, those to the Executive Board EUR 1,305 thousand and those to former members of the Executive Board and their surviving dependants EUR 395 thousand. The amount of EUR 3,767 thousand was shown on the liabilities side for current pensions of former members of the Executive Board; an amount of EUR 71 thousand was withdrawn from the provision constituted in this regard.

No mortgage loans were granted to board members.

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

The average number of employees was 232 in the financial year.

Hannover Rück Beteiligung Verwaltungs-GmbH informed us that it holds a majority interest (§ 16 (1) of the Stock Corporation Act (AktG)) in our company.

Hannover Rückversicherung AG includes the figures from our annual accounts in its consolidated financial statements. The financial statements of Hannover Rückversicherung AG are included in the consolidated financial statements of Talanx AG, Hannover. The consolidated financial statements of Talanx AG are deposited with the electronic company register. Talanx AG is wholly owned by HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover.

Hannover, 6 March 2007

Executive Board



Zeller



Arrago



Dr. Becke



Gräber



Dr. König



Dr. Pickel



Wallin

AUDITORS' REPORT

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of the E+S Rückversicherung AG, Hannover, for the business year from 1 January to 31 December 2006. 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, 7 March 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Dahl
Wirtschaftsprüfer

Schuster
Wirtschaftsprüfer

REPORT OF THE SUPERVISORY BOARD of E+S Rückversicherung AG

In our function as the Supervisory Board we considered at length during the 2006 financial year – as in previous years – the position and development of the company. We advised the Executive Board on the direction of the company, monitored the management of business on the basis of written and verbal reports from the Executive Board and held four meetings in order to adopt the necessary resolutions after appropriate discussion. The Standing Committee also met on two occasions. A resolution was adopted by a written procedure with respect to one matter requiring attention at short notice. Furthermore, we received quarterly written reports from the Executive Board on the course of business and the position of the company pursuant to § 90 of the Stock Corporation Act (AktG). The Chairman of the Supervisory Board was constantly advised of major developments and impending decisions by the Chairman of the Executive Board. All in all, we were involved in decisions taken by the Executive Board as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. The development of our major subsidiaries and participations was also included in our consultations.

The Supervisory Board selected the auditor for the 2006 annual financial statements; the Chairman of the Supervisory Board issued the specific audit mandate. The audit report was distributed to all members of the Supervisory Board, and the auditors participated in the meeting of the Supervisory Board held to discuss and approve the annual accounts. Collaboration with the auditors took place on a trusting and cooperative basis.

Against the backdrop of the strains incurred in the 2005 financial year from hurricanes "Katrina", "Rita" and "Wilma", the measures taken by the company to improve accumulation control and reduce US windstorm exposure were a major focus of the Supervisory Board's deliberations. Among other things, the findings of a special audit of the accumulation assessment systems conducted by the Executive Board with external support were discussed in detail in this connection. The Executive Board also explained to us the profit expected for the 2006 financial year as well as the operational planning for the 2007 financial year. A key area considered here was the profitability of the joint underwriting arrangements with Hannover Rückversicherung AG.

In view of the dynamic growth of life and health reinsurance the Supervisory Board similarly examined this strategic business group at length. Based on the European Embedded Value concept the Supervisory Board obtained an overview of the value created to date by this business segment, its medium-term objectives and further prospects. Following an analysis of the company's real estate holdings, the Supervisory Board approved the sale of a real estate portfolio consisting of three properties.

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

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

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

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

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

The Supervisory Board has thus approved the annual financial statements, which are thereby adopted. We concur with the Executive Board's proposal regarding the appropriation of the disposable profit for 2006.

Mr. Wolf-Dieter Baumgartl resigned his seat as a member of the company's Supervisory Board as well as the office of Chairman effective 10 August 2006. The Supervisory Board praised his long-standing contribution to the company's development. At the suggestion of the Supervisory Board, Dr. Immo Querner was elected to the Supervisory Board with effect from 10 August 2006 at an Extraordinary General Meeting. With effect from the same date Mr. Herbert Haas assumed the office of Chairman of the Supervisory Board as appropriately elected by the Supervisory Board.

Effective 10 August 2006 Dr. Erwin Möller also resigned his seat as a member of the company's Advisory Board. The Supervisory Board thanked Dr. Möller for his many years of constructive work on this body. With effect from 10 August 2006 Mr. Wolf-Dieter Baumgartl was elected to the company's Advisory Board.

Hannover, 12 March 2007

For the Supervisory Board

Herbert Haas
Chairman

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 re-

taining 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.

Financial reinsurance: 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net: cf. → Gross/Retro/Net

Non-life business: by way of distinction from business activities in our life and health reinsurance business group, we use this umbrella term to cover our business groups of property and casualty reinsurance, financial reinsurance and specialty insurance.

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 in-

surers 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.

Specialty insurance: a specialty form of non-life primary insurance that focuses on narrowly defined, homogenous portfolios of niche or other non-standard risks (specialty business), whereby the typical insurer functions (acquisition, underwriting, policy issuing, premium collection, policy administration, claims settlement, etc.) can be outsourced to specialized managing general agents (MGAs) or third-party administrators (TPAs).

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 port-

folio. This approach is used primarily for long-term products in personal lines, such as life, annuity and personal accident insurance.

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

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

Treaty reinsurance: cf. → obligatory reinsurance

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

Unearned premium reserve: cf. → provision for unearned premium

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

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