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A.M. Best Affirms Rating of International Insurance Company of Hannover Limited; Assigns Issuer Credit Rating

OLDWICK, NEW JERSEY, U.S.A., Aug. 29, 2006—A.M. Best Co. has affirmed the financial strength rating of A- (Excellent) of **International Insurance Company of Hannover Limited** (Inter Hannover) (United Kingdom), a subsidiary of **Hannover Rueckversicherung AG** (Hannover Re) (Germany). At the same time, A.M. Best has assigned an issuer credit rating of “a-” to Inter Hannover. The outlook for both ratings is stable.

The ratings reflect Inter Hannover’s continuing importance to Hannover Re and its improving risk-adjusted capitalisation. Offsetting factors are poor returns on premium and the effect of softening rates.

Continuing importance to Hannover Re—The ratings factor Inter Hannover’s importance to Hannover Re as its only platform for writing agency business in the United Kingdom and across Europe. Additionally, Inter Hannover exclusively fronts business for its parent in these regions where Hannover Re is not licensed to write direct business. Inter Hannover also shares resources available through Hannover Re such as its security committee, actuarial, legal and underwriting support functions.

Improving risk-adjusted capitalisation—A.M. Best expects Inter Hannover’s risk-adjusted capitalisation to improve in 2006 and 2007 due to an increase in share capital of GBP 5

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million (USD 9.4 million) and an additional subordinated loan issue of GBP 6.7 million (USD12.6 million) to Hannover Re. The proceeds from the debt issue have some equity characteristics for which A.M. Best has given partial credit in its quantitative analysis of Inter Hannover. A.M. Best's analysis of Inter Hannover's risk-adjusted capitalisation factors the company's high level of reinsurance recoverables arising from Hannover Re (81% of all recoveries as at the 2005 year end).

Poor returns—A.M. Best expects a poor return on net premiums of 0.4% in 2006 (0.5% in 2005), driven by a high loss ratio of 77%, leading to a combined ratio of around 109% (including non-technical operating expenses related to managing agents). Results are likely to remain depressed due to the financial drag from a significant unprofitable agent. This negative impact will reduce into 2007 as the five-year agreement on a short-tail personal lines account terminates in 2006. A.M. Best believes changes in risk management and contract structure that were implemented by the new management team will curtail the chances of any one agent being so significant that it could adversely affect the overall profitability of the company.

For Best's Ratings, an overview of the rating process and rating methodologies, please visit www.ambest.com/ratings.

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