

somewhat  
different

Interim Report | **1 / 2007**

hannover **re**<sup>®</sup>

# KEY FIGURES

## of the Hannover Re Group

Figures in EUR million	2007		2006	
	1.1.–31.3.	+/- previous year	1.1.–31.3.	31.12.
<b>Results</b>				
Gross written premium	2,408.4	-9.4%	2,657.8	
Net premium earned	1,736.8	-3.2%	1,794.4	
Net underwriting result	(88.6)	+206.0%	(29.0)	
Net investment income	255.1	+6.3%	239.9	
Operating profit (EBIT)	154.2	-17.2%	186.3	
Group net income	123.5	+16.8%	105.7	
<b>Balance sheet</b>				
Policyholders' surplus	5,020.9	+2.9%		4,878.4
Total shareholders' equity	3,052.4	+5.3%		2,897.8
Minority interests	595.8	-2.1%		608.6
Hybrid capital	1,372.7	+0.1%		1,372.0
Investments (incl. funds held by ceding companies)	28,688.4	+0.5%		28,538.1
Total assets	42,146.5	+1.8%		41,386.4
<b>Share</b>				
Earnings per share (diluted) in EUR	1.02	+16.8%	0.88	
Book value per share in EUR	25.31	+5.3%		24.03
Share price at year-end in EUR	33.35	-4.9%	30.61	35.08
Dividend	–		–	193.0
Dividend per share in EUR	–		–	1.60
Market capitalisation	4,021.9	-4.9%	3,691.5	4,230.5
<b>Ratios</b>				
Combined ratio (non-life reinsurance) <sup>1)</sup>	105.2%		98.5%	
Catastrophe/major losses as percentage of net premium earned <sup>2)</sup>	15.9%		3.2%	
Retention	84.9%		78.1%	
Return on investment	4.3%		4.1%	
EBIT margin <sup>3)</sup>	8.9%		10.4%	
Return on equity (after tax)	16.6%		16.2%	

<sup>1)</sup> Including expense on funds withheld and contract deposits

<sup>2)</sup> Natural catastrophes and other major losses in excess of EUR 5 million gross for the Hannover Re Group's share

<sup>3)</sup> Operating profit (EBIT) / net premium earned

Wilhelm Zeller  
Chairman of the  
Executive Board



*Dear shareholders,  
Ladies and gentlemen,*

Although the New Year got off to a turbulent start in the very real sense of the word with winter storm "Kyrill", we are thoroughly satisfied with the development of business in the first quarter. I have no doubt that our result has put in place a good foundation for achieving our profit target for 2007 – namely a return on equity of at least 15 percent after tax.

As we have already reported in our 2006 annual financial statement, following the sale of Praetorian Financial Group, Inc. – our US primary insurer transacting specialty business – we shall concentrate exclusively on our core business of re-insurance. From this quarter onwards our segmentation and reporting are therefore limited to two strategic business groups: non-life reinsurance and life and health reinsurance; financial reinsurance is now included as part of our product range in non-life reinsurance, and the remaining part of our specialty business is also closely linked with non-life reinsurance. In view of our specialisation in doing what we do best, we consider ourselves a "multi-specialist" and continue to enjoy a superbly diversified portfolio.

Our business is still benefiting from the unchanged favourable state of the market in non-life reinsurance. Although the treaty renewals as at 1 January 2007 demonstrated that the hard market has now passed its peak, the rate level held largely stable with just a few exceptions, as a consequence of which we were still able to obtain prices and conditions that were commensurate with the risks.

When it comes to risk management your company was as active as ever in the first quarter: we again used the capital market to obtain underwriting capacity for catastrophe risks and further extended the "K5" risk securitisation set up last year. Not only that, by way of our "Kepler Re" capital market transaction we have innovatively protected our retention against exceptional very large losses in this highly volatile business segment. The risk securitisation designated "Merlin" rounds off our varied array of capital market transactions: we have hereby immunised ourselves against a potential credit risk from reinsurance recoverables – the first transaction of its type in the global insurance industry.

In the area of structured covers – formerly our financial reinsurance business – there were further signs of a business revival, especially in Europe and Asia. I remain confident that in the coming months demand will also stabilise in the United States. The

development of our specialty insurance was very much as anticipated: Praetorian – the sale of which we had announced at the end of last year – still belonged to our Group in the first quarter (albeit as a discontinued operation). Its business continued to progress successfully. The remainder of our "specialty" portfolio performed in line with expectations. All in all, we are highly satisfied with what is now an enlarged non-life reinsurance business group. The fact that the burden of major losses was higher than the expected level of eight percent of net premium in the first quarter does not concern me since experience shows that not every quarter is equally claims-intensive.

The development of our second business group – life and health reinsurance – was again most gratifying in the first quarter, building almost seamlessly on the solid pace of growth in the 2006 financial year. With our product mix we are well positioned across a broad front and are able to profit from a diverse range of attractive niche segments. It is already the case today that traditional mortality business only accounts for a minor share of our total portfolio. I am entirely satisfied with the result of our life and health reinsurance business.

The performance of our investments was also very pleasing: the underwriting cash flow continued to support the portfolio of assets under own management. Due to increased average yields in the portfolio we were able to further improve our net investment income for the first quarter.

Movements in our share price were mixed in the first quarter: up until the end of February the price moved up very well, only then to suffer markdowns – like the market as a whole – despite an absence of fundamental reasons. We are optimistic that the rally which has recently set in will be sustained.

I would like to thank you most sincerely – also on behalf of all my colleagues on the Executive Board – for your trust in Hannover Re. We are and will continue to be guided by our paramount objective of leading your company profitably and securely into the future.

Yours sincerely,



Wilhelm Zeller  
Chairman of the Executive Board

## Supervisory Board (Aufsichtsrat)

Wolf-Dieter Baumgartl <sup>1)2)</sup> Berg	Chairman
Dr. Paul Wieandt <sup>2)</sup> Königstein i. T. (until 20 March 2007)	Deputy Chairman
Herbert K. Haas <sup>1)2)</sup> Burgwedel	
Karl Heinz Midunsky Munich	
Ass. jur. Otto Müller <sup>3)</sup> Hannover	
Dr. Immo Querner Ehlershausen	
Ass. jur. Renate Schaper-Stewart <sup>3)</sup> Lehrte	
Dipl.-Ing. Hans-Günter Siegerist <sup>3)</sup> Nienstädt	
Dr. Klaus Sturany <sup>1)</sup> Essen	

## Executive Board (Vorstand)

Wilhelm Zeller Burgwedel	Chairman
André Arrago Hannover	
Dr. Wolf Becke Hannover	
Jürgen Gräber Ronnenberg	
Dr. Elke König Hannover	
Dr. Michael Pickel Gehrden	
Ulrich Wallin Hannover	

<sup>1)</sup> Member of the Standing Committee

<sup>2)</sup> Member of the Balance Sheet Committee

<sup>3)</sup> Staff representative

# THE HANNOVER RE SHARE

At the end of February uncertainties on the Chinese capital market and a worsening of the situation with low-grade US home loans caused exchanges around the world to falter. The bellwether US Dow Jones index pulled back by 736 points within roughly two weeks from 12,787 points (20 February 2007) to 12,050 points, a decline of 5.8%.

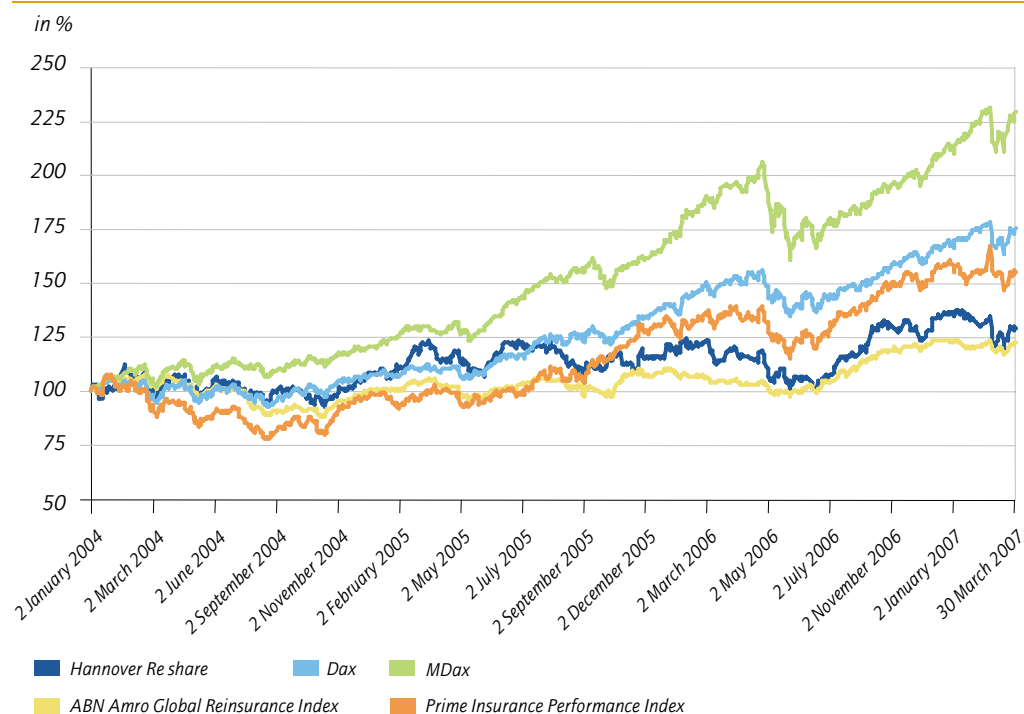
The German capital market responded similarly nervously. Having developed highly favourably in the first two months of the year, the German stock index (Dax) saw price declines of some 493 points in the period up until early March. This was a drop of 7% relative to the year's high of 7,028 points on 26 February. In the same period the MDax, on which Hannover Re is listed, fell by as much as 8.7%. In the wake of these negative signals from the Far East, the nascent recovery on capital markets was then disrupted again by warning signs from the US property market. The news of impending insolvencies on the US real estate market brought price drops of several

percent at short notice. Yet the Dax and MDax rallied again and closed the quarter higher than at the start of the year at 6,917 and 10,207 points respectively.

The Hannover Re share also felt the effects of uncertainties on worldwide capital markets. Having charted a high for the year of EUR 35.47 on 19 January, it had shed 10.6% of its value by 3 March to stand at EUR 31.07 EUR and fell to its lowest point of EUR 30.75 on 15 March. The Hannover Re share subsequently recovered and had climbed to EUR 33.35 by the end of the quarter – a level barely 5% short of its price at the start of the year (EUR 35.08).

Our internal benchmark, the weighted ABN Amro Rothschild Global Reinsurance Index, recorded a negative annual performance of -0.57% as at the end of the quarter and thus fared better than the Hannover Re share (-4.93%) in the first quarter of 2007.

Performance of the Hannover Re share compared with standard benchmark indices and the ABN Amro Global Reinsurance Index



We presented our annual financial statements for 2006 in March at the press briefing on the annual results in Hannover as well as at analysts' conferences in Frankfurt and London. Journalists and analysts alike welcomed the business figures for the 2006 reporting year and the prospects for Hannover Re as outlined by the Executive Board. This was also reflected in the

analysts' price targets, most of which currently range between EUR 34 and EUR 38 and have been revised upwards in recent weeks at many firms. 14 analysts recommended the Hannover Re share as a "buy" in the first quarter, nine said "hold" and only three analysts spoke out in favour of selling the Hannover Re share.

## Share information

Figures in EUR	31.3.2007	2006	2005	2004	2003 <sup>1)</sup>	2002 <sup>1)</sup>
Earnings per share (diluted)	1.02	4.27	0.41	2.32	3.24	2.75
Dividend per share	–	1.60	–	1.00	0.95	0.85

<sup>1)</sup>On a US GAAP basis

International Securities Identification Number (ISIN):	DE 000 840 221 5
Shareholding structure:	Talanx AG: 50.2% Free float: 49.8%
Common shares as at 31 March 2007:	EUR 120,597,134.00
Number of shares as at 31 March 2007:	120,597,134 no-par-value registered shares
Market capitalisation as at 31 March 2007:	EUR 4,021.9 million

# MANAGEMENT REPORT

## Business development

We are thoroughly satisfied with the development of the first quarter of 2007. The results posted by our two business groups of non-life reinsurance and life and health reinsurance have put in place a good foundation for achieving our profit target for the year: a return on equity of at least 15%.

In view of the fact that IFRS 5 requires our US subsidiary – the sale of which is pending – to be carried as a discontinued operation, we are reporting its result in a single separate line of the consolidated statement of income (net income from discontinued operations). The figures for the corresponding period of the previous year have been adjusted accordingly in order to ensure comparability.

Gross written premium in total business amounted to EUR 2.4 billion (EUR 2.7 billion) as at 31 March 2007; this corresponds to a decline of 9.4% compared to the same period of the previous year. Key factors here were the continued – albeit anticipated – decline in business with structured covers in the United States as well as the cessation of active operations by Clarendon Insurance Group, Inc. These effects were not entirely offset by the vigorous growth in life and health reinsurance. At constant exchange rates premium would have contracted by 7.2%. Due to lower retrocessions, however, the level of retained premium climbed to 84.9% (78.1%), and the drop of 3.2% in net premium to EUR 1.7 billion (EUR 1.8 billion) was therefore more modest.

Overall, the performance of our investments also gave grounds for satisfaction: although the portfolio of self-managed assets remained virtually unchanged on a high level primarily because of movements in the US dollar – which offset the inflow of cash into the technical account – ordinary income (excluding interest on deposits) was boosted year-on-year from the previous year's figure of EUR 187.2 million to EUR 195.2 million. This can be attributed first and foremost to the higher average yield generated in the portfolios. Inconsistent market movements in our main currency areas left unrealised gains in our holdings of fixed-income securities almost unchanged. Interest on deposits

continued to decline, and net investment income consequently increased by a modest 6.3% to EUR 255.1 million (EUR 239.9 million).

The operating profit (EBIT) contracted by 17.2% to EUR 154.2 million (EUR 186.3 million). Group net income as at 31 March 2007 climbed 16.8% to EUR 123.5 million (EUR 105.7 million). Earnings per share stood at EUR 1.02 (EUR 0.88), corresponding to an annualised return on equity of 16.6%.

Our financial strength too continues to be very solid: shareholders' equity grew by EUR 154.6 million compared to the position as at 31 December 2006, surpassing the three billion mark for the first time to reach EUR 3.1 billion. The book value per share consequently also increased by 5.3%. The policyholders' surplus, comprised of shareholders' equity, minority interests and hybrid capital, rose by 2.9% to EUR 5.0 billion (EUR 4.9 billion).

Risk management remains a high priority issue for our company: as part of our quantitative approach to risk management the most important risks in non-life reinsurance – such as the reserving and exposure risks – are actuarially assessed using mathematical methods. At the heart of our qualitative risk management is our constant monitoring and controlling of all risks; in this context special attention is paid to operational risks, which we track, assess and minimise using appropriate tools.

What is more, we again took steps in the first quarter to ensure that our equity base does not come under strain from exceptional major losses. On the one hand, we further scaled back our peak exposures, while at the same time we made use of new securitisation transactions – i.e. transfers of insurance risks to the capital market. At the beginning of the year we boosted our "K5" securitisation by an additional USD 106 million to USD 520 million, thereby making our portfolio even more weather-proof. The portfolio assembled for the "K5" transaction consists of non-proportional reinsurance treaties in the property catastrophe, aviation and marine (including offshore) lines.



In March we completed another securitisation that affords extensive protection to our retention of property catastrophe business under "K5": for the time ever an aggregate XL cover of USD 200 million was placed on the capital market. This transfer rounds off our programme of protection cover such that our portfolio now enjoys unprecedented protection against exceptional catastrophe losses. Not only that, the transaction also gives us greater independence from the traditional retrocession market.

## Non-life reinsurance

The state of the market in non-life reinsurance remains favourable. The renewals as at 1 January 2007 – when roughly two-thirds of our treaties were renegotiated – passed off well for our company. Although the hard market has now passed its peak and ceding companies are increasingly running higher retentions thanks to improved capital resources, the rate level remained largely stable with only a few exceptions. In areas that did see significant rate reductions (e.g. in aviation business), they generally retreated on what were still rather high price levels.

In other areas, such as catastrophe-exposed US property business, further sharp increases were obtained as anticipated. Although rates fell somewhat short of the mid-year renewal date as at 1 July 2006, they were still very pleasing and around 35% higher than the previous year's level. It is our expectation that the price level for provision of natural catastrophe reinsurance will be sustained. In US casualty business, on the other hand, reinsurance process softened somewhat in the face of growing competition.

In non-life reinsurance, as in past years, lower-volume but higher-margin non-proportional business made up the bulk of our acceptances – accounting for more than 80% of the treaties written and around half the total premium income. The development of our business in Germany was especially gratifying: thanks to new client relationships and increased treaty shares under existing accounts we were able to boost our already large market

As a further step, by way of a transaction designated "Merlin", Hannover Re also transferred for the first time credit risks associated with reinsurance recoverables to the capital market. The underlying portfolio has a nominal value of EUR 1 billion. This transaction is an innovation for the insurance market inasmuch as it marks the first time that a fully secured synthetic CDO structure was used for a portfolio of credit risks associated with insurance and reinsurance companies.

share and extend our position as one of the leading reinsurers on the profitable German market.

The renewal season once again demonstrated that ceding companies are attaching ever-greater importance to their reinsurers' ratings. This is especially true of long-tail liability lines. Based on our good ratings we were able to profit from this situation particularly strongly.

Demand for structured covers in the first quarter of 2007 was, as anticipated, modest. Particularly among clients in the United States, the uncertainties surrounding the assessment of specific contractual structures from the standpoint of commercial law and supervisory regulations were reflected in purchasing restraint. We counter this by working actively together with regulators and striving to educate our clients. We were, however, able to close new contracts in Europe and Asia. Since the turn of the year we have been writing structured covers in Ireland solely through Hannover Re Ireland, which has taken over the business written by the other two companies previously active in Dublin. In this way we have streamlined our organisation in Ireland and significantly enhanced its efficiency.

Our specialty insurance business, which has now been similarly integrated into the non-life reinsurance segment, developed favourably. Our US primary insurance subsidiary Praetorian Financial Group, Inc. – the sale of which is expected in the second quarter of 2007 – continued to fare well, both in terms of its premium income and result.

Clarendon Insurance Group, Inc., on the other hand, has stopped writing new business and concentrates on the professional management and run-off of cancelled programs. The increased costs of a pro-

gramme of protection cover for Clarendon's remaining natural catastrophe risks will, however, continue to place a strain on this company's account until May 2007.

#### Key figures for non-life reinsurance

Figures in EUR million	2007		2006
	1.1.–31.3.	+/- previous year	1.1.–31.3.
Gross written premium	1,664.4	-18.9%	2,052.1
Net premium earned	1,092.6	-13.9%	1,268.6
Underwriting result	(66.2)		2.5
Net investment income	177.9	+10.5%	161.0
Operating profit (EBIT)	93.3	-38.1%	150.8
Group net income	102.0	+3.8%	98.3
Earnings per share in EUR	0.85	+3.8%	0.82
Retention	83.8 %		75.2 %
Combined ratio <sup>1)</sup>	105.2 %		98.5 %

<sup>1)</sup> Including expense on funds withheld and contract deposits

All in all, we are satisfied with the development of our non-life reinsurance business group. Gross written premium as at 31 March 2007 totalled EUR 1.7 billion (EUR 2.1 billion), a decline of 18.9% compared to the corresponding period of the previous year. At constant exchange rates, especially against the US dollar, the decline would have been 16.9%. Despite a sharply higher retention of 83.8% (75.2%), due in large measure to the reduction in fronting business written by Clarendon for Praetorian, net premium earned fell by 13.9% to EUR 1.1 billion (EUR 1.3 billion).

Expenditure on major claims was driven principally by winter storm "Kyrill", which swept across large parts of Europe in mid-January 2007; based on the information currently available, the storm caused a market loss of some EUR 5 billion. For Hannover Re the net burden of losses is just under EUR 160 million before tax, with the bulk of this amount attributable to the German market. The scale of the losses was alleviated by our "K5" risk

securitisation. In addition to winter storm "Kyrill", other notable major losses for our account were a further windstorm event as well as the crash of a satellite. The total net burden of catastrophe losses and major claims stood at EUR 174.3 million. Equivalent to 15.9% of net premium in non-life reinsurance, this figure thus surpassed the long-term average of 8%. Still, fluctuations from quarter to quarter are by no means uncommon. The combined ratio came in at 105.2% (98.5%).

The net underwriting result slipped from EUR 2.5 million to -EUR 66.2 million as a consequence of the unusually heavy major loss incidence. The operating profit (EBIT) in non-life reinsurance contracted accordingly by 38.1% to EUR 93.3 million (EUR 150.8 million) as at 31 March 2007. Group net income climbed by 3.8% to EUR 102.0 million (EUR 98.3 million) due to a lower tax burden and reduced minority interests. Earnings of EUR 0.85 (EUR 0.82) per share were generated.

## Life and health reinsurance

In life and health reinsurance we are active in five segments: new business financing, the development of new markets and products – including, for example, special seniors' and annuity products –, bancassurance, partnerships with large multinational clients and traditional life, annuity, accident and health business. This broad positioning enables us to enjoy a promising portfolio and vigorous organic growth going forward.

As expected, our life and health reinsurance business continued to develop very well in the first quarter of 2007, and we were again able to substantially enlarge our premium volume. We remain focused on profitable niche segments. In the area of new business financing we are supporting one of the leading life insurers in the United Kingdom, whose innovative risk products were launched in January 2007.

We are also actively involved in the development of Islamic insurance markets, assisting our clients not only with the design of insurance products in accordance with Islamic principles but also with an eye to marketing and sales methods.

The expansion of the upper segment of the age pyramid in industrial nations continues to drive growth in annuity and health insurance. In the United Kingdom our focus was again on enhanced annuities, while in the United States special health insurance products aimed at senior citizens offered attractive growth prospects.

In Europe we continue to concentrate on expanding our bancassurance business; our activities in this sector are currently centred on Greece and Turkey in particular.

### Key figures for life and health reinsurance

Figures in EUR million	2007		2006
	1.1.–31.3.	+/- previous year	1.1.–31.3.
Gross written premium	744.1	+22.8%	605.7
Net premium earned	644.2	+22.5%	525.8
Net investment income	67.9	+7.3%	63.3
Operating profit (EBIT)	51.8	+99.8%	25.9
Group net income	33.9	+142.1%	14.0
Earnings per share in EUR	0.28	+142.1%	0.12
Retention	87.4 %		87.7 %
EBIT margin <sup>1)</sup>	8.1 %		4.9 %

<sup>1)</sup> Operating profit (EBIT) / net premium earned

Gross written premium as at 31 March 2007 increased sharply by 22.8% to EUR 744.1 million (EUR 605.7 million). At constant exchange rates growth would have amounted to 25.6%. The level of retained premium was virtually on a par with the same period of the previous year at 87.4% (87.7%). Net premium earned climbed by 22.5% to EUR 644.2 million (EUR 525.8 million).

Results as at 31 March 2007 were also most gratifying: the operating profit (EBIT) was substantially boosted to EUR 51.8 million (EUR 25.9 million). The EBIT margin of 8.1% came in above the targeted mark of 5.0%. Net income was more than doubled to EUR 33.9 million (EUR 14.0 million), producing earnings of EUR 0.28 (EUR 0.12) per share.

The European Embedded Value (EEV) also developed very favourably for the life and health reinsurance business group. The EEV consists of a valuation of the portfolio as well as the allocated capital and hence provides a basis for assessing its long-term profitability. For the 2006 financial year the EEV of Hannover Life Re amounted to EUR 1.5

billion (EUR 1.3 billion), an increase of 16.3%. The value of new business totalled EUR 64.2 million (EUR 84.7 million). Due in particular to the new business as well as the in-force portfolio, the operating embedded value earnings climbed by 65.0% to EUR 185.6 million (EUR 112.5 million). This is equivalent to 14.2% of the EEV.

## Investments

After getting off to a good start at the turn of the year, international equity markets saw price declines across a broad front in February and early March. This can be attributed inter alia to speculation surrounding the introduction of a stock exchange tax in China as well as the looming insolvency of a mortgage bank in the United States.

Increased volatility in almost all durations was the hallmark of American and European bond markets. While US yields retreated slightly in the first quarter, moderate increases were observed along the yield curves in the European sector. Our principal focus in the area of fixed-income securities therefore continues to be on high quality and liquidity while maintaining a neutral duration.

The inflow of cash into the technical account combined with offsetting market movements and especially a weaker US dollar caused the portfolio of self-managed assets – amounting to EUR 19.2 billion – to remain virtually unchanged compared to the level as at 31 December 2006.

Ordinary income excluding interest on deposits climbed by 4.3% to EUR 195.2 million, as against EUR 187.2 million in the corresponding period of the previous year. The primary factor here was the higher average yield in the asset portfolios. Inconsistent market movements in our main currency areas left unrealised gains in our holdings of fixed-income securities virtually unchanged.

As part of our pro-active approach to portfolio management profits of EUR 40.2 million (EUR 21.1 million) were generated on the disposal of investments, as against realised losses of EUR 11.5 million (EUR 13.0 million). Interest on deposits continued to decline, although this effect was offset by the increase in ordinary income. Against this backdrop net investment income improved by a pleasing 6.3% relative to the same period of the previous year to reach EUR 255.1 million (EUR 239.9 million).

## Outlook for the full 2007 financial year

In view of the attractive market opportunities available in both our business groups of non-life reinsurance and life and health reinsurance, we are looking forward to a very good 2007 financial year.

The risk capital released by the sale of our US primary insurance subsidiary Praetorian will enable us to tap into other promising opportunities in the reinsurance sector. Profitable growth prospects can be identified, for example, by running a higher

retention in the still profitable property catastrophe sector, through acceptance of additional US catastrophe business, in life and health reinsurance as well as in the cultivation of new markets in Central and Eastern Europe. With a view to maximising the potential offered by the German market, we increased our share in E+S Rück – which bears sole responsibility for the Group's German business – at the end of the quarter by 10% as at 1 April 2007 to reach 65.8%.

Market conditions in *non-life reinsurance* remain good on balance, as was borne out by the outcome of the treaty renewals as at 1 January 2007. Although the hard market has now passed its peak, the rate level remained largely attractive with only a few exceptions. The situation in US catastrophe business continues to be favourable despite last year's moderate hurricane season. Although rates fell somewhat short of the mid-year renewal date as at 1 July 2006, they were still highly gratifying and around 35% higher than the level of the January 2006 renewals. Even in those areas that saw rate decreases – such as aviation business – prices are still broadly commensurate with the risks.

The outcome of the renewals in Japan and Korea as at 1 April 2007 was similarly gratifying. In Japan we defied the general trend and generated a gain in premium volume. This is all the more remarkable in view of the fact that we scaled back our peak exposures under windstorm and earthquake covers in Japan. We successfully stepped up our activities in the so-called Kyosai market (small mutual aid societies). Prices in Japanese casualty business ranged from rising to stable, enabling us to enlarge our portfolio.

Even though the business climate is currently favourable almost everywhere, we do not lose sight of the markets of the future. Bearing in mind the enormous growth potential offered by the worldwide Islamic insurance market, we are vigorously pursuing – through our newly established subsidiary in Bahrain – the expansion of so-called *retakaful* business, i.e. Sharia-compliant reinsurance.

We expect to see a further resurgence in demand for structured products especially in Europe and Asia.

The already announced sale of Praetorian, our US subsidiary transacting specialty insurance, is likely to be completed in the second quarter. The remaining specialty business is forecast to develop in line with expectations. Given the fact that Clarendon is scaling back its fronting business for Praetorian, the gross premium income will contract

– while the level of retained premium is set to increase.

All in all, we expect the premium volume in non-life reinsurance to come in roughly on a par with the previous year. Provided the burden of major losses remains within the expected bounds of around 8% of net premium, we anticipate a very healthy profit contribution.

In *life and health reinsurance* we anticipate growth impetus not only from the European markets but also from various Asian countries and South Africa. Since our pilot projects in the US market aimed at tapping into growth opportunities for alternative distribution channels with the aid of system-supported underwriting are bearing fruit, we can assume that the marketing of simple, transparent life insurance products will inject fresh growth stimuli into the US life market. For the business group as a whole we are looking to significant organic growth in premium volume and double-digit increases in results.

The anticipated positive underwriting cash flow as well as the proceeds from the sale of Praetorian that will probably accrue in the second quarter are likely to bring about a rise in the total asset volume in the course of the year. Given a normal market environment the income generated from *investments* under our own management should continue to grow.

In view of the development to date of our business groups and the general economic climate, we are confident that 2007 will prove to be another highly successful financial year. Assuming that the burden of major losses is in line with the expected level of around 8% of net premium in non-life reinsurance and as long as there are no unexpectedly adverse movements on capital markets, another excellent result should be attainable in the current year: we expect to generate a return on equity of at least 15% for the 2007 financial year; the result should come in higher than that of 2006. It remains our goal to pay a dividend in the range of 35% to 40% of Group net income.



# CONSOLIDATED QUARTERLY ACCOUNTS

of the Hannover Re Group

# CONSOLIDATED BALANCE SHEET

as at 31 March 2007

Figures in EUR thousand	2007	2006
<b>Assets</b>	<b>31.3.</b>	<b>31.12.</b>
Fixed-income securities – held to maturity	1,560,427	1,602,057
Fixed-income securities – loans and receivables	1,016,563	915,593
Fixed-income securities – available for sale	12,907,541	13,062,150
Fixed-income securities – at fair value through profit or loss	166,034	166,463
Equity securities – available for sale	1,609,326	1,586,071
Equity securities – at fair value through profit or loss	–	10,207
Other financial assets – at fair value through profit or loss	22,920	22,368
Real estate	17,791	17,979
Investments in associated companies	168,823	166,646
Other invested assets	675,757	623,329
Short-term investments	753,254	721,287
Cash	339,014	351,776
<b>Total investments and cash under own management</b>	<b>19,237,450</b>	<b>19,245,926</b>
Funds held	8,863,675	8,730,734
Contract deposits	587,232	561,426
<b>Total investments</b>	<b>28,688,357</b>	<b>28,538,086</b>
Reinsurance recoverables on unpaid claims	3,036,052	3,048,496
Reinsurance recoverables on benefit reserve	443,496	447,537
Prepaid reinsurance premium	295,931	339,096
Reinsurance recoverables on other technical reserves	8,627	7,822
Deferred acquisition costs	2,255,078	2,228,152
Accounts receivable	3,010,462	2,609,264
Goodwill	151,146	152,639
Deferred tax assets	931,989	844,921
Other assets	276,692	261,435
Accrued interest and rent	3,422	2,785
Assets classified as held for sale	3,045,214	2,906,123
	42,146,466	41,386,356



Figures in EUR thousand	2007	2006
Liabilities	31.3.	31.12.
Loss and loss adjustment expense reserve	17,620,608	17,596,325
Benefit reserve	6,184,595	6,109,154
Unearned premium reserve	1,837,812	1,581,034
Provisions for contingent commissions	212,484	200,769
Funds held	1,373,192	1,419,444
Contract deposits	3,703,663	3,526,781
Reinsurance payable	1,111,298	1,215,833
Provisions for pensions	65,315	64,559
Taxes	237,973	190,580
Provision for deferred taxes	1,822,323	1,756,897
Other liabilities	209,601	248,854
Long-term debt and subordinated capital	1,428,910	1,428,893
Liabilities related to assets classified as held for sale	2,690,463	2,540,847
<b>Total liabilities</b>	<b>38,498,237</b>	<b>37,879,970</b>
Shareholders' equity		
Common shares	120,597	120,597
Nominal value 120,597    Authorised capital 60,299		
Additional paid-in capital	724,562	724,562
Common shares and additional paid-in capital	845,159	845,159
Cumulative other comprehensive income		
Unrealised gains and losses on investments	184,537	144,199
Cumulative foreign currency translation adjustment	(80,972)	(71,518)
Other changes in cumulative other comprehensive income	(1,346)	(1,526)
Total other comprehensive income	102,219	71,155
Retained earnings	2,105,062	1,981,521
Shareholders' equity before minorities	3,052,440	2,897,835
Minority interests	595,789	608,551
<b>Total shareholders' equity</b>	<b>3,648,229</b>	<b>3,506,386</b>
	<b>42,146,466</b>	<b>41,386,356</b>

# CONSOLIDATED STATEMENT OF INCOME

## for the period 1 January to 31 March 2007

Figures in EUR thousand	2007	2006
	1.1.–31.3.	1.1.–31.3.
Gross written premium	2,408,442	2,657,815
Ceded written premium	362,955	583,399
Change in gross unearned premium	(265,898)	(341,552)
Change in ceded unearned premium	(42,775)	61,509
<b>Net premium earned</b>	<b>1,736,814</b>	<b>1,794,373</b>
Ordinary investment income	195,200	187,173
Profit/loss from investments in associated companies	976	322
Income/expense on funds withheld and contract deposits	46,731	54,177
Realised gains on investments	40,155	21,119
Realised losses on investments	11,499	13,020
Unrealised gains and losses on investments	(126)	7,733
Total depreciation, impairments and appreciation of investments	402	5,081
Other investment expenses	15,983	12,543
<b>Net investment income</b>	<b>255,052</b>	<b>239,880</b>
Other technical income	276	199
<b>Total revenues</b>	<b>1,992,142</b>	<b>2,034,452</b>
Claims and claims expenses	1,219,991	1,200,062
Change in benefit reserves	113,796	65,349
Commission and brokerage, change in deferred acquisition costs	429,469	488,825
Other acquisition costs	6,588	7,574
Other technical expenses	7,178	9,756
Administrative expenses	48,676	51,963
<b>Total technical expenses</b>	<b>1,825,698</b>	<b>1,823,529</b>
Other income and expenses	(12,256)	(24,643)
<b>Operating profit/loss (EBIT)</b>	<b>154,188</b>	<b>186,280</b>
Interest on hybrid capital	19,163	19,235
<b>Net income before taxes</b>	<b>135,025</b>	<b>167,045</b>
Taxes	20,978	54,139
<b>Net income from continuing operations</b>	<b>114,047</b>	<b>112,906</b>
<b>Net income from discontinued operation</b>	<b>15,260</b>	<b>17,451</b>
<b>Net income</b>	<b>129,307</b>	<b>130,357</b>
thereof		
Minority interest in profit and loss	5,766	24,626
Group net income	123,541	105,731
<b>Earnings per share</b>		
Earnings per share in EUR	1.02	0.88
from continuing operations in EUR	0.90	0.73
from discontinued operation in EUR	0.12	0.15

# CONSOLIDATED STATEMENT

## of changes in shareholders' equity 2007

Figures in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)			Retained earnings	Minority interests	Shareholders' equity
			Currency translation	Unrealised gains/losses	Other			
<b>Balance as at 1.1.2006</b>	120,597	724,562	64,934	225,391	(1,582)	1,467,132	556,453	3,157,487
Capital increases/ additions							14,130	14,130
Capital repayments							(1,307)	(1,307)
Effects pursuant to IAS 8							(2,244)	(2,244)
Income and expenses directly recognised in equity			(35,542)	(124,901)	93		1,510	(158,840)
Tax effects on income and expenses directly recognised in equity			2,747	70,326	(28)			73,045
Dividend paid							(9,485)	(9,485)
Net income						105,731	24,626	130,357
<b>Balance as at 31.3.2006</b>	120,597	724,562	32,139	170,816	(1,517)	1,572,863	583,683	3,203,143
<b>Balance as at 1.1.2007</b>	120,597	724,562	(71,518)	144,199	(1,526)	1,981,521	608,551	3,506,386
Capital increases/ additions							(18)	(18)
Income and expenses directly recognised in equity			(6,390)	46,499	257		12,733	53,099
Tax effects on income and expenses directly recognised in equity			(3,064)	(6,161)	(77)		–	(9,302)
Dividends paid							(31,243)	(31,243)
Net income						123,541	5,766	129,307
<b>Balance as at 31.3.2007</b>	120,597	724,562	(80,972)	184,537	(1,346)	2,105,062	595,789	3,648,229

# CONSOLIDATED CASH FLOW STATEMENT

as at 31 March 2007

Figures in EUR thousand	2007	2006
	1.1.–31.3.	1.1.–31.3.
<b>I. Cash flow from operating activities</b>		
Net income	129,307	130,357
Appreciation/depreciation	5,592	8,661
Net realised gains and losses on investments	(28,656)	(8,099)
Amortisation of investments	(535)	318
Changes in funds held	(224,700)	436,164
Net changes in contract deposits	162,866	(215,502)
Changes in prepaid reinsurance premium (net)	308,621	488,641
Changes in tax assets/provisions for taxes	15,037	45,251
Changes in benefit reserves (net)	122,677	7,069
Changes in claims reserves (net)	120,333	192,869
Changes in deferred acquisition costs	(38,184)	(135,708)
Changes in other technical provisions	12,732	63,604
Changes in clearing balances	(518,336)	(254,790)
Changes in other assets and liabilities (net)	971	(94,686)
<b>Cash flow from operating activities</b>	<b>67,725</b>	<b>664,149</b>
<b>II. Cash flow from investing activities</b>		
Fixed-income securities – held to maturity		
Maturities	51,147	42,235
Purchases	(20,000)	(16,875)
Fixed-income securities – loans and receivables		
Purchases	(99,372)	(41,839)
Fixed-income securities – available for sale		
Maturities, sales	1,267,992	1,976,956
Purchases	(1,211,219)	(2,644,156)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	7,267	2,368
Purchases	(4,237)	(2,643)
Equity securities – available for sale		
Sales	201,611	63,074
Purchases	(178,293)	(141,817)
Equity securities – at fair value through profit or loss		
Sales	20,340	–
Purchases	(10,207)	–

Figures in EUR thousand	2007	2006
	1.1.–31.3.	1.1.–31.3.
Other trading securities		
Purchases	–	(10,000)
Other invested assets		
Sales	21,015	17,877
Purchases	(44,287)	(31,979)
Affiliated companies and participating interests		
Sales	199	2,801
Purchases	(1,983)	(11,008)
Real estate		
Sales	–	771
Purchases	–	(144)
Short-term investments		
Changes	(40,602)	18,129
Other changes (net)	(10,287)	(2,151)
<b>Cash flow from investing activities</b>	<b>(50,916)</b>	<b>(778,401)</b>
<b>III. Cash flow from financing activities</b>		
Contribution from capital measures	(18)	12,823
Dividends paid	(31,243)	(9,485)
Proceeds from long-term debts	–	1,571
Repayment of long-term debts	(158)	(31,707)
Other changes	3,193	2,244
<b>Cash flow from financing activities</b>	<b>(28,226)</b>	<b>(24,554)</b>
<b>IV. Exchange rate differences on cash</b>	<b>(1,345)</b>	<b>(6,670)</b>
<b>Change in cash and cash equivalents (I.+II.+III.+IV.)</b>	<b>(12,762)</b>	<b>(145,476)</b>
Cash and cash equivalents at the beginning of the period	351,776	465,161
Change in cash and cash equivalents according to cash flow statement	(12,762)	(145,476)
<b>Cash and cash equivalents at the end of the period</b>	<b>339,014</b>	<b>319,685</b>
Income taxes	(19,903)	(8,882)
Interest paid	(59,648)	(77,715)

# SEGMENTAL REPORT

## as at 31 March 2007

Hannover Re's segmental report is based on IAS 14 "Segment Reporting" and on the principles set out in German Accounting Standard No. 3 "Segment Reporting" (DRS 3) of the German Standards Council, supplemented by the requirements of DRS 3–20 "Segment Reporting of Insurance Enterprises".

The segments are shown after consolidation of internal transactions within the individual segment, but before consolidation across the segments. This is reported separately in the "Consolidation" column.

### Segmentation of assets

Figures in EUR thousand	Non-life reinsurance	
	2007	2006
	31.3.	31.12.
<b>Assets</b>		
Held to maturity	1,335,549	1,365,473
Loans and receivables	815,632	715,334
Available for sale	11,692,283	11,736,891
At fair value through profit or loss	104,234	114,072
Trading	15,954	15,577
Other invested assets	800,286	748,071
Short-term investments	572,997	564,903
Cash	228,632	269,911
Total investments and cash under own management	15,565,567	15,530,232
Funds held by ceding companies	1,059,636	1,106,247
Contract deposits	86	84
<b>Total investments</b>	16,625,289	16,636,563
Reinsurance recoverables on unpaid claims	2,910,709	2,935,168
Reinsurance recoverables on benefit reserves	–	–
Prepaid reinsurance premium	286,893	329,505
Reinsurance recoverables on other reserves	1,369	1,536
Deferred acquisition costs	341,493	305,233
Accounts receivable	2,426,995	2,068,526
Other assets in the segment	1,558,968	1,543,208
Assets classified as held for sale	3,045,214	2,906,123
<b>Total</b>	27,196,930	26,725,862

Life and health reinsurance		Consolidation		Total	
2007	2006	2007	2006	2007	2006
31.3.	31.12.	31.3.	31.12.	31.3.	31.12.
51,445	63,606	173,433	172,978	1,560,427	1,602,057
64,171	63,302	136,760	136,957	1,016,563	915,593
2,222,894	2,259,864	601,690	651,466	14,516,867	14,648,221
34,944	36,116	26,856	26,482	166,034	176,670
6,966	6,791	–	–	22,920	22,368
62,085	59,883	–	–	862,371	807,954
171,752	153,880	8,505	2,504	753,254	721,287
108,158	79,536	2,224	2,329	339,014	351,776
2,722,415	2,722,978	949,468	992,716	19,237,450	19,245,926
7,804,039	7,624,487	–	–	8,863,675	8,730,734
587,146	561,342	–	–	587,232	561,426
11,113,600	10,908,807	949,468	992,716	28,688,357	23,538,086
125,343	113,328	–	–	3,036,052	3,048,496
443,496	447,537	–	–	443,496	447,537
9,038	9,591	–	–	295,931	339,096
7,258	6,286	–	–	8,627	7,822
1,913,585	1,922,919	–	–	2,255,078	2,228,152
583,467	540,738	–	–	3,010,462	2,609,264
212,450	211,189	(408,169)	(492,617)	1,363,249	1,261,780
–	–	–	–	3,045,214	2,906,123
14,408,237	14,160,395	541,299	500,099	42,146,466	41,386,356

# SEGMENTAL REPORT

as at 31 March 2007

## Segmentation of technical and other liabilities

Figures in EUR thousand	Non-life reinsurance	
	2007	2006
	31.3.	31.12.
<b>Liabilities</b>		
Loss and loss adjustment expense reserve	16,240,792	16,268,479
Benefit reserve	–	–
Unearned premium reserve	1,791,847	1,540,154
Provisions for contingent commissions	171,007	159,699
Funds held under reinsurance contracts	393,868	437,407
Contract deposits	151,626	147,594
Reinsurance payable	912,534	1,012,468
Long-term liabilities	56,176	56,857
Other liabilities in the segment	1,749,192	1,638,633
Liabilities related to assets held for sale	2,628,701	2,478,513
<b>Total</b>	<b>24,095,743</b>	<b>23,739,804</b>



Life and health reinsurance		Consolidation		Total	
2007	2006	2007	2006	2007	2006
31.3.	31.12.	31.3.	31.12.	31.3.	31.12.
1,379,816	1,327,846	–	–	17,620,608	17,596,325
6,184,595	6,109,154	–	–	6,184,595	6,109,154
45,965	40,880	–	–	1,837,812	1,581,034
41,477	41,070	–	–	212,484	200,769
979,324	982,037	–	–	1,373,192	1,419,444
3,552,037	3,379,187	–	–	3,703,663	3,526,781
199,540	204,110	(776)	(745)	1,111,298	1,215,833
–	–	1,372,734	1,372,036	1,428,910	1,428,893
1,136,719	1,229,294	(550,699)	(607,037)	2,335,212	2,260,890
–	–	61,762	62,334	2,690,463	2,540,847
13,519,473	13,313,578	883,021	826,588	38,498,237	37,879,970

# SEGMENTAL REPORT

as at 31 March 2007

## Segmental statement of income

Figures in EUR thousand	Non-life reinsurance	
	2007	2006
	1.1.–31.3.	1.1.–31.3.
Gross written premium	1,664,362	2,052,130
Net premium earned	1,092,609	1,268,619
Net investment income	177,911	161,009
Claims and claims expenses	863,902	862,815
Change in benefit reserves	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	257,967	366,006
Administrative expenses	36,924	37,284
Other income and expenses	(18,425)	(12,714)
<b>Operating profit/loss (EBIT)</b>	<b>93,302</b>	<b>150,809</b>
Interest on hybrid capital	–	–
<b>Net income before taxes</b>	<b>93,302</b>	<b>150,809</b>
Taxes	3,031	48,824
<b>Net income from continuing operations</b>	<b>90,271</b>	<b>101,985</b>
<b>Net income from discontinued operation</b>	<b>16,245</b>	<b>17,451</b>
<b>Net income</b>	<b>106,516</b>	<b>119,436</b>
thereof	–	–
Minority interest in profit and loss	4,499	21,116
<b>Group net income</b>	<b>102,017</b>	<b>98,320</b>

The gross written premium in the segments derives exclusively from insurance transactions with outside third parties.

Life and health reinsurance		Consolidation		Total	
2007	2006	2007	2006	2007	2006
1.1.–31.3.	1.1.–31.3.	1.1.–31.3.	1.1.–31.3.	1.1.–31.3.	1.1.–31.3.
744,080	605,685	–	–	2,408,442	2,657,815
644,205	525,754	–	–	1,736,814	1,794,373
67,872	63,254	9,269	15,617	255,052	239,880
356,227	337,856	(138)	(609)	1,219,991	1,200,062
113,796	65,349	–	–	113,796	65,349
186,639	141,423	(1,647)	(1,473)	442,959	505,956
12,893	15,205	(1,141)	(526)	48,676	51,963
9,318	(3,231)	(3,149)	(8,698)	(12,256)	(24,643)
51,840	25,944	9,046	9,527	154,188	186,280
–	–	19,163	19,235	19,163	19,235
51,840	25,944	(10,117)	(9,708)	135,025	167,045
16,660	8,425	1,287	(3,110)	20,978	54,139
35,180	17,519	(11,404)	(6,598)	114,047	112,906
–	–	(985)	–	15,260	17,451
35,180	17,519	(12,389)	(6,598)	129,307	130,357
1,267	3,510	–	–	5,766	24,626
33,913	14,009	(12,389)	(6,598)	123,541	105,731

Our secondary segmental reporting covers the continuing operations and is based on the regional origin of the investments and gross written premium.

#### Investments <sup>1)</sup>

Figures in EUR thousand	2007	2006
	31.3.	31.12.
Total investments excluding cash		
Germany	6,178,593	5,873,843
United Kingdom	1,124,485	1,028,814
France	1,036,297	1,044,337
Other	2,731,629	2,836,679
Europe	11,071,004	10,783,673
USA	5,877,223	6,208,046
Other	524,043	536,015
North America	6,401,266	6,744,061
Asia	290,064	281,290
Australia	609,178	551,309
Australasia	899,242	832,599
Africa	288,883	291,548
Other	238,041	242,269
<b>Total</b>	<b>18,898,436</b>	<b>18,894,150</b>

#### Gross written premium <sup>1)</sup>

Figures in EUR thousand	2007	2006
	1.1.–31.3.	1.1.–31.3.
Gross written premium		
Germany	505,289	503,896
United Kingdom	397,194	348,144
France	120,051	138,174
Other	350,624	289,611
Europe	1,373,158	1,279,825
USA	622,062	932,578
Other	86,015	104,480
North America	708,077	1,037,058
Asia	71,883	67,833
Australia	129,834	71,001
Australasia	201,717	138,834
Africa	68,732	102,870
Other	56,758	99,228
<b>Total</b>	<b>2,408,442</b>	<b>2,657,815</b>

<sup>1)</sup> After elimination of internal transactions within the Group across segments

## 1. General reporting principles

The parent company Hannover Rückversicherung AG ("Hannover Re") and its subsidiaries (collectively referred to as the "Hannover Re Group") belong to Talanx AG, which in turn is wholly owned by HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI). Hannover Re is obliged to prepare a consolidated financial statement and group management report in accordance with § 290 German Commercial Code (HGB). Furthermore, HDI is required by §§ 341 i et seq. German Commercial Code (HGB) to prepare consolidated annual accounts that include the annual financial statements of Hannover Re and its subsidiaries.

The consolidated financial statement of Hannover Re was drawn up in full compliance with the International Financial Reporting Standards (IFRS) that are to be used within the European Union. This also applies to all figures provided in this report for previous periods. Since 2002 the standards adopted by the International Accounting Standards Board (IASB) have been referred to as IFRS; the standards dating from earlier years still bear the name "International Accounting Standards (IAS)". Standards are cited in our Notes accordingly; unless the Notes make explicit reference to a particular standard, both terms are used synonymously.

The quarterly results of reinsurance enterprises, including those of Hannover Re, are for various reasons not a reliable indicator of the results for the financial year as a whole. Losses from natural disasters and other catastrophic losses impact the result of the reporting period in which they occur. Furthermore, belatedly reported claims for major loss events can also lead to substantial fluctuations in individual quarterly results. Gains and losses on the disposal of investments are accounted for in the quarter in which the investments are sold.

## 2. Accounting principles including major accounting policies

The quarterly accounts of the consolidated companies included in the consolidated financial statement were drawn up as at 31 March 2007.

All standards adopted by the IASB as at 31 March 2007 with binding effect for the 2007 financial year have been observed in the consolidated financial statement.

Following the sale of Praetorian Financial Group, Inc., New York, and with the aim of focusing on reinsurance business, we have divided our segmental reporting drawn up in accordance with the provisions of IAS 14 "Segment Reporting" into the business groups of non-life reinsurance and life and health reinsurance commencing with the first quarter of 2007. Financial reinsurance – as part of the product range of non-life reinsurance – as well as the remaining portion of the specialty insurance business group are now reported together with and in the non-life reinsurance business group. The figures for the previous period shown for comparative purposes have been adjusted retrospectively.

We would also refer to the relevant information in the consolidated financial statement as at 31 December 2006.

### 3. Consolidated companies and consolidation principles

#### Consolidated companies

Effective 1 January 2007 Hannover Re completed a reorganisation of some of its Irish group companies with no effect on income within the Group. With the exception of specific reinsurance contracts, the business operations of E+S Reinsurance (Ireland) Ltd. and Hannover Reinsurance (Dublin) Ltd. were transferred by sale to Hannover Reinsurance (Ireland) Ltd. Since that date E+S Reinsurance (Ireland) Ltd. and Hannover Reinsurance (Dublin) Ltd. have been in run-off and are no longer writing new business.

The company Castellum Holdings Ltd. and its subsidiary Castellum Re Ltd. held by Hannover Re (Bermuda) Ltd., Hamilton, were liquidated effective 21 March 2007.

A capital reduction of EUR 27.4 million was implemented at WRH Offshore High Yield Partners, L.P., Wilmington, 70.0% of which is held by Hannover Re and 30.0% by E+S Rück, through the sale of part of the company's assets and payment of the sales proceeds to the shareholders.

#### Capital consolidation

The capital consolidation complies with the standards of IAS 27 "Consolidated and Separate Financial Statements". Subsidiaries are consolidated as soon as Hannover Re acquires a majority voting interest or de facto controlling influence. The capital consolidation is based on the revaluation method. In the context of the "purchase accounting" method the acquisition costs of the parent company are netted with the proportionate shareholders' equity of the subsidiary at the time when it is first included in the consolidated financial statement after the revaluation of all assets and liabilities. After recognition of all acquired intangible assets that in accordance with IFRS 3 "Business Combinations" are to be accounted for separately from goodwill, the difference between the revalued shareholders' equity of the subsidiary and the purchase price is recognised as goodwill. Under IFRS 3 scheduled amortization is not taken on goodwill. Instead, unscheduled amortisation is taken where necessary on the basis of annual impairment tests. Immaterial and negative goodwill are recognised in the statement of income in the year of their occurrence.

Companies over which Hannover Re is able to exercise a significant influence ("associated companies") are normally consolidated "at equity" with the proportion of the shareholders' equity attributable to the Group. A significant influence is presumed to exist if a company belonging to the Hannover Re Group directly or indirectly holds at least 20% – but no more than 50% – of the voting rights. Income from investments in associated companies is recognised separately in the consolidated statement of income.

Where minority interests in shareholders' equity exist, such interests are reported separately within Group shareholders' equity in accordance with IAS 1 "Presentation of Financial Statements".

The minority interest in the result is a component of net income and is shown separately as a "thereof" note following net income. As at 31 March 2007 it amounted to EUR 5.8 million (EUR 24.6 million).

#### Debt consolidation

Receivables and liabilities between the companies included in the consolidated financial statement were offset against each other.

## Consolidation of expenses and profit

The effects of business transactions within the Group were eliminated.

## Consolidation of special purpose entities

In the third quarter, with the aim of transferring peak exposures deriving from natural disasters to the capital market, Hannover Re issued a catastrophe ("CAT") bond that can be traded on a secondary market – the first time it had used such a tool. The CAT bond with a volume of USD 150 million was placed with institutional investors from Europe and North America by a special purpose entity. Hannover Re does not exercise a controlling influence over the special purpose entity. Under IFRS this transaction is to be recognised as a financial instrument. In accordance with IAS 39.9 the contract constitutes a derivative, the fair value of which as at 31 March 2007 amounted to -EUR 3.9 million and which we carried under other liabilities as at the balance sheet date.

In January 2007 Hannover Re again drew on the capital market to obtain underwriting capacity for catastrophe risks by increasing the volume of last year's "K5" securitisation to EUR 394.5 million. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, was used for the transaction, which was placed with investors in North America, Europe and Japan. The additional capital in the amount of EUR 80.4 million was provided by both new and existing investors. The planned term of the transaction runs until 31 December 2008. Pursuant to SIC-12 Kaith Re Ltd. has been included in the consolidated financial statements since 1 January 2006.

In February 2007 the Hannover Re Group transferred for the first time risks resulting from reinsurance recoverables to the capital market. This securitisation enables Hannover Re to reduce the default risk associated with reinsurance recoverables. The portfolio of receivables underlying the transaction has a nominal value of approximately EUR 1.0 billion and consists of exposures to insurers and reinsurers. The securities serving as collateral were issued via a special purpose entity. Payment to Hannover Re – after allowance for its deductible – is triggered by a retrocessionaire's insolvency. Hannover Re does not bear the majority of the economic benefits or risks arising out of the special purpose entity's activities through any of its business relations. In accordance with IAS 39.9 the transaction constitutes a derivative, the fair value of which as at 31 March 2007 amounted to -EUR 2.8 million and which we carried under other liabilities as at the balance sheet date.

In March 2007, with the aim of better protecting its balance sheet and further extending its access to the retrocession market, Hannover Re placed on the capital market a protection cover on its worldwide natural catastrophe business in an amount of EUR 150.4 million with a term of two years. A risk carrier in the form of a special purpose entity provides Hannover Re with aggregate excess of loss coverage. The underlying portfolio consists of the natural catastrophe business retained under the existing "K5" securitisation. The cover attaches upon occurrence of an aggregated 83-year-event for "K5" and is fully utilised upon occurrence of a 250-year accumulation. Within this spread the outside investors assume 90% of the modelled "K5" losses, while the remaining 10% remain with Hannover Re. Hannover Re does not bear the majority of the economic benefits or risks arising out of this company's activities through any of its business relations with the special purpose entity.

## 4. Discontinued operations

In the previous year Hannover Re reached agreement on the sale of its American subgroup Praetorian Financial Group, Inc., New York (PFG), to an Australian insurance group. For further explanatory remarks please see the corresponding information in the consolidated financial statement as at 31 December 2006.

In compliance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", we recognise the profit or loss of PFG in both the Group and segmental statement of income for all presented periods after tax in a separate line and disclose the assets and liabilities of the discontinued operation in the first quarter of 2007 in a balance sheet item that is kept distinct from continuing operations. In order to avoid distorting effects on the profit and losses of separately disclosed operations, transactions of a long-term nature between the two groups of operations that are continued beyond the disposal date are recognised on an unconsolidated basis.

The profit or loss, assets and liabilities and net cash flows of the discontinued operation are presented in the following tables and broken down into their major components.

### Major assets and liabilities of the discontinued operation

Figures in EUR thousand	2007	2006
	31.3.	31.12.
<b>Assets</b>		
Total investments	1,318,375	1,143,301
Reinsurance recoverables on unpaid claims	857,190	784,064
Prepaid reinsurance premium	261,751	308,709
Deferred acquisition costs	92,599	91,904
Accounts receivable	418,122	524,299
Other assets	97,177	53,846
Assets held for sale	3,045,214	2,906,123
<b>Liabilities</b>		
Loss and loss adjustment expense reserves	1,326,641	1,216,960
Unearned premium reserves	640,427	683,141
Funds held under reinsurance contracts	414,922	414,462
Reinsurance payable	198,240	116,236
Other liabilities	110,233	110,048
Liabilities related to assets held for sale	2,690,463	2,540,847



## Major items in the statement of income of the discontinued operation

Figures in EUR thousand	2007	2006
	1.1.–31.3.	1.1.–31.3.
Gross written premium	341,548	851,621
Ceded written premium	140,436	439,232
Net change in gross unearned premium	(7,779)	(208,598)
<b>Net premium earned</b>	<b>193,333</b>	<b>203,791</b>
Net investment income	10,531	5,361
Net underwriting result	16,739	22,849
Other income and expenses	(3,030)	(197)
Operating profit/loss (EBIT)	24,240	28,013
Interest on hybrid capital	1,991	1,305
<b>Net income before taxes</b>	<b>22,249</b>	<b>26,708</b>
Taxes	6,989	9,257
<b>Net income</b>	<b>15,260</b>	<b>17,451</b>

## Statement of cash flows from the discontinued operation

Figures in EUR thousand	2007	2006
	1.1.–31.3.	1.1.–31.3.
Cash flow from operating activities	180,587	199,881
Cash flow from investing activities	(18,938)	(382,767)
Cash flow from financing activities	–	154,440
<b>Change in cash and cash equivalents</b>	<b>161,649</b>	<b>(28,446)</b>

In addition, the figures referring to the discontinued operation are recognised separately in the further explanations provided in these Notes regarding the items of the consolidated financial statement in order to reconcile the amounts reported in the consolidated quarterly financial statement that represent continuing operations.

## 5. Notes on the individual items of the balance sheet and statement of income

### 5.1 Investments including income and expenses

Investments are classified and measured in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". Hannover Re Group classifies investments according to the following categories: held to maturity, loans and receivables, financial assets at fair value through profit or loss, held for trading and available for sale. The allocation and measurement of investments are determined by the investment intent.

Fixed-income securities classified as held to maturity as well as loans and receivables originated by the entity that are not listed on an active market or sold at short notice are measured at purchase cost – i.e. fair value including directly allocable transaction costs – plus amortised cost. The amortised costs derive from the difference between the nominal value and purchase cost and they are spread over the time to maturity of the fixed-income securities.

Fixed-income securities classified as available for sale are measured at fair value. The difference between the fair value and amortised cost is recognised outside the statement of income until realisation.

Financial assets at fair value through profit or loss and securities held for trading are measured at fair value. The difference between the fair value and amortised cost is recognised in the statement of income.

Securities whose fair value falls significantly or permanently below purchase cost are written down to current value and recognised in the statement of income.

The investments also include investments in associated companies, real estate used by third parties, short-term investments, cash and funds held. The other investments primarily consist of shares in private equity limited partnerships.

For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2006.

## Maturities of the fixed-income securities

Figures in EUR thousand	2007		2006	
	Cost or amortised cost	Fair value	Cost or amortised cost	Fair value
	31.3.	31.3.	31.12.	31.12.
<b>Held to maturity</b>				
due in one year	41,338	45,030	66,775	66,892
due after one through two years	24,129	23,706	27,742	27,295
due after two through three years	21,089	21,179	–	–
due after three through four years	105,343	106,063	21,615	21,749
due after four through five years	201,453	204,512	203,263	204,026
due after five through ten years	1,156,083	1,156,898	1,271,484	1,281,502
due after ten years	10,992	11,167	11,178	11,357
<b>Total</b>	<b>1,560,427</b>	<b>1,568,555</b>	<b>1,602,057</b>	<b>1,612,821</b>
<b>Loans and receivables</b>				
due in one year	28,336	28,645	27,992	28,147
due after one through two years	24,319	24,614	24,774	25,347
due after two through three years	158,171	153,755	62,218	60,628
due after three through four years	42,909	41,675	123,217	119,212
due after four through five years	95,361	91,059	91,335	87,326
due after five through ten years	637,060	613,233	554,829	534,798
due after ten years	30,407	31,939	31,228	31,213
<b>Total</b>	<b>1,016,563</b>	<b>984,920</b>	<b>915,593</b>	<b>886,671</b>
<b>Available for sale</b>				
due in one year	1,571,577	1,568,529	1,381,230	1,380,347
due after one through two years	1,656,117	1,635,377	1,700,790	1,692,481
due after two through three years	1,397,114	1,378,984	1,678,241	1,637,918
due after three through four years	1,513,719	1,495,965	1,566,342	1,562,701
due after four through five years	1,132,019	1,130,364	1,187,735	1,176,674
due after five through ten years	4,118,680	4,061,825	4,543,454	4,472,663
due after ten years	1,631,079	1,636,497	1,123,275	1,139,366
<b>Total</b>	<b>13,020,305</b>	<b>12,907,541</b>	<b>13,181,067</b>	<b>13,062,150</b>
<b>Financial assets at fair value through profit or loss</b>				
due in one year	101,538	101,538	102,378	102,482
due after one through two years	875	1,210	895	1,224
due after two through three years	–	–	–	–
due after three through four years	1,412	1,453	–	–
due after four through five years	–	–	–	–
due after five through ten years	33,428	33,597	31,840	31,928
due after ten years	26,040	28,236	27,411	30,829
<b>Total</b>	<b>163,293</b>	<b>166,034</b>	<b>162,524</b>	<b>166,463</b>

The stated maturities may in individual cases diverge from the contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

Floating-rate bonds (also known as "floaters") are shown under the maturities due in one year and constitute our interest-related, within-the-year reinvestment risk.

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as held to maturity as well as their fair value

### 31.3.2007

Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	52,461	–	1,868	482	51,075
US treasury notes	355,492	6,153	–	4,827	366,472
Other foreign government debt securities	6,629	76	–	98	6,803
Debt securities issued by semi-governmental entities	447,329	8,212	1,853	6,521	460,209
Corporate securities	434,950	5,570	3,757	11,427	448,190
Asset-backed securities	237,180	48	4,453	3,031	235,806
<b>Total</b>	<b>1,534,041</b>	<b>20,059</b>	<b>11,931</b>	<b>26,386</b>	<b>1,568,555</b>

### 31.12.2006

Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	52,922	–	1,355	813	52,380
US treasury notes	358,281	4,455	–	2,942	365,678
Other foreign government debt securities	6,648	84	–	25	6,757
Debt securities issued by semi-governmental entities	455,039	8,305	1,709	9,402	471,037
Corporate securities	446,116	7,290	3,150	11,536	461,792
Asset-backed securities	252,169	90	3,246	6,164	255,177
<b>Total</b>	<b>1,571,175</b>	<b>20,224</b>	<b>9,460</b>	<b>30,882</b>	<b>1,612,821</b>

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables  
as well as their fair value

31.3.2007

Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
<b>Loans and receivables</b>					
Government debt securities of EU member states	19,979	–	618	355	19,716
Debt securities issued by semi-governmental entities	220,354	157	10,166	3,605	213,950
Corporate securities	403,587	788	12,981	6,143	397,537
Asset-backed securities	356,910	1,872	10,695	5,630	353,717
<b>Total</b>	<b>1,000,830</b>	<b>2,817</b>	<b>34,460</b>	<b>15,733</b>	<b>984,920</b>

31.12.2006

Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
<b>Loans and receivables</b>					
Government debt securities of EU member states	19,979	–	468	168	19,679
Debt securities issued by semi-governmental entities	220,901	191	9,471	2,755	214,376
Corporate securities	368,929	989	11,325	5,435	364,028
Asset-backed securities	293,129	1,173	10,011	4,297	288,588
<b>Total</b>	<b>902,938</b>	<b>2,353</b>	<b>31,275</b>	<b>12,655</b>	<b>886,671</b>

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as available for sale as well as their fair value

31.3.2007

Figures in EUR thousand	Cost or amortised cost	Unrealised gains losses		Accrued interest	Fair value
<b>Available for sale</b>					
Fixed-income securities					
Government debt securities of EU member states	965,231	800	12,410	15,472	969,093
US treasury notes	1,843,686	5,396	17,077	13,423	1,845,428
Other foreign government debt securities	299,402	1,025	1,036	2,349	301,740
Debt securities of semi-governmental entities	3,380,204	8,322	42,807	48,308	3,394,027
Corporate securities	3,627,682	26,847	63,206	55,752	3,647,075
Asset-backed securities	1,942,669	10,627	30,513	24,824	1,947,607
Investment funds	790,684	19,238	17,970	10,619	802,571
	12,849,558	72,255	185,019	170,747	12,907,541
Equity securities					
Shares	372,793	75,806	5,376	–	443,223
Investment funds	1,000,224	165,879	–	–	1,166,103
	1,373,017	241,685	5,376	–	1,609,326
Short-term investments	752,328	2	–	924	753,254
<b>Total</b>	14,974,903	313,942	190,395	171,671	15,270,121

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as available for sale as well as their fair value

31.12.2006					
Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
<b>Available for sale</b>					
Fixed-income securities					
Government debt securities of EU member states	980,946	1,747	12,241	15,982	986,434
US treasury notes	1,899,898	3,215	25,662	22,933	1,900,384
Other foreign government debt securities	289,217	608	1,780	2,068	290,113
Debt securities of semi-governmental entities	3,360,131	11,949	47,231	50,403	3,375,252
Corporate securities	3,801,556	27,667	64,041	72,280	3,837,462
Asset-backed securities	1,864,670	12,471	27,381	25,539	1,875,299
Investment funds	784,131	17,234	15,472	11,313	797,206
	12,980,549	74,891	193,808	200,518	13,062,150
Equity securities					
Shares	428,788	76,980	2,491	–	503,277
Investment funds	944,959	138,076	241	–	1,082,794
	1,373,747	215,056	2,732	–	1,586,071
Short-term investments	720,482	–	–	805	721,287
<b>Total</b>	<b>15,074,778</b>	<b>289,947</b>	<b>196,540</b>	<b>201,323</b>	<b>15,369,508</b>

Fair value of financial assets at fair value through profit or loss before and after accrued interest as well as accrued interest on such financial assets

31.3.2007			
Figures in EUR thousand	Fair value before accrued interest	Accrued interest	Fair value
<b>Financial assets at fair value through profit or loss</b>			
Debt securities of semi-governmental entities	9,906	33	9,939
Corporate securities	152,270	2,175	154,445
Asset-backed securities	1,650	–	1,650
	163,826	2,208	166,034
Other financial assets			
Derivative financial instruments	22,920	–	22,920
<b>Total</b>	<b>186,746</b>	<b>2,208</b>	<b>188,954</b>

31.12.2006			
Figures in EUR thousand	Fair value before accrued interest	Accrued interest	Fair value
<b>Financial assets at fair value through profit or loss</b>			
Debt securities of semi-governmental entities	9,488	231	9,719
Corporate securities	150,611	1,683	152,294
Asset-backed securities	4,431	19	4,450
	164,530	1,933	166,463
Equity securities			
Investment funds	10,207	–	10,207
Other financial assets			
Derivative financial instruments	–	–	–
<b>Total</b>	<b>197,105</b>	<b>1,933</b>	<b>199,038</b>

#### Other financial assets

As at 31 March 2007 Hannover Re is for the first time reporting as financial assets at fair value through profit or loss technical derivatives previously recognised in the trading portfolio in an amount of EUR 22.9 million (31 December 2006: EUR 22.4 million) that were separated from the underlying transaction and measured at fair value. The figures for the corresponding period of the previous year were adjusted accordingly retrospectively.



## Investment income

Figures in EUR thousand	2007	2006
	31.3.	31.3.
Real estate	615	5,617
Dividends	1,660	3,449
Interest income on investments	185,517	172,461
Other income	7,408	5,646
<b>Ordinary investment income</b>	<b>195,200</b>	<b>187,173</b>
Profit or loss on shares in associated companies	976	322
Interest income on funds withheld and contract deposits	63,640	62,344
Interest expense on funds withheld and contract deposits	16,909	8,167
Realised gains on investments	40,155	21,119
Realised losses on investments	11,499	13,020
Unrealised gains and losses	(126)	7,733
Impairments/depreciation on real estate	141	1,473
Impairments on equity securities	261	863
Impairments on participating interests and other financial assets	–	2,745
Other investment expenses	15,983	12,543
<b>Total investment income</b>	<b>255,052</b>	<b>239,880</b>

## Interest income on investments

Figures in EUR thousand	2007	2006
	31.3.	31.3.
Fixed-income securities – held to maturity	16,417	6,290
Fixed-income securities – loans and receivables	11,714	8,773
Fixed-income securities – available for sale	142,922	153,236
Financial assets – at fair value through profit or loss	1,692	969
Other	12,772	3,193
<b>Total</b>	<b>185,517</b>	<b>172,461</b>

## 5.2 Staff

The average number of staff employed at the companies included in the consolidated financial statement of the Hannover Re Group was 2,042 (31 December 2006: 1,988). Of this number, 884 were employed in Germany in the year under review and 1,158 were employed at the consolidated Group companies abroad; as at the balance sheet date the discontinued operation accounted for 249 staff.

### 5.3 Shareholders' equity and minority interests

Shareholders' equity is shown as a separate component of the financial statement in accordance with IAS 1 "Presentation of Financial Statements" and subject to IAS 32 "Financial Instruments: Disclosure and Presentation" in conjunction with IAS 39 "Financial Instruments: Recognition and Measurement". The change in shareholders' equity comprises not only the net income deriving from the statement of income but also the changes in the value of asset and liability items not recognised in the statement of income.

The shareholders' equity (share capital of the parent company) amounts to EUR 120,597,134.00 and is divided into voting and dividend-bearing registered no-par-value shares with a nominal value of EUR 1.00. The shares are paid in full.

Minority interests are established in accordance with the shares held by companies outside the Group in the shareholders' equity of the subsidiaries.

Authorised capital of up to EUR 60,299 thousand is available with a time limit of 31 May 2009.

New individual registered shares may be issued on one or more occasions for contributions in cash or kind. Of the total amount, up to EUR 1,000 thousand may be used to issue employee shares.

In addition, conditional capital of up to EUR 60,299 thousand is available. It can be used to grant shares to holders of convertible bonds and bonds with warrants as well as to holders of participating bonds with conversion rights and warrants and has a time limit of 11 May 2011.

### 5.4 Treasury shares

IAS 1 requires separate disclosure of treasury shares in shareholders' equity. By a resolution of the Annual General Meeting of Hannover Rückversicherung AG adopted on 12 May 2006, the company was authorised until 31 October 2007 to acquire treasury shares of up to 10% of the share capital existing on the date of the resolution. The company did not hold treasury shares at any time during the reporting period.

### 5.5 Earnings per share

#### Basis and fully diluted earnings per share

	2007			2006		
	1.1.–31.3.			1.1.–31.3.		
	Result (in EUR thousand)	No. of shares	Per share (in EUR)	Result (in EUR thousand)	No. of shares	Per share (in EUR)
Group net income	123,541			105,731		
Weighted average of issued shares		120,597,134			120,597,134	
Earnings per share	123,541	120,597,134	1.02	105,731	120,597,134	0.88
from continuing operations	108,281	120,597,134	0.90	88,280	120,597,134	0.73
from discontinued operation	15,260	120,597,134	0.12	17,451	120,597,134	0.15

## 6. Transactions with related parties

IAS 24 defines related parties inter alia as parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself. In the year under review the following significant business relations existed with related parties.

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

The Hannover Re Group provides reinsurance protection for the HDI Group. To this extent, numerous underwriting business relations exist with related parties in Germany and abroad which are not included in Hannover Re's consolidation. This includes business both assumed and ceded at usual market conditions.

The major reinsurance relationships with related parties in the year under review are listed in the following table.

## Business assumed and ceded in Germany and abroad

Figures in EUR thousand	2007	
Related parties	Premium	Underwriting result
<b>Business assumed</b>		
ASPECTA Assurance International AG	5,321	911
ASPECTA Assurance International Luxembourg S.A.	8,009	872
ASPECTA Lebensversicherung AG	36,275	(228)
ASPECTA Versicherung AG	5,533	(3,507)
CiV Lebensversicherung AG	12,278	230
CiV Versicherung AG	4,503	500
Gerling Konzern Allgemeine Versicherungs-AG	23,517	(335)
HDI Aseguracja Towarzystwo Ubezpieczen S.A.	3,658	(1,092)
HDI Assicurazioni S.p.A.	4,059	1,772
HDI Gerling Lebensversicherung AG	3,857	(292)
HDI Gerling Verzekeringen N.V.	10,106	(2,301)
HDI HANNOVER International España, Cia. de Seguros y Reaseguros S.A.	4,078	3,193
HDI Hannover Versicherung AG	5,340	2,682
HDI Industrie Versicherung AG	39,670	(16,461)
HDI Sigorta A.S.	1,082	(8,684)
Magyar Posta Biztosító Részvénytársaság	2,642	(17)
PB Lebensversicherung AG	9,770	(84)
PB Versicherung AG	1,366	(394)
Other companies	1,731	1,366
<b>Total</b>	<b>182,795</b>	<b>(21,869)</b>
<b>Business ceded</b>		
HDI Industrie Versicherung AG	(73)	40
Other companies	-	8
<b>Total</b>	<b>(73)</b>	<b>48</b>

With effect from the 1997 financial year onwards all new business and renewals written on the German market have been the responsibility of E+S Rück, while Hannover Re has handled foreign markets. Internal retrocession arrangements ensure that the percentage breakdown of the business applicable to the previously existing underwriting partnership is largely preserved between these companies.

Within the contractually agreed framework AmpegaGerling Asset Management GmbH performs investment and asset management services for Hannover Re and some of its subsidiaries. Assets in special funds are managed by AmpegaGerling Investment GmbH. AmpegaGerling Immobilien Management GmbH performs services for Hannover Re within the framework of a management contract.

Companies belonging to the Talanx Group granted the Hannover Re Group insurance protection inter alia in the areas of public liability, fire, group accident and business travel collision insurance. Divisions of Talanx AG also performed services for us in the area of general administration. All transactions were effected at usual market conditions.

## 7. Other notes

### 7.1 Contingent liabilities

Hannover Re has secured by subordinated guarantee a subordinated debt in the amount of USD 400.0 million issued in the 1999 financial year by Hannover Finance, Inc., Wilmington/USA. In February 2004 and May 2005 Hannover Re bought back portions of the subordinated debt in amounts of USD 370.0 million and USD 10.0 million respectively, leaving an amount of USD 20.0 million still secured by the guarantee.

Hannover Re has placed three subordinated debts on the European capital markets through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured by subordinated guarantee both the debt issued in 2001, the volume of which now stands at EUR 138.1 million, and the debts from financial years 2004 and 2005 in amounts of EUR 750.0 million and EUR 500.0 million respectively. For further details please see the corresponding details in the consolidated financial statement as at 31 December 2006.

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

In July 2004 Hannover Re and the other shareholders sold the participation that they held through Willy Vogel Beteiligungsgesellschaft mbH in Willy Vogel AG. In order to secure the guarantees assumed under the purchase agreement, Hannover Re and the other shareholders jointly gave the purchaser a directly enforceable guarantee limited to a total amount of EUR 7.1 million with a term until 2009. Furthermore, in the event of a call being made on the guarantee Hannover Re and the other shareholders agreed that settlement would be based upon the ratio of participatory interests.

As security for technical liabilities to our US clients, we have established a master trust in the USA. As at the balance sheet date this master trust amounted to EUR 2,226.5 million (31 December 2006: EUR 2,238.8 million). The securities held in the master trust are shown as available-for-sale investments.

As security for our technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount as at the balance sheet date was EUR 2,586.5 million (31 December 2006: EUR 2,684.2 million).

Outstanding capital commitments with respect to special investments exist in the amount of EUR 90.9 million (31 December 2006: EUR 91.3 million) for E+S Rück and EUR 198.7 million (31 December 2006: EUR 155.0 million) for Hannover Re. These involve primarily private equity funds and venture capital firms.

Within the scope of a novation agreement regarding a life insurance contract we assumed contingent reinsurance commitments with respect to due date and amount. The financing phase was terminated effective 31 December 2004 as per the agreement. The level of Hannover Re's liability as at the date of novation (31 December 2011) in relation to future balance sheet dates may change due to fluctuations in the EURIBOR and discrepancies between the actual settlements and the projections. As at the balance sheet date the estimated amount of the reinsurance commitments remained unchanged at EUR 33.4 million.

## 7.2 Events after the end of the quarter

Effective 1 April 2007 CiV Lebensversicherung AG, Hilden, which as a company belonging to the Talanx Group constitutes a related party pursuant to IAS 24, sold its interest of 10.0% in E+S Rück AG for a price of EUR 135.2 million to Hannover Rück Beteiligung Verwaltungs-GmbH.

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