

somewhat  
different

Interim Report | **3/2007**

hannover **re**<sup>®</sup>

# KEY FIGURES

## of the Hannover Re Group

Figures in EUR million	2007					2006		
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.	31.12.
<b>Results</b>								
Gross written premium	4,491.6	1,934.8	-12.7%	6,426.3	-11.1%	2,215.1	7,227.7	
Net premium earned	3,705.2	1,785.9	+10.3%	5,491.1	+4.5%	1,619.7	5,256.4	
Net underwriting result	(92.1)	(27.9)	-69.7%	(119.9)	-23.8%	(92.0)	(157.4)	
Net investment income	579.9	267.6	-14.6%	847.6	+6.3%	313.4	797.3	
Operating profit/loss (EBIT)	467.7	222.6	+11.4%	690.3	+14.3%	199.8	603.6	
Group net income	293.0	296.3	+139.9%	589.3	+55.0%	123.5	380.1	
<b>Balance sheet</b>								
Policyholders' surplus	4,824.1			5,136.8	+5.3%			4,878.4
Total shareholders' equity	2,976.4			3,212.7	+10.9%			2,897.8
Minority interests	474.7			551.2	-9.4%			608.6
Hybrid capital	1,373.0			1,372.9	+0.1%			1,372.0
Investments (incl. funds held by ceding companies)	29,190.6			28,998.1	+1.6%			28,538.1
Total assets	39,154.8			37,974.1	-8.2%			41,386.4
<b>Share</b>								
Earnings per share (diluted) in EUR	2.43	2.46		4.89		1.02	3.15	
Book value per share in EUR	24.68			26.64	+10.9%		23.60	24.03
Share price at year-end in EUR	35.95	35.58	+7.3%	35.58	+1.4%	33.17	33.17	35.08
Dividend	–	–		–		–	–	193.0
Dividend per share in EUR	–	–		–		–	–	1.60
Market capitalisation	4,335.5			4,290.8	+1.4%		4,000.2	4,230.5
<b>Ratios</b>								
Combined ratio (non-life reinsurance) <sup>1)</sup>	101.9%	97.9%		100.6%		103.3%	100.5%	
Catastrophe/major losses as percentage of net premium earned <sup>2)</sup>	9.2%	3.4%		7.6%		1.2%	2.6%	
Retention	85.8%	87.9%		86.4%		74.7%	76.3%	
Return on investment	4.9%	4.4%		4.7%		5.5%	4.5%	
EBIT margin <sup>3)</sup>	12.6%	12.5%		12.6%		12.3%	11.5%	
Return on equity (after tax)	19.9%	38.3%		25.7%		18.3%	18.6%	

<sup>1)</sup> Including expenses 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

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

Wilhelm Zeller  
Chairman of the  
Executive Board



Dear shareholders,  
Ladies and gentlemen,

I am delighted to report that we have been able to sustain the favourable development of our business in the first half-year with a very good result for the third quarter. As you are aware, this quarter is of course particularly critical because of the higher level of hurricane/typhoon activity. Although the windstorm season in the Caribbean and East Asia continues until the end of November, the most crucial months are now behind us and our profit forecast for 2007 is becoming more and more secure: with the present result, which also reflects a positive special effect associated with the reform of corporate taxation, your company enjoys an exceptionally strong platform for boosting the profit target – a return on equity of at least 15 percent after tax – to at least 20 percent. Subject to the approval of the relevant boards, this should therefore facilitate another increase in the dividend.

The state of the market in *non-life reinsurance*, our largest business group, remains favourable. Although the treaty renewals completed in the course of the year showed that the hard market has passed its peak and price reductions must now be anticipated, non-life reinsurance business remains attractive. After eight consecutive years of consistent price increases rates have attained a comfortably adequate level.

What is more, your company is superbly poised to face the challenges of a softening market: in the typically cyclical business of non-life reinsurance we have for many years pursued a policy of systematic cycle management, meaning that we enlarge our market share in upward phases while scaling it back – and at the same time pinpointing attractive market and product niches – in downturns such as the one that we are now facing. As you know, we conduct our business with a strict focus on profitability; especially in a softening market this is highly significant. Thanks to our strategic orientation as a "Multi Specialist" we are not only optimally diversified but can also respond flexibly according to market developments.

Having raised our stake in E+S Rück – which bears exclusive responsibility for German business within the Group – we are to profit even better from the opportunities offered by an attractive German market. Among other things, we have also set our sights on reinsurance in conformity with Islamic principles, on business in Central and Eastern Europe and on worldwide credit and surety reinsurance – areas in which we similarly anticipate profitable growth.

Yet we do not rely entirely on favourable market conditions. The theme of risk management is one of the cornerstones of our strategy: we have continued to scale back our peak exposures to catastrophe losses, and through the new capital market transactions already reported on in the first quarter we have also taken further steps to ensure that our equity base will not be eroded by exceptionally large losses. In addition to traditional covers we thus have in place a diverse range of protection mechanisms within the scope of alternative risk transfer. We shall continue to stand by our strategy of increasingly transferring insurance risks to the capital market.

I am exceptionally satisfied with the development of our second business group, namely *life and health reinsurance*. Growth and earnings prospects here are very good. With our "five pillar model" we have an excellent platform for sustainable double-digit growth. In addition to traditional life and health reinsurance, the cornerstones of our strategy are the financing of new and existing books of business, the development of new products and markets, banc-assurance and partnerships with large multinational clients. In life and health reinsurance, too, we have an eye to the high-growth market of (re)insurance in conformity with Islamic principles. In this area – although not only here – we support our clients not just with risk transfer but also with the design of new products. Nor would I wish to neglect to mention the growth potential offered by individual retirement provision. All in all, then, the prospects for our life and health reinsurance business group are bright. As at 30 September 2007 we again comfortably surpassed our target of generating an EBIT margin in excess of five percent.

Capital markets were jittery in the third quarter, and hence saw considerable volatility. Our conservatively oriented, diversified portfolio escaped the credit crunch and the crisis on the US housing market almost unscathed. We were again able to generate significantly higher current investment income on the basis of a further slight rise in the average yields in the portfolio. Write-downs of a mere EUR 4.6 million – a low level relative to the total asset volume – were taken on account of the very modest portfolio of securities held in the US mortgage market.

Having posted appreciable gains in the course of the second quarter, the Hannover Re share began the third quarter on a weaker note; investors exercised caution with an eye to anticipated windstorm risks, and the turmoil triggered by the US mortgage meltdown also left a mark on the price of our share. Towards the end of September the share price began to pick up again, and I am confident that the profit potential inherent in your company will soon be reflected in further price gains.

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 overriding goal of continuing to lead your company profitably and securely into the future.

Yours sincerely,



Wilhelm Zeller  
Chairman of the Executive Board

# BOARDS AND OFFICERS of Hannover Re

## Supervisory Board (Aufsichtsrat)

Wolf-Dieter Baumgartl <sup>1)2)</sup> Berg	Chairman
Dr. Klaus Sturany <sup>1)</sup> Dortmund	Deputy Chairman (since 3 May 2007)
Herbert K. Haas <sup>1)2)</sup> Burgwedel	
Uwe Kramp <sup>3)</sup> Hannover (since 3 May 2007)	
Karl Heinz Midunsky Gauting	
Ass. jur. Otto Müller <sup>3)</sup> Hannover	
Dr. Immo Querner Ehlershausen	
Ass. jur. Renate Schaper-Stewart <sup>3)</sup> Lehrte (until 3 May 2007)	
Dr. Erhard Schipporeit <sup>2)</sup> Hannover (since 3 May 2007)	
Dipl.-Ing. Hans-Günter Siegerist <sup>3)</sup> Nienstädt (until 3 May 2007)	
Gert Waechtler <sup>3)</sup> Großburgwedel (since 3 May 2007)	

## 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

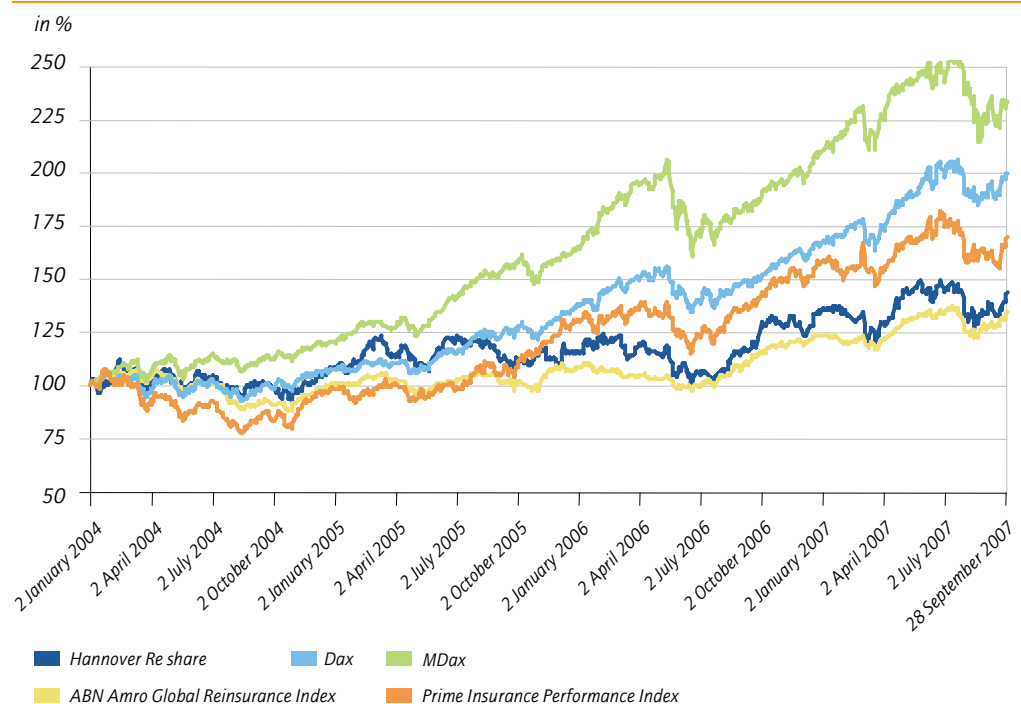
# THE HANNOVER RE SHARE

The third quarter of 2007 was a stormy one on capital markets. Having developed very favourably in the first half of 2007, prices on global equity markets slumped at the beginning of the third quarter. On 16 July 2007 the Dax was still enjoying its best mark of the year to date at 8,106, its highest level in seven years. The MDax had posted its high for the year to date on 9 July 2007 at 11,378 points. However, risk aversion then took hold among investors and prices retreated – not only on the German equity market but also throughout the world. The decline was prompted by bad news coming out of the United States, where market movements were detrimentally impacted by a number of profit warnings in early July. What is more, rating agencies such as Standard & Poor's and Moody's announced that they would be downgrading their ratings for bonds secured by subprime mortgages. The so-called subprime crisis was in full swing. Events surrounding the US mortgage market dominated developments on global capital markets

in July and August of this year. Hedge funds and even banks ran into liquidity problems worldwide. Central banks around the world stepped in to calm the financial markets, providing additional liquidity to ensure that markets could continue to function normally.

In mid-August the German Dax and MDax indices dropped to their lowest points of the year. The Dax had shed 10% of its value in the four weeks since its high for the year, closing at 7,270 on 16 August 2007. The MDax surrendered as much as 16% of its value, ending the same day at 9,508 points – its lowest level of the year. At the end of August German stock markets had regained their composure, showing only isolated modest price declines by mid-September – these being attributable to profit-taking. The Dax and MDax ended the third quarter at 7,862 and 10,335 points respectively.

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



The Hannover Re share, too, was not spared from the general turmoil on capital markets. Having performed well in the first half of the year to reach a price of around EUR 36 at the end of June, our share experienced a similar downward slide in July: it

closed at EUR 30.75 on 10 August 2007, its lowest level of the year and a price drop of some 16% relative to 30 June 2007. Although Hannover Re does not itself have significant investments in the subprime market, the share came under selling

pressure. A general mood of distrust in financials led to overreactions on the market. Yet the Hannover Re share was quick to recover lost ground: despite some profit-taking here and there, the price had climbed back to EUR 35.58 by the end of the quarter and was thus on par with the level as at mid-year 2007.

While we always have an eye to short-term movements in the share price, we attach far greater importance to a performance comparison over the medium term.

Our strategic objective is to outperform the ABN Amro Rothschild Global Reinsurance Index on a three-year moving average. As at 30 September

2007 our share had just fallen short of this goal. While the index generated a positive performance of 48.1%, our share lagged 1.7 percentage points behind with a gain of 46.4%.

Our Investor Relations measures in the third quarter again encompassed numerous roadshows and teleconferences with analysts and investors. Yet face-to-face talks with analysts and investors in Hannover are also very much part of day-to-day activities, and these were conducted particularly intensively in the third quarter. With the Hannover Re share priced at around EUR 36 and given the current earnings outlook for 2007, analysts put the fair value of our share in a range of EUR 37 to EUR 41.50.

## Share information

Figures in EUR	30.9.2007	2006	2005	2004	2003 <sup>1)</sup>	2002 <sup>1)</sup>
Earnings per share (diluted)	4.89	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 30 September 2007:	120,597,134.00 EUR
Number of shares as at 30 September 2007:	120,597,134 auf den Namen lautende Stückaktien
Market capitalisation as at 30 September 2007:	EUR 4,290.8 million

# INTERIM MANAGEMENT REPORT

## Business development

We are highly satisfied with the development of the third quarter of 2007. The results of our two business groups – non-life reinsurance and life and health reinsurance – constitute an exceptionally strong platform for boosting our profit target for the full financial year from a return on equity of at least 15% to a minimum of 20%.

Although the sale of Praetorian Financial Group, Inc. – our US primary insurance subsidiary transacting specialty business – was closed as at 31 May 2007, IFRS 5 requires that its result continue to be reported in a separate line of the statement of income (net income from discontinued operations). We have adjusted the figures for the corresponding period of the previous year in order to ensure comparability.

Gross written premium in total business amounted to EUR 6.4 billion (EUR 7.2 billion) as at 30 September 2007; this corresponds to a decline of 11.1% compared to the same period of the previous year. Key factors here were the sale of Praetorian and the associated withdrawal of Clarendon from active specialty business. This effect was not entirely offset despite the growth in life and health reinsurance. At constant exchange rates premium would have contracted by 8.0%. Due to lower retrocessions the level of retained premium climbed to 86.4% (76.3%), causing net premium to increase by 4.5% to EUR 5.5 billion (EUR 5.3 billion).

The performance of our investments was most satisfactory. The comparatively slight rise in the portfolio of assets under own management can be attributed primarily to the offsetting effect of the movement in the US dollar in conjunction with moderate cash inflows. Ordinary income (excluding interest on deposits) nevertheless improved on the previous year's figure of EUR 567.6 million to EUR 627.3 million. This was due principally to the higher average yield generated in the portfolios. Combined with realised gains on equities, it was possible to boost the income from assets under own management by 5.8%. Net interest on deposits climbed by

8.4%, causing net investment income to grow by a gratifying 6.3% to EUR 847.6 million (EUR 797.3 million). The favourable performance of equity markets did not entirely make up for yield increases on fixed-income euro-denominated securities and in the credit sector around the world, leading to a reduction in unrealised gains and losses in the Group's portfolio.

The operating profit (EBIT) grew by 14.3% as at 30 September 2007 to EUR 690.3 million (EUR 603.6 million). Group net income increased by 55.0% to EUR 589.3 million (EUR 380.1 million). This figure includes a reduction in deferred taxes amounting to EUR 179.0 million (after minority interests) as a consequence of the reform of corporate taxation. Yet even without this special effect the result would have been extremely satisfactory. Earnings per share stood at EUR 4.89 (EUR 3.15), corresponding to an annualised return on equity of 25.7%. Even excluding the positive effect associated with corporate tax reform, the return on equity would have come in at a very good 17.9%.

Our financial strength also continues to be very solid; the balance sheet structure has improved still further. Shareholders' equity grew by EUR 314.8 million relative to the position as at 31 December 2006 to stand at EUR 3.2 billion. The book value per share consequently also increased by 10.9%. The policyholders' surplus, comprised of shareholders' equity, minority interests and hybrid capital, totalled EUR 5.1 billion (EUR 4.9 billion).

Our company continues to regard risk management as a matter of central importance: as part of our quantitative approach to risk management the most significant risks in non-life reinsurance – such as the reserving and natural catastrophe exposure risks – are actuarially assessed using the very latest methods. Constant monitoring and controlling of all risks form the cornerstone of our qualitative risk management; in this context special attention is paid to operational risks, which we track, assess and minimise using appropriate measures.



We are standing by our strategy of increasingly transferring insurance risks to the capital market. In this way we are able to better diversify our programme of protection cover and thereby reduce our expenditure on costly reinsurance ar-

rangements. Going forward we also intend to structure capital market securitisations for other companies, and we have set up a special department for this purpose.

## Non-life reinsurance

After eight consecutive years of rate increases the state of the market in non-life reinsurance remains favourable. Even though the treaty renewals as at 1 January 2007 as well as subsequent renewal phases during the year showed that the hard market in non-life reinsurance has now passed its peak, the outcome of the treaty negotiations was broadly satisfactory.

What is crucial is that rates in most segments have reached a comfortably adequate level and the prospects for business therefore remain promising. Only in certain lines, such as US casualty business – and here especially directors' and officers' (D&O) covers –, do we assess prices and conditions as not being commensurate with the assumed risk. In these

cases we have responded accordingly and scaled back our premium volume. In property business, on the other hand, the situation was still adequate despite slight declines in rates. Even though prices as a whole are retreating somewhat, they remain for the most part on an attractive level. Prices for US property catastrophe business remained high, with modest rate reductions in only a few areas.

The renewal phases once again underscored the fact that ceding companies attach considerable importance to their reinsurers' ratings. This is especially true of long-tail liability lines. Thanks to our very good ratings we were able to profit from this situation particularly strongly.

### Key figures for non-life reinsurance

Figures in EUR million	2007					2006	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	2,964.4	1,137.8	-24.9%	4,102.3	-21.8%	1,515.0	5,244.9
Net premium earned	2,328.5	1,062.9	+1.7%	3,391.3	-4.7%	1,045.0	3,557.7
Underwriting result	(56.1)	5.8	-116.5%	(50.3)	+0.0%	(35.4)	(50.3)
Net investment income	411.8	174.1	-25.9%	586.0	+4.6%	235.1	560.1
Operating result (EBIT)	321.5	131.7	-18.5%	453.2	-2.6%	161.6	465.3
Group net income	241.4	152.4	+32.9%	393.8	+17.5%	114.7	335.2
Earnings per share in EUR	2.00	1.27	+32.9%	3.27	+17.5%	0.95	2.78
Retention	83.3%	85.4%		83.9%		71.2%	72.6%
Combined ratio <sup>1)</sup>	101.9%	97.9%		100.6%		103.3%	100.5%

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

Key fine-tuning tools used in our underwriting practice are our active cycle management and opportunistic underwriting policy, under which we concentrate on those segments that promise the strongest profitability. They include property catastrophe business, worldwide credit and surety insur-

ance, marine insurance and the markets of Central and Eastern Europe. On the profitable German market we were able to boost our share as one of the leading reinsurers thanks to new client relationships.

With an eye to the enormous growth potential offered by Islamic insurance markets worldwide, we are pursuing a policy of systematically cultivating and expanding this business through our subsidiary in Bahrain. In the third quarter, following the successful establishment of Hannover ReTakaful last year, we also set up a branch office of Hannover Re in the Kingdom of Bahrain which is tasked with focusing exclusively on traditional reinsurance business in this region. Through this concentration of our activities in the Arab world our clients are able to benefit from even greater market intimacy and can access all our services at a single location.

All in all, we are thoroughly satisfied with the development of our non-life reinsurance business group. As expected, gross premium volume as at 30 September 2007 came in lower than in the same period of the previous year, falling by 21.8% to EUR 4.1 billion (EUR 5.2 billion). This was due primarily to the sale of Praetorian and the weakness of the US dollar. At constant exchange rates, especially against the US dollar, the decline would have been 19.0%. Owing to a sharply higher retention of 83.9% (72.6%), driven in large measure by the

reduction in fronting business written by Clarendon for Praetorian, net premium earned fell by a mere 4.7% to EUR 3.4 billion (EUR 3.6 billion).

On the claims side the third quarter passed off rather satisfactorily. We incurred a number of smaller natural catastrophe losses – including hurricane "Dean" with a strain of less than EUR 10 million – as well as two aviation claims. The total net burden of catastrophe losses and major claims in the third quarter stood at EUR 35.7 million; the figure for the first nine months amounted to EUR 259.2 million, equivalent to 7.6% of net premium in non-life reinsurance and hence within the multi-year average of 8%. The combined ratio came in at 100.6% (100.5%).

The net underwriting result of -EUR 50.3 million as at 30 September 2007 was on a par with the previous year. The operating profit (EBIT) in non-life reinsurance contracted by 2.6% to EUR 453.2 million (EUR 465.3 million). Group net income climbed by 17.5% to EUR 393.8 million (EUR 335.2 million), generating earnings of EUR 3.27 (EUR 2.78) per share.

## Life and health reinsurance

In life and health reinsurance we transact our business on the basis of our "5 pillar model":

- Financing of new and existing business,
- Development of new markets and products – such as special seniors' and annuity products,
- Bancassurance,
- Partnerships with large multinational insurance groups and
- Traditional life, annuity, accident and health business.

This broad positioning enables us to enjoy a promising portfolio and vigorous organic growth.

As expected, our life and health reinsurance portfolio continued to deliver dynamic growth in the

third quarter of 2007, and we were again able to substantially expand our premium volume. We remain focused on profitable niche segments.

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.

Within traditional life and health business our concentration is on the markets of the United Kingdom, Italy, South Africa, Australia/New Zealand, USA and Asia. In the United Kingdom our focus continued to be 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, Cyprus and Turkey in particular.

#### Key figures for life and health reinsurance

Figures in EUR million	2007					2006	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	1,532.3	801.4	+14.5%	2,333.7	+17.7%	700.2	1,982.7
Net premium earned	1,376.7	723.0	+25.8%	2,099.7	+23.6%	574.8	1,698.7
Net investment income	149.2	82.0	+19.4%	231.3	+14.5%	68.7	202.1
Operating profit (EBIT)	129.2	80.7	+172.8%	209.9	+94.7%	29.6	107.8
Group net income	89.9	113.7	+479.8%	203.6	+187.8%	19.6	70.8
Earnings per share in EUR	0.75	0.94	+479.8%	1.69	+187.8%	0.17	0.59
Retention	90.2%	90.9%		90.5%		82.4%	86.0%
EBIT margin <sup>1)</sup>	9.4%	11.2%		10.0%		5.2%	6.4%

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

Gross written premium increased by an appreciable 17.7% to EUR 2.3 billion as at 30 September 2007 (EUR 2.0 billion). At constant exchange rates growth would have been 21.6%. The level of retained premium rose slightly to 90.5% (86.0%). Net premium earned consequently increased by a more marked 23.6% to EUR 2.1 billion (EUR 1.7 billion).

Results as at 30 September 2007 were also most satisfactory: the operating profit (EBIT) was

almost doubled to EUR 209.9 million (EUR 107.8 million). This amount includes extraordinary income of some EUR 25 million from both the first half-year and the third quarter. The EBIT margin of 10.0% was thus comfortably in excess of the targeted 5% mark. Yet even without these special effects it would have come in at a very good 7.6%; Group net income surged exceptionally vigorously to EUR 203.6 million (EUR 70.8 million), corresponding to earnings of EUR 1.69 (EUR 0.59) per share.

## Investments

The international equity markets got off to a good start at the turn of the year and even recovered ground that had been lost in the months from June to August. The temporary downward movements were attributable to uncertainty in the credit sector around the world that had been triggered by adverse developments on the US subprime mortgage market.

Increased volatility in almost all durations was still the hallmark of American and European bond markets. In the first half of 2007 almost all currency areas saw significant yield increases along the interest rate curves, which were alleviated in the third quarter by massive shifts into government bonds. The credit crunch and crisis in the US housing market prompted a significant rise in risk premiums for

corporate bonds. 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 combined with offsetting market movements and especially a weaker US dollar caused the portfolio of assets under own management – amounting to EUR 19.5 billion – to remain almost unchanged compared to the level as at 31 December 2006.

Ordinary income excluding interest on deposits climbed by 10.5% to EUR 627.3 million, as against EUR 567.6 million in the corresponding period of the previous year. The primary factor here was the higher average yield in the asset portfolios.

As part of our proactive approach to portfolio management – especially in the field of equities and

alternative investments – we made the most of the positive market trend to realise profits of EUR 164.3 million (EUR 189.8 million) on the disposal of investments, as against realised losses of EUR 60.1 million (EUR 70.1 million). Net income from the portfolio of assets under own management climbed 5.8% to EUR 681.0 million (EUR 643.6 million). Interest on deposits stood at EUR 166.6 million (EUR 153.7 million), a pleasing increase of 8.4%. Total net investment income improved by 6.3% year-on-year thanks to these effects and reached EUR 847.6 million (EUR 797.3 million).

The gratifying performance of equity markets did not entirely make up for the rise in yields on euro-denominated fixed-income securities as well as in the credit sector around the world, hence prompting erosion of the unrealised gains and losses in the Group's portfolio.

#### Net investment income

Figures in EUR million	2007		2006
	30.9.	+/- previous year	30.9.
Ordinary investment income <sup>1)</sup>	627.3	+10.5%	567.6
Results from participation in associated companies	6.6	+193.8%	2.2
Realised gains/losses	104.2	-12.9%	119.7
Impairments	13.0	+17.8%	11.0
Unrealised gains/losses <sup>2)</sup>	(3.1)	-127.5%	11.3
Investment expenses <sup>3)</sup>	41.0	-11.1%	46.2
Net investment income from assets under own management	681.0	+5.8%	643.6
Net investment income from funds withheld	166.6	+8.4%	153.7
<b>Total investment income</b>	<b>847.6</b>	<b>+6.3%</b>	<b>797.3</b>

<sup>1)</sup> Excluding expenses on funds withheld and contract deposits

<sup>2)</sup> Portfolio at fair value through profit or loss and trading

<sup>3)</sup> Including depreciation/impairments on real estate

## Risk report

### Risk management strategy and methods

Our risk management is guided by the principle of optimally exploiting opportunities while at the same time adequately controlling and managing the risks associated with our business activities. The following strategic elements are the hallmarks of our Group-wide risk management:

- clear responsibilities/central coordination through Group Risk Management and local responsibility in the various areas/companies,
- documentation of the essential components of risk management,
- recording, monitoring and steering of all significant risks based on the information currently available,
- use of efficient steering, controlling and reporting systems,

- ongoing internal and external review of the efficiency of the implemented systems.

One core element of our integrated approach to the management of opportunities and risks is the optimisation of our capital requirements with the aid of mathematical aggregate loss modelling techniques, inter alia with an eye to our natural hazards exposure.

Based on the defined risk appetite, this enables us to improve profitability through the targeted use of traditional protection cover programmes and capital market transactions (e.g. "K5", "Kepler Re", "Eurus"). We are thus able to allocate capital to the most profitable business segments in light of risk/opportunity considerations.

### Risk situation

The risk situation of Hannover Re is essentially defined by comprehensive analysis of the following risk categories.

#### Comprehensive analysis of risk categories

Risk category	Major risks	Key risk management activities
Global risks	External risks that are beyond our direct sphere of influence, e.g. from legislation and court practice	<ul style="list-style-type: none"> <li>• Monitoring of relevant legal areas and analysis of claims trends</li> <li>• Proactive adjustment of underwriting policy</li> </ul>
Strategic risks	Imbalance between the defined corporate strategy and changing framework conditions, e.g. as a result of inconsistent strategy implementation	<ul style="list-style-type: none"> <li>• Regular review and, as necessary, adjustment of our strategy, structures and processes, e.g. by means of systematic quality and process management</li> </ul>
Operating risks		
Technical risks	Divergence of cash flows in (re-)insurance business from their expected values (risks of random fluctuation, error and change), e.g. due to natural catastrophes ("Kyrill") and/or other major losses, miscalculation of mortality, life expectancy and disability probabilities	<p><b>Across all lines of business</b></p> <ul style="list-style-type: none"> <li>• Risk spreading through diversification of the portfolio</li> </ul> <p><b>Non-life reinsurance</b></p> <ul style="list-style-type: none"> <li>• Calculation of the loss reserves on an actuarial basis and additional review of the adequacy of reserves by external actuaries and auditors</li> </ul>

Risk category	Major risks	Key risk management activities
		<ul style="list-style-type: none"> <li>• Risk reduction through retrocessions to the insurance and capital markets</li> <li>• Monitoring of the natural hazards exposure (modelling, aggregate control)</li> </ul> <p><b>Life and health reinsurance</b></p> <ul style="list-style-type: none"> <li>• Review of the risk feasibility of new business activities and of the assumed international portfolio</li> <li>• Use of secure biometric actuarial bases</li> </ul>
<b>Investment risks</b>	Decrease in the fair value of investments due to market, credit, liquidity and currency risks	<ul style="list-style-type: none"> <li>• Orientation of investments to the requirements of the reinsurance business through Group-wide investment guidelines</li> <li>• Systematic asset/liability management including adherence to the principle of matching currency cover</li> <li>• Clear distinction between trading, settlement and risk control based on the principle of separation of functions applied through to the level of management</li> <li>• Partial hedging of portfolios, especially with an eye to price, currency and interest rate risks, through short call and long put options as well as swaps</li> </ul>
<b>Operational risks</b>	Risk of losses occurring because of the inadequacy or failure of internal procedures, human error/system failure or external events, e.g. IT failure, pandemic	<ul style="list-style-type: none"> <li>• Internal control system, contingency plans (e.g. crisis communication), backup computer centre and alternative workplaces for emergencies</li> </ul>

## Risk ratios

### Combined and catastrophe loss ratio over the past ten years

Figures in %	3Q 2007	2006	2005	2004	2003 <sup>1)</sup>	2002 <sup>1)</sup>	2001 <sup>1)</sup>	2000 <sup>1)</sup>	1999 <sup>1)</sup>	1998 <sup>1)</sup>	1997 <sup>2)</sup>
Combined ratio	100.6	98.4	112.8	97.2	96.0	96.3	116.5	107.8	111.1	108.1	99.5
thereof catastrophe losses <sup>3)</sup>	7.6	2.7	26.3	8.3	1.5	5.2	23.0	3.7	11.4	3.5	1.5

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

<sup>2)</sup> On a HGB basis

<sup>3)</sup> Natural catastrophes and other major losses in excess of EUR 5 million gross for the Hannover Re Group

## Rating structure of fixed-income securities

Rating	Government bonds		Securities issued by semi-governmental entities		Corporate bonds		Asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	88.8%	3,153.4	55.4%	2,193.8	7.1%	345.8	78.4%	2,292.6
AA	5.0%	175.1	36.9%	1,459.8	29.8%	1,450.1	15.8%	462.3
A	3.5%	125.1	6.7%	267.7	45.3%	2,202.5	3.4%	99.2
BBB	2.7%	96.5	0.7%	26.6	11.3%	550.8	0.2%	5.9
>BBB	0.0%	0.0	0.3%	10.0	6.5%	317.7	2.2%	63.9
Total	100.0%	3,550.2	100.0%	3,958.0	100.0%	4,866.8	100.0%	2,923.9

## 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
Equity securities	Share prices +10%	183.2
	Share prices +20%	366.3
	Share prices (10%)	(183.2)
	Share prices (20%)	(366.3)
	Fair value as at 30.9.2007	1,831.6
Fixed-income securities	Yield increase +50 basis points	(325.3)
	Yield increase +100 basis points	(627.8)
	Yield decrease (50 basis points)	315.3
	Yield decrease (100 basis points)	653.3
	Fair value as at 30.9.2007	15,248.7

For further information on the management of market price risks please see our remarks on the

value at risk (VaR) provided in the Notes, Section 5.2 "Investment risks".

## Overall assessment of the risk situation

In the context of our worldwide operations we are exposed to a diverse spectrum of potential risks. These risks, however, always go hand-in-hand with corresponding opportunities. On the basis of our holistic approach to risk management, arrived at from an overall analysis of our business environment, 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 net income, financial position or assets.

Detailed information on the organisation of our risk management and on further risk management measures is provided in the Annual Report for the financial year ending 31 December 2006.

## Outlook

In view of the attractive market opportunities available in both our business groups of non-life reinsurance and life/health reinsurance as well as the current state of capital markets, we are looking forward to a very good result in 2007.

As intended, we have used the risk capital released by the sale of Praetorian to tap into other promising opportunities in the reinsurance sector. Profitable growth prospects are available, for example, by running a higher retention in those segments that are still lucrative, and they can also be accessed in life and health reinsurance as well as through the cultivation of new markets in Central and Eastern Europe, not to mention the high-growth area of Islamic reinsurance as well as worldwide credit/surety and marine business. The increase of our stake in E+S Rück enables us to derive additional benefit from the attractive German business. Similarly, the assumption of the remaining 50% interest in Hannover Life Re Australasia effective 1 October 2007 further enhances our business opportunities.

Market conditions in *non-life reinsurance* remain largely good and the rate level is commensurate with the risks, as has been borne out by all the treaty renewals completed in the course of the year to date. In those areas that are seeing rate cuts, such as aviation business, prices are nevertheless adequate. Catastrophe losses such as winter storm "Kyrill", the flooding in the United Kingdom and cyclones / floods in Australia should serve to hold prices for natural catastrophe business stable. They are even likely to rise somewhat in those regions that have been impacted by such events. Single-digit percentage reductions in rates are anticipated in the United States given the absence of hurricanes so far this season. Property catastrophe business nevertheless remains profitable. In Germany we are looking to rate increases under non-proportional programmes in motor liability business as a consequence of rising expenditures on bodily injury claims.

The annual gatherings of reinsurers in Monte Carlo in September and Baden-Baden in October as well as in the USA underscored the fact that – although the hard market has now passed its peak and some cedants have raised their retentions – the rate level for 2008 nevertheless remains adequate.

The extensive fires that raged across the US state of California in the fourth quarter have caused a market loss of at least USD 1.5 billion according to latest estimates. Our net burden of losses from this event is likely to be in the low double-digit millions.

All in all, we expect the premium volume in non-life reinsurance to at least match up to the previous year. Provided the burden of catastrophe losses and major claims remains within the expected bounds of around 8% of net premium, we anticipate another gratifying profit contribution.

In *life and health reinsurance* we are looking to further healthy growth stimuli, inter alia from European markets as well as various Asian markets and South Africa. Not only that, our pilot projects in the US market aimed at opening up growth opportunities for alternative sales channels through system-supported underwriting are bearing fruit; it is our expectation, therefore, that the marketing of simple, transparent life insurance products will inject fresh growth impetus into the US life market. For the business group as a whole we anticipate significant growth in premium volume and double-digit increases in results.

The expected positive underwriting cash flow is likely to boost the volume of assets as at year-end. Given a normal market environment the income generated from *investments* under our own management should continue to grow.

In view of the good development of our operating business described above and the non-recurring effect associated with the tax reform, we



anticipate a very good result for the full 2007 financial year. Assuming that the burden of catastrophe losses and major claims is in line with the expected level of around 8% of net premium in non-life re-insurance and as long as there are no unexpectedly adverse movements on capital markets, another excellent performance should be attainable in the current year. A return on equity of at least 20% is now expected for the 2007 financial year. Even excluding the non-recurring effect of tax reform,

the result should come in higher than in the previous year. Subject to the approval of the relevant boards, another increase in the dividend should be possible. The Executive Board intends to stand by its goal of paying a dividend in the range of 35% to 40% of the ordinary Group result. With a view to enabling shareholders to also share in the once-only effect of the tax reform, the Executive Board is considering an additional special distribution.

# CONSOLIDATED BALANCE SHEET

as at 30 September 2007

Figures in EUR thousand	2007	2006
Assets	30.9.	31.12.
Fixed-income securities – held to maturity	1,513,288	1,602,057
Fixed-income securities – loans and receivables	1,242,568	915,593
Fixed-income securities – available for sale	12,384,160	13,062,150
Fixed-income securities – at fair value through profit or loss	158,855	166,463
Equity securities – available for sale	1,831,591	1,586,071
Equity securities – at fair value through profit or loss	–	10,207
Other financial assets – at fair value through profit or loss	21,508	22,368
Trading	3,148	–
Real estate	17,141	17,979
Investments in associated companies	167,824	166,646
Other invested assets	673,655	623,329
Short-term investments	1,190,999	721,287
Cash	270,961	351,776
<b>Total investments and cash under own management</b>	<b>19,475,698</b>	<b>19,245,926</b>
Funds held	8,856,030	8,730,734
Contract deposits	666,339	561,426
<b>Total investments</b>	<b>28,998,067</b>	<b>28,538,086</b>
Reinsurance recoverables on unpaid claims	2,577,527	3,048,496
Reinsurance recoverables on benefit reserve	257,949	447,537
Prepaid reinsurance premium	166,923	339,096
Reinsurance recoverables on other technical reserves	8,844	7,822
Deferred acquisition costs	2,143,606	2,228,152
Accounts receivable	2,674,758	2,609,264
Goodwill	45,673	152,639
Deferred tax assets	717,522	844,921
Other assets	379,263	261,435
Accrued interest and rent	3,933	2,785
Assets classified as held for sale	–	2,906,123
	<b>37,974,065</b>	<b>41,386,356</b>

Figures in EUR thousand	2007	2006
Liabilities	30.9.	31.12.
Loss and loss adjustment expense reserve	17,070,870	17,596,325
Benefit reserve	6,237,160	6,109,154
Unearned premium reserve	1,422,336	1,581,034
Provisions for contingent commissions	207,263	200,769
Funds held	972,630	1,419,444
Contract deposits	3,696,870	3,526,781
Reinsurance payable	1,007,044	1,215,833
Provisions for pensions	65,589	64,559
Taxes	299,999	190,580
Provision for deferred taxes	1,475,626	1,756,897
Other liabilities	338,581	248,854
Long-term debt and subordinated capital	1,416,231	1,428,893
Liabilities related to assets classified as held for sale	–	2,540,847
<b>Total liabilities</b>	<b>34,210,199</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	177,824	144,199
Cumulative foreign currency translation adjustment	(169,934)	(71,518)
Other changes in cumulative other comprehensive income	(1,701)	(1,526)
Total other comprehensive income	6,189	71,155
Retained earnings	2,361,306	1,981,521
Shareholders' equity before minorities	3,212,654	2,897,835
Minority interests	551,212	608,551
<b>Total shareholders' equity</b>	<b>3,763,866</b>	<b>3,506,386</b>
	<b>37,974,065</b>	<b>41,386,356</b>

# CONSOLIDATED STATEMENT OF INCOME

## for the period 1 January to 30 September 2007

Figures in EUR thousand	2007		2006	
	1.7.–30.9.	1.1.–30.9.	1.7.–30.9.	1.1.–30.9.
Gross written premium	1,934,780	6,426,348	2,215,118	7,227,665
Ceded written premium	235,054	874,075	560,322	1,713,576
Change in gross unearned premium	135,519	91,627	26,603	(236,183)
Change in ceded unearned premium	(49,336)	(152,818)	(61,660)	(21,477)
<b>Net premium earned</b>	<b>1,785,909</b>	<b>5,491,082</b>	<b>1,619,739</b>	<b>5,256,429</b>
Ordinary investment income	217,873	627,338	182,418	567,566
Profit/loss from investments in associated companies	3,111	6,584	1,049	2,241
Income/expense on funds withheld and contract deposits	68,619	166,570	41,271	153,692
Realised gains on investments	29,984	164,304	139,898	189,768
Realised losses on investments	23,368	60,105	32,101	70,077
Unrealised gains and losses on investments	(2,965)	(3,106)	1,075	11,282
Total depreciation, impairments and appreciation of investments	12,795	13,412	3,493	14,690
Other investment expenses	12,817	40,615	16,731	42,489
<b>Net investment income</b>	<b>267,642</b>	<b>847,558</b>	<b>313,386</b>	<b>797,293</b>
Other technical income	234	1,509	841	1,751
<b>Total revenues</b>	<b>2,053,785</b>	<b>6,340,149</b>	<b>1,933,966</b>	<b>6,055,473</b>
Claims and claims expenses	1,324,185	3,869,227	1,197,092	3,728,526
Change in benefit reserves	86,225	300,717	72,744	140,257
Commission and brokerage, change in deferred acquisition costs	352,444	1,273,502	388,820	1,365,347
Other acquisition costs	1,864	10,029	2,640	12,953
Other technical expenses	1,652	10,830	6,731	26,733
Administrative expenses	47,628	148,215	44,538	141,742
<b>Total technical expenses</b>	<b>1,813,998</b>	<b>5,612,520</b>	<b>1,712,565</b>	<b>5,415,558</b>
Other income and expenses	(17,230)	(37,373)	(21,643)	(36,272)
<b>Operating profit/loss (EBIT)</b>	<b>222,557</b>	<b>690,256</b>	<b>199,758</b>	<b>603,643</b>
Interest on hybrid capital	19,552	58,069	19,572	58,069
Net income before taxes	203,005	632,187	180,186	545,574
Taxes	(142,835)	(2,971)	65,072	157,266
<b>Net income from continuing operations</b>	<b>345,840</b>	<b>635,158</b>	<b>115,114</b>	<b>388,308</b>
<b>Net income from discontinued operations</b>	<b>(356)</b>	<b>30,356</b>	<b>36,243</b>	<b>65,197</b>
<b>Net income</b>	<b>345,484</b>	<b>665,514</b>	<b>151,357</b>	<b>453,505</b>
thereof				
Minority interest in profit and loss	49,168	76,227	27,825	73,398
Group net income	296,316	589,287	123,532	380,107
<b>Earnings per share</b>				
Earnings per share in EUR	2.46	4.89	1.02	3.15
from continuing operations in EUR	2.46	4.64	0.72	2.61
from discontinued operations in EUR	–	0.25	0.30	0.54

# 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	540,505	3,141,539
Capital increases/additions							17,875	17,875
Capital repayments							(4,905)	(4,905)
Effects pursuant to IAS 8							(6,027)	(6,027)
Income and expenses directly recognised in equity			(108,070)	(61,714)	112		(21,732)	(191,404)
Tax effects on income and expenses directly recognised in equity			7,911	26,493	(33)			34,371
Dividend paid							(10,441)	(10,441)
Net income						380,107	73,398	453,505
<b>Balance as at 30.9.2006</b>	120,597	724,562	(35,225)	190,170	(1,503)	1,847,239	588,673	3,434,513
<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 repayments							(52)	(52)
Income and expenses directly recognised in equity			(97,514)	31,115	(277)	(16,547)	(101,009)	(184,232)
Tax effects on income and expenses directly recognised in equity			(902)	2,510	102			1,710
Dividends paid						(192,955)	(32,505)	(225,460)
Net income						589,287	76,227	665,514
<b>Balance as at 30.9.2007</b>	120,597	724,562	(169,934)	177,824	(1,701)	2,361,306	551,212	3,763,866

# CONSOLIDATED CASH FLOW STATEMENT

as at 30 September 2007

Figures in EUR thousand	2007	2006
	1.1.–30.9.	1.1.–30.9.
<b>I. Cash flow from operating activities</b>		
Net income	665,514	453,505
Appreciation/depreciation	61,049	50,045
Net realised gains and losses on investments	(104,199)	(119,691)
Net realised gains and losses on disposal of discontinued operations	(96,914)	–
Amortisation of investments	(6,038)	(6,722)
Changes in funds held	(778,359)	(168,242)
Net changes in contract deposits	105,586	634,194
Changes in prepaid reinsurance premium (net)	61,258	500,763
Changes in tax assets/provisions for taxes	(47,887)	149,606
Changes in benefit reserves (net)	496,069	57,429
Changes in claims reserves (net)	515,040	268,113
Changes in deferred acquisition costs	64,032	(203,365)
Changes in other technical provisions	14,993	35,621
Changes in clearing balances	(380,565)	(128,504)
Changes in other assets and liabilities (net)	(121,594)	52,292
<b>Cash flow from operating activities</b>	<b>447,985</b>	<b>1,575,044</b>
<b>II. Cash flow from investing activities</b>		
Fixed-income securities – held to maturity		
Maturities	79,510	39,863
Purchases	(36,848)	(15,160)
Fixed-income securities – loans and receivables		
Maturities, sales	95,934	653
Purchases	(415,617)	(154,708)
Fixed-income securities – available for sale		
Maturities, sales	4,397,729	4,024,460
Purchases	(4,250,407)	(5,534,499)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	15,932	14,677
Purchases	(14,222)	(53,241)
Equity securities – available for sale		
Sales	932,842	958,477
Purchases	(1,055,117)	(947,173)
Equity securities – at fair value through profit or loss		
Sales	20,340	–
Purchases	(10,207)	(10,000)

Figures in EUR thousand	2007	2006
	1.1.–30.9.	1.1.–30.9.
Other trading securities		
Sales	(2,295)	–
Purchases	(3,623)	–
Other invested assets		
Sales	84,198	48,642
Purchases	(86,607)	(67,291)
Affiliated companies and participating interests		
Sales	626,476	8,150
Purchases	(136,189)	(12,389)
Real estate		
Sales	–	174,929
Purchases	(10)	(556)
Short-term investments		
Changes	(510,562)	53,439
Other changes (net)	(20,352)	(23,279)
<b>Cash flow from investing activities</b>	<b>(289,095)</b>	<b>(1,495,006)</b>
<b>III. Cash flow from financing activities</b>		
Contribution from capital measures	–	12,970
Payment on capital measures	(52)	–
Dividends paid	(225,461)	(10,441)
Proceeds from long-term debts	–	3,953
Repayment of long-term debts	(10,021)	(41,848)
Other changes	6,234	6,027
<b>Cash flow from financing activities</b>	<b>(229,300)</b>	<b>(29,339)</b>
<b>IV. Exchange rate differences on cash</b>	<b>(10,405)</b>	<b>(22,035)</b>
<b>Change in cash and cash equivalents (I.+II.+III.+IV.)</b>	<b>(80,815)</b>	<b>28,664</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	(80,815)	28,664
<b>Cash and cash equivalents at the end of the period</b>	<b>270,961</b>	<b>493,825</b>
Income taxes	(57,601)	(26,770)
Interest paid	(132,297)	(121,586)

# SEGMENTAL REPORT

## as at 30 September 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
	30.9.	31.12.
<b>Assets</b>		
Held to maturity	1,283,328	1,365,473
Loans and receivables	1,002,602	715,334
Available for sale	11,262,172	11,736,891
At fair value through profit or loss	114,168	129,649
Trading	2,871	–
Other invested assets	793,677	748,071
Short-term investments	843,617	564,903
Cash	200,321	269,911
Total investments and cash under own management	15,502,756	15,530,232
Funds held by ceding companies	1,001,036	1,106,247
Contract deposits	137	84
<b>Total investments</b>	<b>16,503,929</b>	<b>16,636,563</b>
Reinsurance recoverables on unpaid claims	2,482,694	2,935,168
Reinsurance recoverables on benefit reserves	–	–
Prepaid reinsurance premium	157,427	329,505
Reinsurance recoverables on other reserves	2,766	1,536
Deferred acquisition costs	291,752	305,233
Accounts receivable	1,575,529	2,068,526
Other assets in the segment	1,372,872	1,543,208
Assets classified as held for sale	–	2,906,123
<b>Total</b>	<b>22,386,969</b>	<b>26,725,862</b>



Life and health reinsurance		Consolidation		Total	
2007	2006	2007	2006	2007	2006
30.9.	31.12.	30.9.	31.12.	30.9.	31.12.
56,654	63,606	173,306	172,978	1,513,288	1,602,057
81,269	63,302	158,697	136,957	1,242,568	915,593
2,361,283	2,259,864	592,296	651,466	14,215,751	14,648,221
41,279	42,907	24,916	26,482	180,363	199,038
277	–	–	–	3,148	–
64,943	59,883	–	–	858,620	807,954
154,142	153,880	193,240	2,504	1,190,999	721,287
67,444	79,536	3,196	2,329	270,961	351,776
2,827,291	2,722,978	1,145,651	992,716	19,475,698	19,245,926
7,857,381	7,624,487	(2,387)	–	8,856,030	8,730,734
666,202	561,342	–	–	666,339	561,426
11,350,874	10,908,807	1,143,264	992,716	28,998,067	28,538,086
96,239	113,328	(1,406)	–	2,577,527	3,048,496
257,949	447,537	–	–	257,949	447,537
9,496	9,591	–	–	166,923	339,096
6,078	6,286	–	–	8,844	7,822
1,851,854	1,922,919	–	–	2,143,606	2,228,152
1,101,195	540,738	(1,966)	–	2,674,758	2,609,264
351,250	211,189	(577,731)	(492,617)	1,146,391	1,261,780
–	–	–	–	–	2,906,123
15,024,935	14,160,395	562,161	500,099	37,974,065	41,386,356

# SEGMENTAL REPORT

as at 30 September 2007

## Segmentation of technical and other liabilities

Figures in EUR thousand	Non-life reinsurance	
	2007	2006
	30.9.	31.12.
<b>Liabilities</b>		
Loss and loss adjustment expense reserve	15,625,558	16,268,479
Benefit reserve	-	-
Unearned premium reserve	1,371,972	1,540,154
Provisions for contingent commissions	163,068	159,699
Funds held under reinsurance contracts	176,439	437,407
Contract deposits	154,364	147,594
Reinsurance payable	349,563	1,012,468
Long-term liabilities	43,310	56,857
Other liabilities in the segment	1,396,749	1,638,633
Liabilities related to assets held for sale	-	2,478,513
<b>Total</b>	<b>19,281,023</b>	<b>23,739,804</b>

Life and health reinsurance		Consolidation		Total	
2007	2006	2007	2006	2007	2006
30.9.	31.12.	30.9.	31.12.	30.9.	31.12.
1,446,772	1,327,846	(1,460)	–	17,070,870	17,596,325
6,237,160	6,109,154	–	–	6,237,160	6,109,154
50,364	40,880	–	–	1,422,336	1,581,034
44,195	41,070	–	–	207,263	200,769
798,503	982,037	(2,312)	–	972,630	1,419,444
3,542,506	3,379,187	–	–	3,696,870	3,526,781
660,409	204,110	(2,928)	(745)	1,007,044	1,215,833
–	–	1,372,921	1,372,036	1,416,231	1,428,893
1,237,548	1,229,294	(454,502)	(607,037)	2,179,795	2,260,890
–	–	–	62,334	–	2,540,847
14,017,457	13,313,578	911,719	826,588	34,210,199	37,879,970

# SEGMENTAL REPORT

as at 30 September 2007

## Segmental statement of income

Figures in EUR thousand	Non-life reinsurance	
	2007	2006
	1.1.–30.9.	1.1.–30.9.
Gross written premium	4,102,262	5,244,938
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties and from discontinued operations	4,102,262	5,244,938
Net premium earned	3,391,347	3,557,716
Net investment income	585,959	560,101
Claims and claims expenses	2,620,762	2,663,953
Change in benefit reserves	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	713,027	836,222
Administrative expenses	107,829	107,834
Other income and expenses	(82,527)	(44,554)
<b>Operating profit/loss (EBIT)</b>	<b>453,161</b>	<b>465,254</b>
Interest on hybrid capital	–	–
<b>Net income before taxes</b>	<b>453,161</b>	<b>465,254</b>
Taxes	16,712	135,682
<b>Net income from continuing operations</b>	<b>436,449</b>	<b>329,572</b>
<b>Net income from discontinued operations</b>	<b>13,526</b>	<b>69,220</b>
<b>Net income</b>	<b>449,975</b>	<b>398,792</b>
thereof		
Minority interest in profit and loss	56,145	63,558
Group net income	393,830	335,234

Life and health reinsurance		Consolidation		Total	
2007	2006	2007	2006	2007	2006
1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.
2,333,701	1,982,727	(9,615)	–	6,426,348	7,227,665
9,615	–	(9,615)	–	–	–
2,324,086	1,982,727	–	–	6,426,348	7,227,665
2,099,735	1,698,713	–	–	5,491,082	5,256,429
231,282	202,061	30,317	35,131	847,558	797,293
1,248,863	1,064,912	(398)	(339)	3,869,227	3,728,526
300,717	140,257	–	–	300,717	140,257
584,812	571,778	(4,987)	(4,718)	1,292,852	1,403,282
43,887	37,363	(3,501)	(3,455)	148,215	141,742
57,162	21,320	(12,008)	(13,038)	(37,373)	(36,272)
209,900	107,784	27,195	30,605	690,256	603,643
–	–	58,069	58,069	58,069	58,069
209,900	107,784	(30,874)	(27,464)	632,187	545,574
(13,828)	27,175	(5,855)	(5,591)	(2,971)	157,266
223,728	80,609	(25,019)	(21,873)	635,158	388,308
–	–	16,830	(4,023)	30,356	65,197
223,728	80,609	(8,189)	(25,896)	665,514	453,505
20,082	9,840	–	–	76,227	73,398
203,646	70,769	(8,189)	(25,896)	589,287	380,107

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
	30.9.	31.12.
Total investments excluding cash		
Germany	6,353,524	5,873,843
United Kingdom	1,131,737	1,028,814
France	1,070,157	1,044,337
Other	2,873,564	2,836,679
Europe	11,428,982	10,783,673
USA	5,687,903	6,208,046
Other	552,547	536,015
North America	6,240,450	6,744,061
Asia	328,482	281,290
Australia	684,223	551,309
Australasia	1,012,705	832,599
Africa	367,342	291,548
Other	155,258	242,269
<b>Total</b>	<b>19,204,737</b>	<b>18,894,150</b>

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

Figures in EUR thousand	2007	2006
	1.1.–30.9.	1.1.–30.9.
Gross written premium		
Germany	1,096,406	1,120,351
United Kingdom	1,176,377	1,012,878
France	310,876	348,435
Other	899,714	929,245
Europe	3,483,373	3,410,909
USA	1,511,554	2,425,177
Other	301,553	308,346
North America	1,813,107	2,733,523
Asia	356,204	412,966
Australia	362,253	300,656
Australasia	718,457	713,622
Africa	204,152	202,370
Other	207,259	167,241
<b>Total</b>	<b>6,426,348</b>	<b>7,227,665</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 30 September 2007.

All standards adopted by the IASB as at 30 September 2007 with binding effect for the reporting period have been observed in the consolidated financial statement.

In the present quarterly financial report as at 30 September 2007 we have included a self-contained, condensed risk report in the interim management report. In combination with the outlook for the full 2007 financial year, the intention is to thereby further improve the reporting on major opportunities and risks in the financial year. Furthermore, from the first quarter of 2007 onwards we are reporting separately on major related party transactions.

With the aim of focusing on our reinsurance business and following the sale of Praetorian Financial Group, Inc., New York, 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. 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.

The first-time adoption of new or modified IFRS will have a bearing on the Group annual financial report as at 31 December 2007 and will have the following implications: IFRS 7 "Financial Instruments: Disclosures", which is to be applied to financial years beginning on or after 1 January 2007, requires not only extended duties of disclosure with respect to the recognition of financial instruments but also more detailed explanations of the type and extent of the risks associated with such financial instruments. Following corresponding modification of IFRS 4 "Insurance Contracts" these provisions similarly apply to risks arising out of insurance contracts.

The amendments of IAS 1 (rev. 2005) "Presentation of Financial Statements", which also apply to financial years beginning on or after 1 January 2007, require disclosures regarding the aims, methods and processes of capital management.

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 in the first quarter 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.

On 11 April 2007 Hannover Rück Beteiligung Verwaltungs-GmbH (HRBV) acquired effective 1 April 2007 the 10% stake held by a minority shareholder, CiV Lebensversicherung AG, Hilden (CiV Leben), in E+S Rück for a purchase price of EUR 135.2 million, thereby increasing its participation in the company to 65.78%. CiV Leben, a subsidiary of Talanx AG, is an affiliated company as defined by IAS 24. This increase in the share held in an already consolidated Group company with no change in control status constitutes a transaction between entities under common control. In accordance with the applicable requirements of IFRS 3 in conjunction with IAS 27 we dispensed with a revaluation of the net assets and recognised the difference between the purchase price of the acquired shares and the pro-rata assets at existing book values in an amount of EUR 6.8 million as goodwill.

Effective 1 July 2007 HRBV sold 2% of its stake in E+S Rück to an outside third party for a price of EUR 27.0 million by way of a share reduction in a consolidated Group company without a change of control status. As part of the transaction the goodwill, on which scheduled amortisation was taken until the 2001 financial year, was reduced by an amount of EUR 1.2 million in light of pro-rata amortisation from previous years. In addition, interim profits of EUR 4.8 million were realised. Upon closing of the transaction HRBV now holds 63.78% of the shares in E+S Rück.

R.E.RE Investors GmbH, Cologne, equal shares of which are held by Hannover Re and E+S Rück, was established on 23 July 2007. The company was included in the consolidated financial statement for the first time in the third quarter. The object of the company is to hold, acquire and sell participating interests in real estate companies. The company's financial year begins on 1 October and ends on 30 September of the following calendar year. Both the amendment of the company name to Hannover Re Euro RE GmbH and the extension of the business object pursuant to the revised memorandum of association will take effect upon entry in the commercial register, which had not taken place as at the balance sheet date.



## 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. Under the "purchase accounting" method the purchase 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 amortisation is not taken on goodwill. Instead, unscheduled amortisation is taken where necessary on the basis of regular 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 controlling influence ("associated companies") are normally consolidated "at equity" with the proportion of the shareholders' equity attributable to the Group. A controlling 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 30 September 2007 it amounted to EUR 76.2 million (EUR 73.4 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 of the previous year, 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 30 September 2007 amounted to -EUR 2.7 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 30 September 2007 amounted to EUR 3.8 million and which we carried under other financial assets at fair value through profit or loss 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. Effective 31 May 2007 beneficial ownership of the assets and liabilities belonging to the subgroup classified in the previous periods as discontinued operations was transferred. They were therefore no longer recognised as at the balance sheet date. In accordance with the structure of the transaction, both the provisional purchase price of USD 805.9 million and the provisional disposal gain are subject to the final determination that is to be made in the fourth quarter of 2007. In compliance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", we recognise the profit or loss of PFG in the consolidated statement of income for all presented periods after tax in a separate line. For further explanatory remarks please see the corresponding information in the consolidated financial statement as at 31 December 2006.

The profit or loss and net cash flows of the discontinued operations are presented in the following tables and broken down into their major components. The reported figures for the period from 1 January to 30 September 2007 only cover transactions until the deconsolidation date of 31 May 2007.

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

Figures in EUR thousand	2007	2006
	1.1.–30.9.	1.1.–30.9.
Gross written premium	275,409	1,892,084
Ceded written premium	(42,368)	952,593
Net change in gross unearned premium	(12,372)	(243,132)
<b>Net premium earned</b>	<b>305,405</b>	<b>696,359</b>
Net investment income	20,447	19,190
Net underwriting result	24,880	85,350
Other income and expenses	(11,209)	(1,342)
<b>Operating profit/loss (EBIT)</b>	<b>34,118</b>	<b>103,198</b>
Interest on hybrid capital	2,329	3,953
<b>Net income before taxes</b>	<b>31,789</b>	<b>99,245</b>
Taxes	5,799	34,048
Acquirer's share of current income from discontinued operations	13,091	–
Group share of current income from discontinued operations	12,899	65,197
Income/loss from deconsolidation (after taxes)	17,457	–
<b>Net income</b>	<b>30,356</b>	<b>65,197</b>

As at 30 September 2007 the net income recognised from the discontinued operations includes a provisional disposal gain of EUR 17.5 million after taxes and less costs to sell. The tax expenditure attributable to this disposal gain amounts to EUR 68.6 million. Pursuant to the purchase agreement these amounts will be finally adjusted in the fourth quarter of 2007.

#### Statement of cash flows from the discontinued operations

Figures in EUR thousand	2007	2006
	1.1.–30.9.	1.1.–30.9.
Cash flow from operating activities	176,313	197,533
Cash flow from investing activities	(18,490)	(378,270)
Cash flow from financing activities	–	152,626
<b>Change in cash and cash equivalents</b>	<b>157,823</b>	<b>(28,111)</b>

## 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 as at purchase date including directly allocable transaction costs – plus amortised cost. The amortised cost derives from the difference between the nominal value and purchase cost and is 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.

In the case of financial assets that are not traded on an active market, the fair value is determined using a measurement method (e.g. effective interest rate method). The value determined in this way as at the date of acquisition may, however, differ from the actual purchase cost. The resulting measurement difference constitutes a theoretical profit on the day of acquisition ("day one profit"). As at the balance sheet date this profit/loss from the portfolio of fixed-income securities totalled -EUR 2.3 million. Of this amount, -EUR 1.4 million from securities held as available for sale was recognised outside the statement of income in shareholders' equity. The remaining -EUR 0.9 million was attributable to fixed-income securities measured at amortised cost, the fair value of which is not carried in the balance sheet and which are recognised in the categories "held

to maturity" and "loans and receivables". We would refer the reader to the following tables. The portfolio of equity instruments did not give rise to any such day one profit because these are listed on active markets or measured at "net asset value" as an approximation of fair value.

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 and variable-yield securities

Figures in EUR thousand	2007		2006	
	Cost or amortised cost	Fair value	Cost or amortised cost	Fair value
	30.9.	30.9.	31.12.	31.12.
<b>Held to maturity</b>				
due in one year	11,885	11,860	66,775	66,892
due after one through two years	20,680	20,304	27,742	27,295
due after two through three years	33,515	34,992	–	–
due after three through four years	195,597	195,808	21,615	21,749
due after four through five years	146,078	146,877	203,263	204,026
due after five through ten years	1,095,162	1,087,968	1,271,484	1,281,502
due after ten years	10,371	10,434	11,178	11,357
<b>Total</b>	<b>1,513,288</b>	<b>1,508,243</b>	<b>1,602,057</b>	<b>1,612,821</b>
<b>Loans and receivables</b>				
due in one year	21,175	21,259	27,992	28,147
due after one through two years	72,891	71,761	24,774	25,347
due after two through three years	112,799	109,107	62,218	60,628
due after three through four years	105,063	100,591	123,217	119,212
due after four through five years	13,318	13,170	91,335	87,326
due after five through ten years	888,812	851,721	554,829	534,798
due after ten years	28,510	29,790	31,228	31,213
<b>Total</b>	<b>1,242,568</b>	<b>1,197,399</b>	<b>915,593</b>	<b>886,671</b>
<b>Available for sale</b>				
due in one year	1,886,502	1,873,609	1,381,230	1,380,347
due after one through two years	1,369,959	1,355,741	1,700,790	1,692,481
due after two through three years	1,235,030	1,217,684	1,678,241	1,637,918
due after three through four years	1,052,286	1,047,341	1,566,342	1,562,701
due after four through five years	1,054,651	1,049,818	1,187,735	1,176,674
due after five through ten years	4,193,822	4,108,970	4,543,454	4,472,663
due after ten years	1,784,766	1,730,997	1,123,275	1,139,366
<b>Total</b>	<b>12,577,016</b>	<b>12,384,160</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	66,895	66,895	102,378	102,482
due after one through two years	29,464	29,813	895	1,224
due after two through three years	–	–	–	–
due after three through four years	–	–	–	–
due after four through five years	645	878	–	–
due after five through ten years	32,682	32,945	31,840	31,928
due after ten years	25,934	28,324	27,411	30,829
<b>Total</b>	<b>155,620</b>	<b>158,855</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

30.9.2007					
Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
<b>Investments held to maturity</b>					
Fixed-income securities					
Government debt securities of EU member states	51,423	–	1,990	231	49,664
US treasury notes	334,315	9,726	–	4,530	348,571
Other foreign government debt securities	18,506	–	26	106	18,586
Debt securities issued by semi-governmental entities	434,622	5,924	3,212	7,162	444,496
Corporate securities	413,601	3,703	9,876	7,494	414,922
Asset-backed securities	237,796	4	9,298	3,502	232,004
<b>Total</b>	<b>1,490,263</b>	<b>19,357</b>	<b>24,402</b>	<b>23,025</b>	<b>1,508,243</b>

31.12.2006					
Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
<b>Investments held to maturity</b>					
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

30.9.2007

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	29,307	81	1,006	281	28,663
Debt securities issued by semi-governmental entities	249,603	588	12,167	5,299	243,323
Corporate securities	508,680	614	19,185	11,237	501,346
Asset-backed securities	430,304	1,776	15,870	7,857	424,067
<b>Total</b>	<b>1,217,894</b>	<b>3,059</b>	<b>48,228</b>	<b>24,674</b>	<b>1,197,399</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

30.9.2007					
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	873,248	897	10,737	13,058	876,466
US treasury notes	1,517,830	15,185	3,377	11,946	1,541,584
Other foreign government debt securities	340,651	1,059	2,141	2,843	342,412
Debt securities of semi- governmental entities	3,195,216	12,395	46,782	56,296	3,217,125
Corporate securities	3,430,904	22,874	108,426	65,432	3,410,784
Asset-backed securities	2,183,316	9,545	56,717	35,248	2,171,392
From investment funds	837,560	14,484	41,115	13,468	824,397
	12,378,725	76,439	269,295	198,291	12,384,160
Equity securities					
Shares	367,364	86,208	10,546	–	443,026
From investment funds	1,213,283	183,770	8,488	–	1,388,565
	1,580,647	269,978	19,034	–	1,831,591
Short-term investments	1,190,207	1	–	791	1,190,999
<b>Total</b>	<b>15,149,579</b>	<b>346,418</b>	<b>288,329</b>	<b>199,082</b>	<b>15,406,750</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

31.12.2006					
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
From 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
From 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

30.9.2007			
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	9,828	231	10,059
Corporate securities	146,081	1,230	147,311
Asset-backed securities	1,485	–	1,485
	157,394	1,461	158,855
<b>Other financial assets</b>			
Derivative financial instruments	21,508	–	21,508
<b>Total</b>	<b>178,902</b>	<b>1,461</b>	<b>180,363</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
<b>Equity securities</b>			
From investment funds	10,207	–	10,207
<b>Other financial assets</b>			
Derivative financial instruments	22,368	–	22,368
<b>Total</b>	<b>197,105</b>	<b>1,933</b>	<b>199,038</b>

#### Derivative financial instruments

As at 30 September 2007 Hannover Re is reporting as financial assets at fair value through profit or loss technical derivatives previously recognised in the trading portfolio in an amount of EUR 21.5 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 have been adjusted accordingly retrospectively.

#### Trading portfolio

Put options on the Dax and EuroStoxx 50 indices with an expiry date of 18 April 2008 were bought in the third quarter. These instruments serve as a partial hedging strategy within the equity portfolio. The purchase costs amounted to EUR 3.6 million, while the fair value as at the balance sheet date was EUR 3.1 million. The difference was recognised under unrealised gains and losses in investment income.

## Investment income

Figures in EUR thousand	2007	2006
	30.9.	30.9.
Real estate	1,255	15,202
Dividends	32,844	24,622
Interest income on investments	557,108	511,197
Other income	36,131	16,545
<b>Ordinary investment income</b>	<b>627,338</b>	<b>567,566</b>
Profit or loss on shares in associated companies	6,584	2,241
Realised gains on investments	164,304	189,768
Realised losses on investments	60,105	70,077
Unrealised gains and losses	(3,106)	11,282
Depreciation on real estate	413	3,659
Impairments/depreciation on real estate	8,363	6,861
Impairments on fixed-income securities	4,636	–
Impairments on participating interests and other financial assets	–	4,170
Other investment expenses	40,615	42,489
<b>Net income from assets under own management</b>	<b>680,988</b>	<b>643,601</b>
Interest income on funds withheld and contract deposits	194,584	187,623
Interest expense on funds withheld and contract deposits	28,014	33,931
<b>Total investment income</b>	<b>847,558</b>	<b>797,293</b>

The impairments of EUR 13.0 million were attributable entirely to assets classified as available for sale. Impairments of EUR 4.6 million taken on fixed-income securities related to structured products connected with the crisis on the US housing market in respect of which Hannover Re identified a risk of default. In addition, an impairment of EUR 8.4 million was recognised on equities whose fair value had fallen significantly, i.e. by at least 20%, or for a prolonged period, i.e. at least nine months, below acquisition cost.

## Interest income on investments

Figures in EUR thousand	2007	2006
	30.9.	30.9.
Fixed-income securities – held to maturity	50,260	59,082
Fixed-income securities – loans and receivables	32,018	21,204
Fixed-income securities – available for sale	429,464	422,531
Financial assets – at fair value through profit or loss	4,949	3,364
Other	40,417	5,016
<b>Total</b>	<b>557,108</b>	<b>511,197</b>

## 5.2 Investment risks

Risks in the investment sector consist primarily of market, credit and liquidity risks. The most significant market price risks are share price, interest rate and currency risks. The "value at risk" (VaR) is a vital tool used for managing market price risks. The VaR is determined on the basis of historical data, e.g. for the volatility. As part of these calculations the probability of losing a certain portion of our portfolio is calculated. The calculation of this maximum loss potential is performed with a confidence level of 95% and a holding period of ten days. Our range of management tools is complemented by stress tests and sensitivity analyses. The VaR is as follows:

### Value at Risk <sup>1)</sup> in the Hannover Re Group



<sup>1)</sup> VaR upper limit according to Hannover Re's investment guidelines: 2.5%

Currency risks are of considerable importance to an internationally operating reinsurance enterprise that writes a significant proportion of its business in foreign currencies. These risks are, however, largely neutralised since we systematically adhere to the principle of matching currency coverage.

Interest rate risks refer to an unfavourable change in the value of financial assets held in the portfolio due to changes in the market interest rate level. Declining market yields lead to increases and rising market yields to decreases in the fair value of fixed-income securities portfolios. One of the central objectives of our strategy in this regard is to match cash flows on the assets and liabilities sides as closely as possible. Quantitative support for this strategy is provided by our dynamic financial analysis model as well as a broad diversity of value at risk calculations. In addition, tightly defined tactical duration ranges are in place, within which asset managers can position themselves opportunistically according to their market expectations. The parameters for these ranges are directly linked to the risk-carrying capacity of the Hannover Re Group.

Share price risks derive from unfavourable changes in the value of equities and equity or index derivatives due, for example, to downward movements on particular stock indices. We spread these risks through systematic diversification across various sectors and regions.

Credit risks may arise out of a failure to pay (interest and/or capital repayment) or change in the credit status (rating downgrade) of issuers of securities. We attach vital importance to credit assessment conducted on the basis of the quality criteria set out in the investment guidelines.

The liquidity risk refers to the risk that it may not be possible to sell holdings or close open positions due to the illiquidity of the markets – or to do so only with delays or price markdowns – as well as the risk that the traded volumes influence the markets in question. Regular liquidity planning and a liquid asset structure ensure that Hannover Re is able to make the necessary payments at all times. We manage the liquidity risk inter alia by allocating a liquidity code to every security. The spread of investments across the various liquidity classes is specified in the monthly investment reports and controlled by limits.

#### Weighing of major asset classes <sup>1)</sup>

Asset classes	Parameter as per investment guidelines	30.9.2007
Bonds (direct holdings and investment funds)	at least 50.0%	78.6%
Listed equities (direct holdings and investment funds)	at most 17.5%	9.4%
Real estate	at most 5.0%	0.1%

<sup>1)</sup> Calculated on a fair value basis

For details of the rating structure of our fixed-income securities and an analysis of selected scenarios for changes in the fair value of our securities as at the balance sheet date please see the explanatory notes in the risk report.

### 5.3 Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group was 1,947 (31 December 2006: 1,988). Of this number, 891 were employed in Germany in the reporting period and 1,056 were employed at the consolidated Group companies abroad; as at the balance sheet date the discontinued operations accounted for 249 staff. Following their disposal in the second quarter they are no longer included in the staff numbers.

## 5.4 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. It is divided into 120,597,134 voting and dividend-bearing registered no-par-value shares. 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 rights or participating bonds with conversion rights and warrants and has a time limit of 11 May 2011.

## 5.5 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 3 May 2007, the company was authorised until 31 October 2008 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.

## 5.6 Earnings per share

### Basic and diluted earnings per share

	2007			2006		
	1.1.–30.9.			1.1.–30.9.		
	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						
Weighted average of issued shares		120,597,134			120,597,134	
Earnings per share	589,287	120,597,134	4.89	380,107	120,597,134	3.15
from continuing operations	558,931	120,597,134	4.64	314,910	120,597,134	2.61
from discontinued operations	30,356	120,597,134	0.25	65,197	120,597,134	0.54

## 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	14,843	2,245
ASPECTA Assurance International Luxembourg S.A.	24,128	2,713
ASPECTA Lebensversicherung AG	105,571	5,473
ASPECTA Versicherung AG	13,325	(3,605)
CiV Lebensversicherung AG	35,815	490
CiV Versicherung AG	13,292	1,647
Gerling Konzern Allgemeine Versicherungs-AG	91,591	6,194
HDI Aseguracja Towarzystwo Ubezpieczen S.A.	12,809	(132)
HDI Assicurazioni S.p.A.	11,422	3,984
HDI Gerling Lebensversicherung AG	12,256	(2,083)
HDI Gerling Verzekeringen N.V.	21,558	2,996
HDI HANNOVER International España, Cia. de Seguros y Reaseguros S.A.	14,866	1,014
HDI Hannover Versicherung AG	9,536	1,764
HDI Industrie Versicherung AG	130,731	43,589
HDI Sigorta A.S.	5,379	(15,300)
Magyar Posta Biztosító Részvénytársaság	7,323	499
PB Lebensversicherung AG	31,061	(971)
PB Versicherung AG	3,976	(179)
Other companies	6,308	(15)
<b>Total</b>	<b>565,790</b>	<b>50,323</b>
<b>Business ceded</b>		
HDI Industrie Versicherung AG	(601)	(212)
Other companies	(21)	(29)
<b>Total</b>	<b>(622)</b>	<b>(241)</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.

With regard to the acquisition by Hannover Rück Beteiligung Verwaltungs-GmbH of the 10% stake held by CiV Lebensversicherung AG, a subsidiary of Talanx AG, in E+S Rück and the subsequent resale of 2% of the former's shares to an outside third party, please see our remarks in Section 3 "Consolidated companies and consolidation principles".

## 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. Effective 4 June 2007 the issuer bought back the debt from Hannover Re in an amount of USD 380.0 million for the purpose of cancelling the debt. The cancellation process was completed on 17 July 2007.

Hannover Re has placed three subordinated debts on the European capital markets through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured by subordinated guarantee both the debt issued in 2001, the volume of which now stands at EUR 138.1 million, and the debts from financial years 2004 and 2005 in amounts of EUR 750.0 million and EUR 500.0 million respectively. For further details we would refer to the relevant information 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 for a period until 2009 limited to a total amount of EUR 7.1 million. Furthermore, in the event of a call being made on the guarantee Hannover Re and the other shareholders agreed that settlement would be based upon the ratio of participatory interests.

As security for technical liabilities to our US clients, we have established a master trust in the USA. As at the balance sheet date this master trust amounted to EUR 2,114.7 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 of the letters of credit as at the balance sheet date was EUR 2,269.1 million (31 December 2006: EUR 2,684.2 million).

Outstanding capital commitments with respect to special investments exist in the amount of EUR 79.1 million (31 December 2006: EUR 91.3 million) for E+S Rück and EUR 172.3 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

Hannover Life Reassurance Bermuda Ltd., based in Hamilton, Bermuda, was established on 10 August 2007. Zweite Hannover Rück Beteiligung Verwaltungs-GmbH holds the shares in the company, which commenced its business operations with effect from 4 October 2007. The object of the company is the writing of life, health, annuity and personal accident reinsurance business as well as the acceptance of blocks of in-force life reinsurance business.

Effective 1 October 2007 Hannover Re acquired the 50% stake held by E+S Rück in Hannover Life Re of Australasia Ltd., Sydney, Australia, for a purchase price of EUR 96.2 million. Hannover Re thus holds all shares in the company.

The extensive fires that raged across the US state of California in the fourth quarter have caused a market loss of at least USD 1.5 billion according to latest estimates. Our net burden of losses from this event is likely to be in the single-digit millions of euros.

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