somewhat different

Annual Report 2006

hannover re®

CONTENTS

KEY FIGURES
of Hannover Re

Figures in EUR million	2006	+/- previous year	2005	2004	2003	2002
Gross written premium	7,644.6	+20.6%	6,340.4	6,095.2	6,539.3	7,295.3
Net premium earned	5,685.3	+29.7%	4,383.8	4,030.8	3,695.3	3,563.9
Underwriting result [1]	145.6	+252.5%	(95.5)	(42.8)	60.7	(88.4)
Allocation to the equalisation reserve and similar provisions	145.4	-36.3%	228.3	232.5	301.8	90.6
Investment result	799.9	-10.7%	895.7	584.7	578.2	633.3
Pre-tax profit	258.7	-31.2%	376.1	149.1	133.2	240.4
Profit or loss for the financial year	196.0	-47.7%	374.6	120.6	114.9	243.4
Investments	18,499.7	+10.8%	16,699.4	13,465.3	11,670.8	10,071.5
Capital and reserve	2,085.8 [2]		2,085.8 [2][3]	1,215.8	1,292.5 [5]	763.0 [3][5]
Equalisation reserve and similar provisions	1,715.6	+9.3%	1,570.3	1,342.0	1,109.5	807.8
Net technical provisions	13,022.7	+4.4%	12,471.9	9,844.2	8,286.7	7,384.2
Total capital, reserves and technical provisions	16,824.1	+4.3%	16,128.0	12,402.0	10,688.7	8,955.0
Number of employees	654	+26	628	599	569	535
Retention	74.2%		68.3%	67.8%	56.8%	51.9%
Loss ratio [1][4]	72.7%		76.7%	79.6%	80.3%	80.6%
Expense ratio [4]	25.4%		26.4%	20.1%	16.1%	20.1%
Combined ratio [1][4]	98.1%		103.1%	99.7%	96.4%	100.7%

[1] from the 2006 financial year onwards the option of including special allocations to the provisions for outstanding claims in the non-technical account rather than the technical account will no longer be exercised. The figures for the previous year have been adjusted accordingly for the sake of improved comparability
[2] including subordinated liabilities
[3] including allocation to reserves proposed to the Annual General Meeting
[4] excluding life and health reinsurance
[5] including surplus debenture (Genussrechtskapital)

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of Hannover Re

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[1] *Member of the Standing Committee*
[2] *Member of the Balance Sheet Committee*
[3] *Membership of supervisory boards and comparable control boards required by law at other companies in Germany and abroad*
[4] *Staff representative*

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Zweite Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover

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* *Membership of supervisory boards and comparable control boards required by law at other companies in Germany and abroad*

MANAGEMENT REPORT

of Hannover Re

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Economic climate

The expansion of the global economy was initially sustained in 2006, although it flagged somewhat as the year progressed. This can be attributed in particular to weaker cyclical impetus in the industrialised nations; developments nevertheless varied in the major economic zones. The petroleum market eased appreciably in the second half of the year under review as bottlenecks were eliminated and because the high price level of recent years had triggered important substitution processes.

Particularly in the United States, the economy slowed in the year under review. From the spring onwards activity levels here were sharply lower – especially due to declining housing investment. The US Federal Reserve Board initially responded to the impending threat of inflation with further rate hikes, only to halt such moves from the summer onwards in view of the emerging cooldown in the economy.

Slackening demand stimuli in Japan also adversely impacted the world economy. In the developing and emerging markets of Asia, on the other hand, the economic upturn continued undiminished.

The Eurozone emerged as a driver of growth for the global economy in the year under review. The rise in output and growing domestic demand were key factors in offsetting negative effects from the USA and Japan. The upward revaluation of the euro against the US dollar and the yen also suggest that economic consolidation will be sustained.

In Germany, too, the economy enjoyed a vigorous surge in momentum in the year under review. This development was driven in part by rising export figures and a more competitive position in international markets – despite the appreciation of the euro. The business climate was also boosted by increased spending on construction. Yet this growth in residential construction in Germany can probably be attributed primarily to the discontinuation of home-building subsidies and the increase in value-added tax in 2007. Thanks not least to the cyclical turnaround on the labour market, private consumption picked up for the first time since 2001.

Business development

Since 1 January 1997 the parent company has transacted the Group's active reinsurance exclusively in foreign markets – with the exception of some parts of the business of the Talanx companies. At the same time our subsidiary E+S Rückversicherung AG bears sole responsibility for German business. Geographical risk spreading between Hannover Re and E+S Rück is ensured by means of reciprocal retrocessions.

We were thoroughly satisfied with the course of the 2006 financial year. While results in the previous year had been overshadowed by a heavy burden of natural catastrophe losses, the year under review saw only a few major losses with comparatively light strains.

The state of the market continued to be highly favourable in the year under review: the renewal season as at 1 January 2006 quickly demonstrated that the "hard" market climate had been sustained. The treaty renewals in April, July and October underscored the further improvement in market conditions for catastrophe-exposed property business. Prices for catastrophe covers rose across the board.

Rate hikes in US property reinsurance had been prompted first and foremost by the exceptionally intense 2005 hurricane season. Increases of 100% or more were obtained under reinsurance programmes that had been affected by the hurricanes. In addition to the shortage of reinsurance capacity, another factor here was the updating of pricing and rating models – in light of the experience of the previous year's hurricane events – to include components that had previously been inadequately modelled or indeed entirely neglected. In the year under review this was particularly apparent in the 1 July renewals, the second-most important renewal date in the USA, after external model providers had also recalibrated their simulation models. Prices for catastrophe covers consequently rose again.

In casualty lines, too, developments were relatively satisfying: with certain exceptions prices here largely held stable on the reinsurance front. All in all, market conditions in property and casualty reinsurance were still commensurate with the risks and hence attractive.

Rates on the retrocession market surged exceptionally vigorously, as a consequence of which risk transfers to the capital market took on even greater importance for reinsurers – and for certain insurers too: in 2006 alone catastrophe ("CAT") bonds with a volume of around EUR 4 billion were issued worldwide.

Hannover Re, which has been a pioneer in this field since 1994, also increasingly supplemented traditional retrocessions with risk transfers to the capital market in the year under review. Designated "K5", our largest-volume transaction to date – a capital substitute worth USD 414 million – was placed predominantly with institutional investors in North America. We thus secured additional underwriting capacity so as to be able to enjoy an appropriate share of the available market opportunities. The portfolio underlying the "K5" securitisation consists of non-proportional reinsurance treaties in the property catastrophe, aviation and marine (including offshore) lines.

In July of the year under review we issued a traditional catastrophe bond, the first time our company had used such an instrument: with a volume of USD 150 million the "Eurus" CAT bond covers windstorm events in seven European countries (Belgium, Denmark, Germany, France, the United Kingdom, Ireland and the Netherlands). In this way we transferred one of our peak exposures in natural catastrophe business to the capital market while at the same time further improving the diversification of our risk portfolio. Thanks to this advantageous positioning, Hannover Re was able to profit to a gratifying extent from the attractive opportunities that opened up.

Despite scaling back our peak exposures in the year under review, gross written premium increased by a substantial 20.6% to EUR 7.6 billion. In view of the good quality of the portfolio, we further boosted the level of retained premium to 74.2% (68.3%).

Premium growth was driven in particular by life and health reinsurance business, which enjoyed strong rates of increase; it should, however, be noted that special effects were also a factor here. Life reinsurance is our largest single line of business. Gross premium in the fire, aviation and liability lines, on the other hand, contracted.

Unlike in the two previous years, the loss expenditure was highly satisfactory in the year under review. Although we incurred a number of major claims, including for example a satellite loss, some fire claims, cyclone "Larry" in Australia and flood damage in India, the total burden of major losses for net account nevertheless amounted to a moderate EUR 95.6 million (EUR 885.4 million). This is equivalent to 3.9% of net premium in property and casualty reinsurance and is thus well below the multi-year average of 8%. By way of comparison, the corresponding figure in the previous year had been 26.4% due to the severe hurricane events.

The combined ratio (excluding life business) stood at 98.1% (103.1%) in the year under review. With regard to the reported combined ratio, it should be borne in mind that from the year under review onwards we are no longer carrying the allocation to the IBNR reserve in the casualty and motor liability lines in the non-technical account, but are instead recognising it as part of the claims expenditure. The figures for the previous year have been adjusted for the sake of improved comparability.

The pace of growth in international life and health reinsurance was sustained undiminished, offering excellent opportunities for our business. Particularly due to three large-volume new treaties, gross premium surged sharply to EUR 3,228.0 million (EUR 1,851.9 million). Growth was also driven by UK business with enhanced annuities – special annuity policies for policyholders with a significantly reduced life expectancy on account of medical or other factors.

The underwriting result for total business before changes in the equalisation reserve improved on the previous year to reach EUR 145.6 million (-EUR 95.5 million). An amount of EUR 145.4 million was allocated to the equalisation reserve and similar provisions on the basis of the favourable underwriting result. In light of the amendment of the Ordinance Concerning the Reporting by Insurance Undertakings to the Federal Insurance Supervisory Office (BerVersV), we availed ourselves of the option of writing back the bulk of the equalisation reserves constituted in other property insurance and other indemnity insurance.

Capital markets developed highly satisfactorily in the year under review. Thanks to a strong cash flow from the technical account, our portfolio of self-managed assets grew to EUR 12.7 billion. Ordinary income increased to EUR 735.3 million (EUR 513.5 million). The net investment result of EUR 799.9 million fell well short of the corresponding figure for the previous year (EUR 895.7 million), which had been boosted by extraordinary income from the restructuring of our participating interests.

In view of the effects reflected in the previous year's investment result, the profit for the financial year of EUR 196.0 million came in lower than in the previous year (EUR 374.6 million), but was still on an excellent level. With this in mind, the Executive Board and Supervisory Board will propose to the Annual General Meeting that a dividend of EUR 1.60 per share be paid.

The financial community greeted with considerable interest our announcement in December 2006 that we had reached agreement on the sale of Praetorian Financial Group, Inc. to the large Australian insurance group QBE. The transaction is still subject to approval by the competent regulators. It is our expectation that the deal will be completed in the second quarter of 2007. Hannover Re will systematically invest the capital freed up by this transaction in the expansion of its non-life and life reinsurance business.

In view of the outstanding importance of very good ratings for a reinsurer's business in today's market, we were pleased to note that the rating agencies Standard & Poor's and A.M. Best confirmed their excellent ratings (AA- "Very Strong" and A "Excellent" respectively) for Hannover Re.

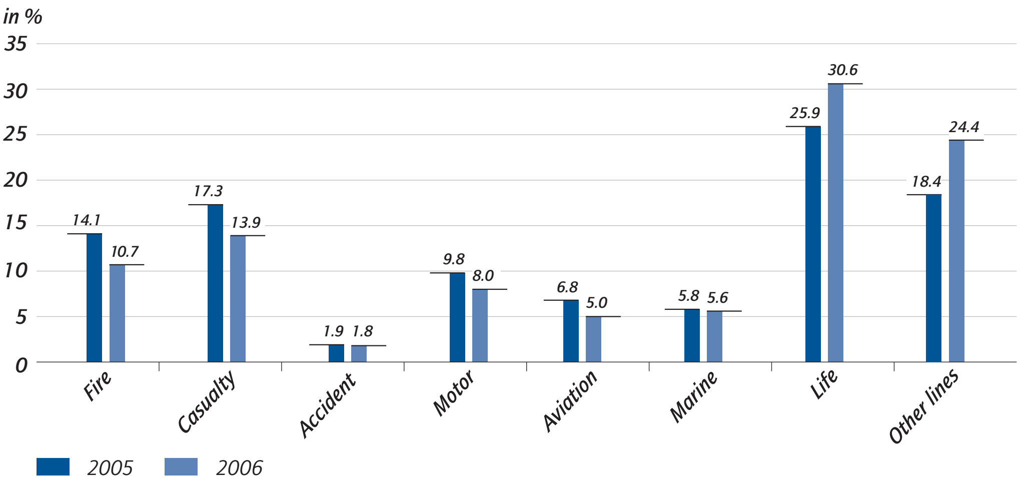
At the end of the 2006 financial year two multi-year retrocession arrangements were cancelled by mutual agreement ahead of the scheduled termination date after negotiations with the retrocessionaires. In past years both treaties had alleviated the strains from natural catastrophe events. The risk transfer under both arrangements was limited on the basis of contractual clauses. The premature termination led to a strain on Hannover Re's account in the 2006 financial year.

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

Development of the individual lines of business

The following section describes the development of the various lines of business in relation to the worldwide portfolio written by Hannover Re (Hannover Rück AG). Through intra-Group retrocessions from E+S Rück we also participate in the German reinsurance market. The proportion of the parent company's gross written premium attributable to business accepted from E+S Rück stood at 6.8% in the year under review (9.7%). We were highly satisfied with both the result and the development of business in our domestic market.

Line-of-business breakdown in % of the total portfolio



Fire

Fire reinsurance is one of Hannover Re's largest lines; we write this business worldwide. The German market witnessed fierce competition in industrial fire insurance, putting renewed pressure on rates. The claims burden in Germany climbed by 15%, as a consequence of which premiums in the primary market were no longer commensurate with the risks. The situation will not change significantly in the coming year either because sufficient capacity is available on this market. We incurred several major losses in the year under review, including two substantial claims in Germany and one in Italy.

We further scaled back our proportional fire business in the year under review; appreciable reductions in premium volume were booked in Germany and the United Kingdom. All in all, premium income from our fire business contracted by 8.2% to EUR 820.2 million (EUR 893.5 million).

Despite the major claims incurred in the year under review, the underwriting result of EUR 44.5 million came in higher than in the previous year (-EUR 27.4 million), which had been impacted particularly heavily by the hurricane losses in the United States. The net loss ratio stood at 69.5% (78.1%).

An amount of EUR 49.5 million was allocated to the equalisation reserve and similar provisions, following a contribution of EUR 12.7 million in the previous year.

Fire

in EUR million	2006	2005
Gross written premium	820.2	893.5
Loss ratio (%)	69.5	78.1
Underwriting result (net)	44.5	(27.4)

Casualty

We were satisfied with the development of our casualty portfolio in the year under review. In accordance with our strict profitability criteria we write our business highly selectively. In general, we were able to obtain attractive rates in the year under review. The treaty renewals once again clearly demonstrated that ceding companies are attaching ever-greater importance to the financial strength of reinsurers. Based on our very good ratings and the associated positive assessment of our financial strength, we are one of the few reinsurers that clients consider for placement of all their business – including long-tail liability lines.

North America is traditionally our most important casualty market. Our underwriting policy here is geared primarily towards non-proportional acceptances. We have maintained only a small number of proportional treaties which still promise satisfactory profitability. Risks that generated below-average margins continued to be systematically scaled back. This was particularly true of directors' & officers' covers.

Our total gross premium volume contracted by a modest 3.0% to EUR 1,062.1 million (EUR 1,095.5 million).

The claims experience of our casualty portfolio in the year under review was satisfactory. The net loss ratio of 69.1% was somewhat lower than in the previous year (70.2%). The underwriting result improved to EUR 24.1 million (EUR 20.1 million).

An amount of EUR 78.1 million was allocated to the equalisation reserve and similar provisions, following a contribution of EUR 101.1 million in the previous year.

Casualty

in EUR million	2006	2005
Gross written premium	1,062.1	1,095.5
Loss ratio (%)	69.1	70.2
Underwriting result (net)	24.1	20.1

Accident

Accident insurance is of only minimal importance within our overall portfolio, accounting for just 1.8% of the total business.

We have identified good growth opportunities in the developed markets, especially in the area of products aimed at senior citizens. Personal accident products with assistance benefits, which we have revamped in cooperation with a number of primary insurers and other cooperation partners, have established themselves successfully on the market. These products feature a range of assistance benefits that our clients make available to their policyholders who are in need of help after an accident, including for example accompaniment on trips to the doctor or official agencies or a "meals on wheels" service.

Gross premium climbed by a substantial 15.8% year-on-year to reach EUR 137.3 million (EUR 118.6 million). We were able to generate particularly healthy increases in premium volume in Germany and South America.

On the claims side too, we are highly satisfied with the experience in this line. The previous year's very good net loss ratio showed further slight improvement to reach 49.6%. The underwriting profit deteriorated to EUR 13.4 million (EUR 17.5 million).

An amount of EUR 11.9 million was allocated to the equalisation reserve and similar provisions, compared to a contribution of EUR 7.2 million in the previous year.

Accident

in EUR million	2006	2005
Gross written premium	137.3	118.6
Loss ratio (%)	49.6	50.1
Underwriting result (net)	13.4	17.5

Motor

North America, the United Kingdom and Germany were our most important markets in the motor line. The German insurance market was notable for fierce competition over market shares – and hence falling prices. On the reinsurance market, on the other hand, favourable conditions continued to prevail in the year under review.

Reinsurance commissions in proportional motor reinsurance held stable to a very large extent, and rates under excess of loss programmes even improved somewhat. The business performance in motor third party liability insurance was highly favourable. In the United Kingdom rates for higher layers held stable, while for lower and middle layers they increased as claims numbers rose. In the United States, too, the market environment enabled us to write profitable business.

The loss ratio improved slightly from 77.6% to 73.3%. The underwriting result deteriorated from -EUR 11.6 million to -EUR 13.5 million.

An amount of EUR 38.1 million (EUR 70.0 million) was allocated to the equalisation reserve and similar provisions in the year under review.

Motor

in EUR million	2006	2005
Gross written premium	611.9	623.4
Loss ratio (%)	73.3	77.6
Underwriting result (net)	(13.5)	(11.6)

Aviation

Hannover Re ranks among the leading reinsurers worldwide in aviation and space business. Owing to the enormous surplus capacity on the insurance side, rates softened again markedly in comparison to the previous year. Excess capacities on the reinsurance side, however, are limited because ceding companies continue to attach considerable importance to their reinsurer's financial standing. Against this backdrop the price erosion was moderate. Despite slightly reducing our market shares, we retained our leading position in aviation reinsurance. We continued to improve the diversification of our portfolio, thereby further scaling back the dominant role played by fleet business – which is often written on a proportional basis.

The bulk of our aviation business is written on the London Market. Our portfolio is guided strictly by profitability considerations and business is written highly selectively. Gross written premium consequently contracted by 10.2% to EUR 385.9 million (EUR 429.8 million).

The net loss ratio deteriorated to 51.5% after the exceptionally good level of the previous year (39.6%). The underwriting profit retreated accordingly to EUR 74.2 million (EUR 114.1 million).

An amount of EUR 0.1 million was withdrawn from the equalisation reserve and similar provisions, following a contribution of EUR 60.2 million in the previous year.

Aviation

in EUR million	2006	2005
Gross written premium	385.9	429.8
Loss ratio (%)	51.5	39.6
Underwriting result (net)	74.2	114.1

Marine

Our marine business too is written mostly through the London Market, where we are one of the major reinsurance providers.

The market climate in marine reinsurance in the year under review was heavily influenced by the substantial losses from the 2005 hurricanes, which not only prompted rate hikes and increased retentions at ceding companies but also ushered in extensive restructuring of the reinsurance programmes; risks relating to the Gulf of Mexico, for example, were removed entirely and separately reinsured. Many programmes now distinguish between catastrophe-exposed regions (Gulf of Mexico) and risks that have no correlation with natural catastrophe events. The market hardened appreciably in catastrophe-exposed business, on both the insurance and reinsurance sides. Conditions for other reinsurance business were stable.

In offshore and energy business Hannover Re achieved appreciable rate rises, although price increases were also obtained for the rest of the marine portfolio. As part of our risk management activities we restricted the limit of liability for windstorm-exposed programmes; it is often the case, for example, that reinstatements of liability after such losses are now excluded. We write the bulk of our business on a non-proportional basis and only accept proportional arrangements in segments that promise high margins.

Gross written premium surged sharply from EUR 368.1 million to EUR 424.8 million despite our selective underwriting policy.

Following the exceptionally heavy loss expenditure caused by the severe hurricanes "Katrina" and "Rita" in the previous year, the year under review was spared catastrophe losses; the underwriting result was nevertheless adversely affected by belated claim notifications, closing at -EUR 169.0 million (-EUR 167.6 million).

An amount of EUR 1.9 million was contributed to the equalisation reserve and similar provisions, compared to a withdrawal of EUR 99.2 million in the year before.

Marine

in EUR million	2006	2005
Gross written premium	424.8	368.1
Loss ratio (%)	164.2	147.6
Underwriting result (net)	(169.0)	(167.6)

Life

Our life reinsurance portfolio developed most successfully in the year under review.

We are still pursuing our expansionary course in this line. European markets are the engine for growth. In the United Kingdom, for example, we were again able to boost the volume of new business written, especially in the area of enhanced annuities for policyholders with a significantly reduced life expectancy due to medical or other factors. Yet in Asian markets too premium income showed dynamic growth.

Our gross premium income surged very strongly in the year under review from EUR 1,642.2 million to EUR 2,335.7 million. This can be attributed to two special effects: of the increased premium volume, an amount of EUR 234.4 million derived from the business ceded by our subsidiary E+S Rück from the German market, while EUR 821.1 million resulted from single-premium business involving unit-linked products of a major Luxembourg-based insurance provider. The remaining premium income of EUR 1,280.2 million stemmed primarily from Hannover Re's self-written business, i.e. principally from the markets of Continental Europe (excluding Germany), the Middle East, Central and South America and the Asian region.

In addition, we continued to serve as the principal retrocessionaire for our life subsidiaries in the United Kingdom, United States, South Africa and Australia – an arrangement that is essential for the purposes of Hannover Life Re's risk management and also enhances the international diversification of the portfolio assumed by the parent company.

Supported by the portfolio expansion, the underwriting profit improved considerably to EUR 74.5 million (EUR 9.3 million).

A favourable claims experience, satisfactory persistency of the in-force reinsured portfolios and the positive state of international capital markets were all contributory factors in this gratifying profitability.

Life

in EUR million	2006	2005
Gross written premium	2,335.7	1,642.2
Underwriting result (net)	74.5	9.3

Other lines

The lines of health, credit and surety, other indemnity insurance and other property insurance are reported together under other lines. Other property insurance consists of the extended coverage, comprehensive householder's (contents), comprehensive householder's (buildings), burglary and robbery, water damage, plate glass, engineering, loss of profits, hail, livestock and windstorm lines. In this context, separate technical profit and loss accounts are drawn up for the engineering and hail lines. Other indemnity insurance encompasses legal protection, fidelity as well as other pure financial losses and property damage. In this regard, separate technical profit and loss accounts are drawn up for fidelity and other property damage. Equalisation reserves of EUR 157.9 million were written back in connection with this restructuring.

The premium volume in the other lines increased by a substantial 59.6% to EUR 1,866.6 million. The underwriting result came in at a very gratifying EUR 97.6 million (-EUR 49.9 million) in the year under review, following on from the heavy losses incurred in windstorm business in the previous year as a consequence of the hurricanes.

Gross premium in *fire loss of profits* business retreated by 7.6% in the year under review to EUR 125.9 million (EUR 136.3 million). The underwriting profit before changes in the equalisation reserve improved to EUR 36.0 million; the previous year's figure of EUR 15.4 million was adversely impacted by the hurricane losses.

Our *health reinsurance portfolio* consists principally of business ceded by our subsidiary Hannover Life Re America. Gross premium income grew considerably in the year under review to EUR 892.3 million (EUR 209.7 million). The surge was attributable to the 2006 launch of the Medicare Part D program in the United States – an extension of state health insurance coverage for senior citizens which also involves the private insurance sector. In this connection we assumed a large quota share from a newly established specialty health insurer, although this will be scaled back in the coming years. The underwriting result closed in negative territory at -EUR 38.5 million – after a loss of EUR 0.7 million in the previous year – due to the closure of our "L2" facility and the associated repayment of new business acquisition costs.

Hannover Re is one of the market leaders in *credit and surety reinsurance*. Thanks to falling insolvency figures and the improved state of the economy, loss ratios in credit and surety insurance in Europe retreated to a record low. The sustained good results in recent years led to pressure on commissions in the reinsurance sector, which – unlike in the previous year – it proved impossible to entirely resist. On the other hand, clients continued to focus on reinsurers noted for their financial soundness and professionalism, a situation from which Hannover Re benefited. Not least for reasons of diversification we stepped up our surety business and our acceptances of political risks. No major losses were incurred in the year under review. Gross premium income increased from EUR 254.4 million to EUR 293.7 million. The underwriting profit was again very favourable in the year under review at EUR 38.3 million (EUR 43.3 million). A contribution of EUR 59.0 million was made to the equalisation reserves in these two lines.

Other lines

in EUR million	2006	2005
Gross written premium	1,866.6	1,169.3
Loss ratio (%)	68.6	76.1
Underwriting result (net)	97.6	(49.9)

Investments

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

Prime rates moved sharply higher by 100 basis points in both the USA (to 5.25%) and the Eurozone (to 3.50%). The yield curve in the Eurozone flattened gradually in the course of the year, albeit without inverting markedly as was the case in the USA. Ten-year US treasury bonds yielded average returns of 4.8%, while the average yield in the Eurozone was a mere 3.8%. The corporate bond market saw only isolated increases in the risk premium for selected instruments, while the overall market generally moved within a very tight spread. The euro closed the year at USD 1.3181 (USD 1.1834).

Hannover Re's investment policy is guided by the following core principles. We seek to:

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

With these goals in mind we engage in active risk management on the basis of balanced risk/return analyses. In this context we observe centrally implemented investment guidelines and are guided by dynamic financial analysis based on the latest scientific insights. These ensure that at all times we are able to meet our payment obligations in light of our liabilities profile.

Within the scope of our asset/liability management activities, the allocation of investments by currency is determined by the development of underwriting items on the liabilities side of the balance sheet. We are thus able to achieve extensive currency matching of assets and liabilities, thereby ensuring that our result is not significantly affected by fluctuations in exchange rates.

Our performance was in line with the planned parameters thanks to the neutral/defensive posture of our bond portfolio. Based on the strong cash inflow from the technical account, our portfolio of self-managed assets grew to EUR 12.7 billion (EUR 11.9 billion) despite the weak US dollar.

Deposit interest and expenses contributed EUR 142.9 million (EUR 131.5 million) on balance to net investment income. Gains of altogether EUR 169.6 million (EUR 817.5 million) were realised on the disposal of assets under own management in the reporting period, as against losses of EUR 23.2 million (EUR 31.2 million). The sharp decline in the positive balance to EUR 146.4 million (EUR 786.3 million) was attributable primarily to the reorganisation of the Group structure in 2005. Despite this special effect in the amount of almost EUR 370 million (including write-downs), the net investment result contracted year-on-year to EUR 799.9 million (EUR 895.7 million).

As in previous years, we actively managed the duration of our fixed-income portfolio, thereby not only optimising our returns but also conserving our shareholders' equity. The modified duration of our bond portfolio was kept stable over the reporting period, standing at 4.2 as at 31 December 2006.

Our portfolio of fixed-income securities (including bond funds) as at 31 December 2006 amounted to EUR 6.7 billion (EUR 6.0 billion), a rise of 11.7%. In view of the sustained low interest rate level and the minimal yield advantages of corporate bonds over government bonds we attached special importance to high quality in the year under review. Our holdings of corporate bonds were consequently not significantly expanded. Our preferred asset classes in Europe were debt securities issued by semi-governmental entities and jumbo mortgage bonds. New investments were made primarily in medium-duration instruments. Net unrealised gains in our portfolio of fixed-income securities totalled EUR 12.7 million, compared to EUR 64.3 million in the previous year.

The quality of our fixed-income securities – measured in terms of the average rating of the instruments – was maintained on a consistently high level. The proportion of securities rated "A" or better – at 96% – was higher than in the previous year (95%).

In light of the favourable trend on stock markets we realised targeted gains on equities. The equity allocation increased slightly to 6.8% (5.5%), while in absolute terms the fair value of the equity portfolio grew to EUR 922.0 million (EUR 696.5 million). New equity investments were made predominantly in the Eurozone – especially in index-tracking instruments and an actively managed equity mandate. By using systematic option strategies we exploited market volatilities to a modest extent in order to optimise our portfolio.

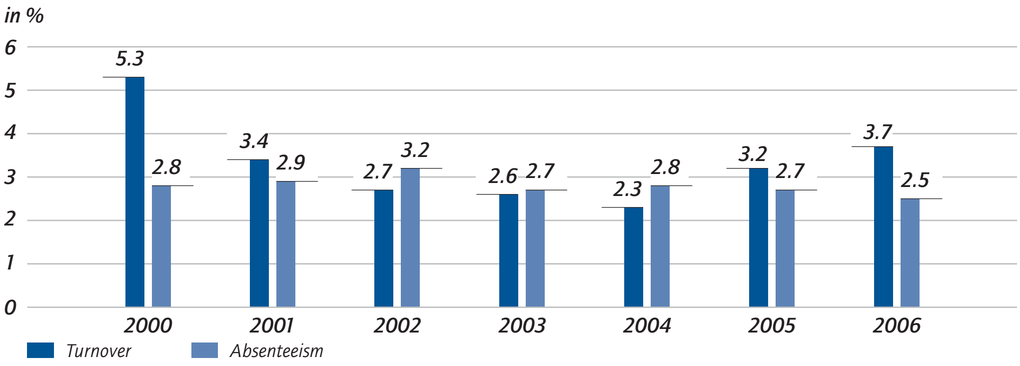
Human resources

Key personnel data

Hannover Re employed 654 (628) staff as at 31 December 2006. The turnover ratio of 3.7% (3.2%) was on a par with previous years, and the rate of absenteeism fell to its lowest level since 2000 at just 2.5%.

The turnover and absenteeism figures once again clearly demonstrate that employee satisfaction is also reflected in key personnel data – even allowing for the fact that the difficult state of the labour market in Germany undoubtedly plays a role here too. Absentee rates serve as a seismograph for detecting the existence of in-house conflicts. By holding our conflict management seminar for executives and employees we help to defuse any tensions that may arise.

Staff turnover and absenteeism



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

Balance between career and leisure

Employee loyalty is also fostered by flexible working-time models. This is impressively underscored by our various models for part-time working arrangements, which are used by more than 16% of our workforce. They harmonise the company's interests with those of our staff in a broad range of life situations. 70 employees – almost 8% of our team in Hannover – work from home as telecommuters, thereby also playing their own modest part in helping the environment.

University marketing activities

Hannover Re energetically maintains a tightly knit network of contacts with German universities. Our focus is directed firstly towards local (technical) universities, such as the Leibniz University of Hannover, the University of Lüneburg and Hannover University of Applied Sciences, and secondly at prominent institutions of higher learning nationwide which offer courses in insurance science, such as Cologne University of Applied Sciences. A lively dialogue between scientific theory and business practice takes place within the scope of these contacts, first and foremost in the form of joint events held on campus or at our offices. In addition, Hannover Re contributes to a chair in insurance and financial mathematics at the Leibniz University of Hannover.

In the year under review we participated in nine recruitment fairs: in addition to "Campus Chances" in Cologne, Hamburg, Mannheim and Münster, we again attended "Career Dates" in Hannover. Not only that, Hannover Re participated in an industry-specific workshop entitled "Financial Services & Risk Management", the Congress of Business Mathematicians in Ulm, the "Praxisbörse" in Göttingen and the Graduates Congress in Cologne.

We continue to feel a lasting commitment to personnel development. Over the past three years an average 5% of our workforce participated in personnel development workshops: the total investment in further and advanced training amounted to six days for each staff member per year.

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

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

Discussions with staff and the Employee Council ultimately led to the adoption of a new calculation base, namely the minimum return on equity of 750 basis points above the risk-free interest rate (moving five-year average on 10-year government bonds). This was applied for the first time in the year under review and generated additional performance-based compensation due to the favourable development of business.

For information concerning the remuneration received by members of the Executive Board and Supervisory Board and their shareholdings please see the remuneration report provided in the notes under the heading "Remuneration report".

The remuneration report is based on the recommendations of the German Corporate Governance Code and contains information that is also mandatory in accordance with the requirements of § 285 German Commercial Code (HGB). This information is discussed as a whole in the remuneration report. Consequently, we have not provided any further explanation in the present management report.

Participation of staff in the Group Performance Bonus (Hannover location)

2006	Number
Senior executives	64
Managerial levels from Manager to chief	317
Total participants	381
Proportion of the total workforce	42.7%

Our range of training opportunities

We attach considerable importance to the training of young people, as borne out by the excellent qualifications obtained by our trainees. Personnel development involves the timely recognition of opportunities and risks on the labour market. After a protracted demand-driven job market, we expect the supply side to take the lead in the coming years. This can be deduced from the demographic population trend for the next 20 years in Germany. We consider a differentiated, medium-term training initiative to be an appropriate, well-timed instrument for pre-empting this trend. So far, training has only been available for the occupational profile of certified insurance practitioner. Going forward, we intend to take a close look at other areas where opportunities for professional qualification may be available, including for example the Bachelor's degree in business informatics.

Word of thanks to our staff

We would like to thank our employees for their initiative, dedication and performance. Our staff identified with the company's defined objectives and pursued them purposefully at all times. We would also like to express our appreciation to the representatives of staff and senior management for their critical yet always constructive cooperation.

Sustainability report

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

Sustainability and social responsibility are in no way at odds with our strategic objective of being one of the best, i.e. most profitable, reinsurers in the world. On the contrary, successful business management establishes the basis for playing a positive role in society, consistently fostering and advancing staff and supporting projects that are in the public interest.

The responsible underwriting of risks and diligent risk management are vital preconditions for safeguarding the quality of our business over the long term and for preserving and multiplying the value of our company. Based on the sustainability of its actions since its establishment in 1966, Hannover Re has never had to report a deficit, i.e. it has never lost capital. Our goal is to continue to act with this level of responsibility.

Social commitment

Hannover Re responds to its social responsibility with active involvement: we run a foundation that benefits the Sprengel Museum Hannover, thereby supporting the advancement of contemporary art in Hannover. Opened in 1979, the Sprengel Museum – with its extensive collection and diverse programme of rotating exhibitions – ranks among the leading museums for twentieth-century art. The Hannover Re Foundation was launched in 1991 to mark the occasion of Hannover Re's twenty-fifth anniversary. The foundation's mission is to promote Hannover as a centre for art through the acquisition of contemporary artworks that are loaned to the Sprengel Museum; the foundation is also charged with funding accompanying publications and events.

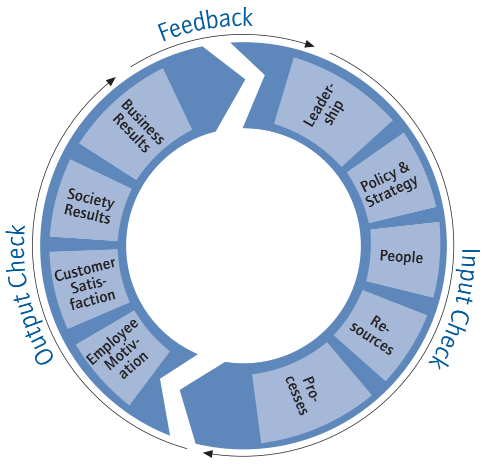
The reinsurance of catastrophe risks is part of our core business; a constant knowledge transfer between business and research that enables our company to apply the very latest insights is indispensable. With this in mind Hannover Re supports the highly respected Geo Research Center in Potsdam. The institute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

Performance Excellence

Performance Excellence (PE) is a forward-looking, holistic management system for Hannover Re, with the aid of which we seek to sustainably increase the value of our company. It takes its lead from the "Excellence Model" of the European Foundation for Quality Management (EFQM) and is based on the evaluation and enhancement of methods, practices and procedures used, supported by external expert assessments. This comprehensive approach encompasses inter alia concepts such as the Balanced Scorecard, Customer Relationship Management, Leadership Feedback and Management by Objectives (MbO).

Performance Excellence serves as our guideline and is a particularly effective means of consistently enhancing our customer orientation. By way of this holistic management system, we strive to continuously improve our steering tools of lead-

Integrated assessment (IBEC)



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

Hannover Re demonstrated its sophisticated quality management by delivering a superb result in the first external IBEC assessment (IQNet Business Excellence Class) covering several areas of the company. We were praised for our excellent management. With this advanced management system we also have at our disposal an outstanding tool that will enable us to fully satisfy future requirements.

Employee responsibility

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

By means of company-wide guidelines, including for example our business principles, we have defined standards that are valid for all employees worldwide. They are intended to help our staff successfully cope with the often complex ethical and legal challenges facing them in their daily tasks. What is more, all members of staff undertake to conduct themselves vis-à-vis their colleagues and clients in a manner that is honest, fair and law-abiding. These guidelines are regularly updated in order to keep them in tune with changing socio-political standards.

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

Risk report

Overall system of risk monitoring and management

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

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

Risk categories

Global risks

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

- monitoring of claims trends as well as analyses of claims and catastrophe losses (e.g. analysis of the frequency and extent of losses associated with natural disasters due to climate changes),
- review and, as appropriate, adjustment of the underwriting policy (e.g. through contractual exclusions, defined limits),
- close tracking of developments in
  - relevant legal areas (e.g. US liability),
  - regulatory requirements (e.g. Minimum Requirements for Risk Management [MaRisk], Solvency II),
  - changes in accounting standards (e.g. IFRS),
  - rating agency requirements (e.g. Enterprise Risk Management).

Strategic risks

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

Technical operating risks

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

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

Property and casualty reinsurance

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

- Our loss reserves are determined on an actuarial basis. The point of departure for our calculations is the information provided by cedants, where necessary supplemented by additional reserves that may seem appropriate on the basis of our own loss estimations. Furthermore, we constitute an IBNR (incurred but not reported) reserve for losses that have probably already occurred but have not yet been reported to us. This applies primarily to claims in the liability lines. Our own actuarial calculations regarding the adequacy of the reserves are subject to annual quality assurance reviews conducted by external actuaries and auditors.
- We pass on portions of our risks using traditional retrocession tools, on the one hand, and through transfers to the capital market, on the other. Both measures support diversification within the total portfolio and promote risk reduction with the goal of protecting our capital against peak exposures, such as those associated with natural disasters.
- In order to assess the risks posed by natural hazards Hannover Re uses simulation models that were adjusted following the events of 2004 and 2005 in the USA. They now incorporate the latest expert insights of leading climatologists into possible changes in the frequency and intensity of such events due to climate changes. In addition, Hannover Re's natural hazards specialists continuously monitor the findings of all available scientific research with an eye to possible changes in the risk situation. In various segments we also determine additional safety loadings that are added to the output of the simulation models in order to adjust our calculation base to adequately reflect the risks.
- Within the scope of accumulation control – i.e. monitoring of the natural hazards exposure of Hannover Re's portfolio – maximum underwriting limits ("capacities") are defined for various scenarios (e.g. hurricanes in the USA) and return periods/probabilities on the basis of the company's overall risk strategy. The portfolio risk for the scenarios in question is then calculated in the form of probability distributions on a gross basis, in other words our simulation models for natural hazards are used to determine the expected loss for specific occurrence probabilities. As a final step, this data based on individual scenarios is then collated for the portfolio as a whole, which is considered both on a gross basis and for net account after application of the existing retrocession structure. The data described here is also an integral component of our reporting to international bodies, regulators and rating agencies.

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

Life and health reinsurance

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

- We review the risk feasibility of new business activities and of the assumed international portfolio on the basis of a series of regularly performed, holistic analyses.
- New business is written in all regions in compliance with internationally applicable Global Underwriting Guidelines, which set out detailed rules governing the type, quality, level and origin of risks. These global guidelines are revised every two years and approved by the full Executive Board of Hannover Re. They are supplemented by country-specific "Special Underwriting Guidelines" that cater to the special features of individual markets. Regular audits verify compliance with these guidelines.
- Further quality assurance measures are carried out at the level of the subsidiaries in the context of the actuarial reports and documentation required by local regulators as part of Corporate Governance.
- In addition, our Hannover location conducts a number of relevant spot checks every year, for example regarding the amount of the technical provisions constituted for our worldwide health business. The findings of these checks are also submitted to the full Executive Board.
- In this connection we devoted special attention in the year under review to the risk of a worldwide pandemic (caused, for example, by avian influenza). Within the scope of the Enterprise Risk Management (ERM) analysis required by Standard & Poor's, the quantitative effects on our existing portfolio were modelled for the first time.
- The interest guarantee risk, on the other hand, is of only minimal risk relevance due to contractual exclusions.

Investment operating risks

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

- Risk limitation in the investment sector takes precedence over return maximisation. The goal is to generate an optimal contribution margin while adhering to defined maximum risk limits.
- Investments are guided by the requirements of the reinsurance business (e.g. with respect to maturities).
- Systematic adherence to the principle of matching currency cover.
- Asset management and liability management – and the synthesis of both segments under the umbrella of our asset/liability management approach – in order to optimise Hannover Re's overall position according to a single financial risk/return target.
- Definition of our investment guidelines on the basis of our asset/liability management approach.
- Clear distinction between trading, settlement and risk control based on the principle of separation of functions applied through to the level of management.

- The implemented management and control mechanisms take their lead from the standards adopted by the Federal Financial Supervisory Authority (BaFin) and foreign regulators as well as the risk preferences specified by the Executive Board.
- We use short-call and long-put options as well as swaps to partially hedge portfolios, especially against price, exchange and interest rate risks. In the year under review we also used derivative financial instruments to optimise our portfolio in light of risk/return considerations. The contracts are concluded solely with first-class counterparties and compliance with the standards defined in the investment guidelines is strictly controlled in order to avoid risks associated with the use of such transactions.

Rating structure of our fixed-income securities*

Rating	Bearer debt securities		Registered debt securities, debentures and loans		Bond funds		Sundry loans	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	67.7	4,024.7	46.3	105.2	0.2	0.8	–	–
AA	17.1	1,016.6	26.9	61.2	98.9	431.0	–	–
A	14.2	846.8	15.6	35.4	–	–	14.5	5.1
BBB	0.4	25.2	11.1	25.1	–	–	85.5	30.0
<BBB	0.6	34.1	0.1	0.2	0.9	3.9	–	–
Total	100.0	5,947.4	100.0	227.1	100.0	435.7	100.0	35.1

** Securities from investment funds were allocated to the appropriate categories.*

Scenarios for changes in the fair value of our securities as at the balance sheet date

Portfolio	Scenario	Portfolio change based on fair value in EUR million
Equities	Stock prices - 10%	(92.2)
	Stock prices - 20%	(184.4)
	Stock prices +10%	92.2
	Fair value as at 31.12.2006	922.0
Fixed-income securities	Yield increase +50 basis points	(154.8)
	Yield increase +100 basis points	(300.2)
	Yield decrease - 50 basis points	135.4
	Fair value as at 31.12.2006	6,884.3

Operational risks

In our understanding, this category encompasses the risk of losses occurring directly or indirectly because of inadequacy or failure of internal procedures, human error or system failure, organisational shortcomings and external events. The most significant operational risks include those of business interruption and system failure. As part of our examination of the consequences of a possible pandemic we have drawn up, inter alia, special contingency plans intended to minimise the effects of a disruption in our business.

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

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

Assessment of the risk situation

As an internationally operating reinsurance enterprise we are exposed to a diverse spectrum of potential risks that are not necessarily always directly correlated with our business activities. These risks can have a not inconsiderable impact on our net earnings, financial position and assets. Yet such risks always go hand-in-hand with opportunities, since opportunity and risk are closely interrelated. Only with the aid of effective controlling tools – that ensure risks can be identified and opportunities maximised in a timely manner – can practical realisation of our strategic objectives be safeguarded. Hannover Re has at its disposal sophisticated systems and methods which we use to steer our business over an appropriate planning horizon, thereby enabling us to satisfy the requirements of effective and holistic risk/opportunity management. What is more, these mechanisms ensure that any potential need for improvement or adjustment can be proactively translated into concrete measures.

Based on our currently available insights arrived at from a holistic analysis of the risk situation, we cannot discern any risks that could jeopardise the continued existence of our company in the short or medium term or have a significant, lasting effect on our earnings, financial position or assets.

Forecast

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

In 2007, as in the year under review, economic activity in the USA initially looks set to be weak, with only slow growth in gross domestic product. A cyclical cooldown will also curb consumer spending. As capacity utilisation continues to decline, the US Federal Reserve Board will likely refrain from further interest rate hikes from the spring onwards – although solid data from the labour market and inflation worries do not suggest that appreciable interest rate cuts are to be anticipated in the near future.

Japan should enjoy a more robust rise in output and stronger domestic demand in 2007. The economic momentum in the markets of East Asia is likely to be sustained, albeit at a somewhat more restrained pace. For China too a continued rapid expansion in gross domestic product is forecast.

Irrespective of the moderating influences of a strong euro and a rather restrictive monetary policy – the European Central Bank is expected to announce another modest rise in interest rates – the economy should be able to maintain its upward momentum in Europe, albeit at a reduced tempo. Nevertheless, the improved state of the job market will help to stimulate private consumption and corporate spending should also serve as a positive stimulus. All in all, the German economy looks set to continue its upward trend in the current year.

We were broadly satisfied with the renewals in non-life reinsurance as at 1 January 2007 – the date when around two-thirds of our treaties were renegotiated. The rate level remained largely stable with only a few exceptions. In areas that did see significant rate reductions (e.g. in aviation business), they generally retreated on what were still rather high price levels. Although the market has softened, we were again able to write profitable business. As anticipated, further rate increases in the order of 35% were obtained for property catastrophe reinsurance in the United States. Prices in worldwide property catastrophe reinsurance held firm on an adequate level, albeit with a slightly downward tendency. The capacity shortages that could still be observed in the USA in the middle of 2006 have eased as capital markets brought additional solvency capital to the table.

The renewal season once again demonstrated that ceding companies are attaching ever-greater importance to their reinsurers' ratings. This is especially true of the underwriting of long-tail liability lines. In this case a very strong rating is a precondition for even being able to write the business. Hannover Re, with its very good ratings of "AA-" from Standard & Poor's and "A" from A.M. Best, is one of the few reinsurers to satisfy this condition without reservation; these favourable assessments of our financial strength have consequently put us in a position to profit disproportionately strongly from the attractive market climate.

The experience of the intense hurricane season in 2005 and its effects on pricing and rating models have changed the (re-)insurance industry much more profoundly than was the case with catastrophe events of earlier years. It may be assumed that current price levels for the provision of catastrophe reinsurance will be sustained in view of the updating of simulation models to reflect previously neglected or inadequately modelled components.

In marine reinsurance the market environment in the current financial year is stable. The hard market of recent years in catastrophe-exposed business should continue. We expect some cedants to raise their retentions in an attempt to scale back their increasingly expensive reinsurance protection. In offshore and energy business we similarly anticipate further attractive market conditions. What is more, the modelling of natural catastrophe exposures is likely to become more clearly and firmly established in marine (re-)insurance business; compared to the property lines, its use has hitherto been relatively underdeveloped. All in all, we anticipate a slight contraction in gross premium volume here.

Significant price erosion is the hallmark of aviation (re-)insurance; after years of healthy profits, current market conditions are no longer attractive in some areas. We shall reduce our proportional acceptances and further diversify our non-proportional portfolio.

Credit and surety reinsurance is again faring well in the current financial year, although pressure on rates and conditions has intensified owing to the very good results posted so far. We were thoroughly satisfied with the outcome of the treaty renewals as at 1 January 2007. We were able to acquire new accounts and increase our shares under existing relationships, thereby offsetting some of the premium erosion. All in all, we expanded our position while maintaining a good level of profitability.

After a good year under review in facultative property and casualty reinsurance, the renewal season – in which some 65% of the portfolio was renegotiated – also passed off very well. The decline in original rates has been felt more strongly here than in obligatory business. The broad geographical spread and large number of lines written will nevertheless enable us not only to make up for a large part of the contraction in premium volume but also to write profitable business.

The German non-life insurance market is seeing considerably fiercer competition and hence substantial rate cuts coupled with increased pressure on conditions. This was particularly noticeable in the industrial fire and motor lines. Although prices on the reinsurance side have not come under the same degree of pressure that they have on the original market, premium erosion has been observed across all lines. Rates also declined in German catastrophe business in view of the absence of severe windstorm events. Yet winter storm "Kyrill", which caused damage running into the billions across Europe – and especially in Germany – in January 2007, should favourably affect the next round of treaty renewals. For Hannover Re, "Kyrill" produced a net loss burden in the upper double-digit million euros before tax.

We were not entirely able to cushion the effects of price erosion on the original market through adjustments in pricing for excess of loss covers. Nevertheless, we successfully extended our market position. Through new accounts and increased shares under existing customer relationships we were able to generate additional premium in the January renewals. Bearing in mind that insurers' reinsurance needs have decreased due to their robust capital resources, the importance attached to financial strength is growing ever-greater for reinsurers. Thanks to our very good rating, we were able to expand our preferred liability, accident and motor lines. In the coming year we expect the decline in premium to flatten off.

In the *Northern European* markets we expect a continued positive trend, although the markets have softened overall. Rates for natural catastrophe covers also declined due to the absence of windstorm events in the year under review.

In the *Netherlands* the total reinsurance volume contracted as ceding companies carried higher retentions. In France we see further attractive business opportunities in builder's risk insurance, a line that we consequently intend to expand over the long term. Price increases were obtained in motor liability insurance.

Intense competition continues to prevail in the countries of *Central and Eastern Europe*, and rates therefore retreated in view of the capacity surplus. Nevertheless, it is our expectation that we will be able to modestly grow our premium volume in Russia and the countries of the former Soviet Union.

Following significant rate increases in property insurance last year in *North America* as a consequence of the severe hurricane losses, the market proved to be generally robust during the treaty renewals as at 1 January 2007. Property catastrophe reinsurance nevertheless typically continues to see capacity shortages in the established markets, and it was therefore possible to push through further appreciable price hikes compared to the level as at 1 January 2006. In light of the increase in natural disasters and the progressive concentration of values, these price rises are also likely to be sustained. Rates slipped back for programmes with no catastrophe exposure. We therefore stood by our strategy of requiring simultaneous cessions of other attractive business when writing catastrophe covers. We also keep an eye on special segments in which rate movements are less volatile. We pressed ahead with our policy of reorganising our portfolio in favour of more profitable non-proportional business at the expense of proportional arrangements.

In North American casualty business rates held stable for the most part, although slight price erosion could be felt in some lines. In long-tail casualty business it was, however, possible to obtain price increases in some areas. A very good rating – something which few reinsurers can offer – is of considerable importance here. Hannover Re consequently enjoys a competitive edge. We have noted that insurers prefer to carry higher retentions than buy reinsurance protection from providers who do not have a first-class rating. All in all, we were satisfied with the treaty renewals in our largest and most important market.

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

In *Australia* we shall continue to concentrate on niche business; we therefore again expect to generate stable income in the current financial year. The premium volume is forecast to come in slightly higher.

Despite the softening tendency on the markets, we consider conditions in non-life reinsurance to be favourable *overall*. We continue to have our sights set firmly on profitable niche segments, and we therefore expect our business to develop favourably in the current financial year and beyond. The effects of the market softening that has begun to set in will not be reflected in our results before 2008/2009.

Risk management remains a high priority for our company. We have already made provision – and will continue to do so across a broad front – in order to ensure that exceptional catastrophe losses do not affect our capital base. Our peak exposures have been further reduced while maintaining an unchanged premium volume, and we shall continue to make use of special securitisation transactions – i.e. the transfer of insurance risks to the capital market – so as to optimally protect our portfolio.

With this in mind, we boosted our "K5" securitisation by an additional USD 106 million to altogether USD 520 million at the beginning of the current year. Not only that, in March we successfully transferred risks in the form of reinsurance recoverables to the capital market for the first time. This securitisation enables us to further reduce the default risk associated with reinsurance recoverables and hence improve the quality of our capital.

Life reinsurance and health reinsurance promise further growth impetus. The positive climate should enable us to achieve our growth targets on an organic basis. The reinsurance market remains fiercely competitive, but in recent years we have assured ourselves of a sufficient number of interesting and profitable market niches.

With our five-pillar model, encompassing – along with traditional life business and health business – new business financing, the development of new markets and products, the bancassurance sector and partnerships with large multinational clients – we are well placed to share in the development of major life and annuity markets.

In Europe we anticipate significant stimuli from the United Kingdom (enhanced annuities) and France (bancassurance), while in the USA new opportunities will open up in the area of private healthcare for seniors (referred to as Medicare Part D coverage). Our market prominence in South Africa is constantly growing, and we shall extend our positioning as the leading reinsurer for the new generation of risk products.

One area of concentration for our activities in 2007/2008 will be the expansion of our infrastructure in Asia – with a focus on the Chinese-speaking economic region (inter alia through the establishment of our life branch in China). In Australia we are looking to consolidate our role as the market's leading life reinsurer.

Overall, we expect 2007 to bring a further significant increase in premium income and profitability – despite the above-average growth achieved in 2006.

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

Bearing in mind the current market conditions in both non-life and life and health reinsurance, we are looking forward to further good financial years in 2007 and indeed 2008 – provided the burden of catastrophe losses does not significantly exceed the expected level of 8% of net premium in non-life reinsurance and as long as there are no unforeseen adverse movements on capital markets.

In non-life reinsurance we are guided exclusively by profit rather than growth targets. Our goal here is to increase the operating profit (EBIT) by at least 10% each year. In life and health reinsurance, on the other hand, we have set ourselves an annual growth target of 12% to 15% for both gross premium income and the operating profit (EBIT).

Our return-on-equity target is at least 750 basis points above the risk-free interest rate.

The earnings per share constitutes another central management ratio and performance indicator for our company: our strategic objective is to increase this key figure by a double-digit percentage margin every year.

Affiliated companies

We received an adequate consideration for all transactions with affiliated companies according to the circumstances of which we were aware at the time when the transactions were effected. We incurred no losses requiring compensation as defined by § 311 (1) of the Stock Corporation Act (AktG).

Information pursuant to § 289 Para. 4 German Commercial Code (HGB)

The share capital of the company amounts to EUR 120,597,134.00. It is divided into 120,597,134 registered no-par shares.

The Executive Board of the company is not aware of any restrictions relating to voting rights or the transfer of shares, including cases where these may arise out of agreements between shareholders.

The following companies hold direct or indirect capital participations that exceed 10% of the voting rights:

Talanx AG, Riethorst 2, 30659 Hannover, holds 10.4% of the company's voting rights. 20.14% of the company's voting rights are held by HDI Verwaltungs-Service GmbH, Riethorst 2, 30659 Hannover. The proportion of voting rights held by Zweite HDI Beteiligungsgesellschaft mbH, Riethorst 2, 30659 Hannover, is 19.7%.

There are no shares with special rights granting their holders powers of control, nor is there any specially structured voting control for employees who have capital participations and do not directly exercise their rights of control.

The appointment and withdrawal of members of the Executive Board are determined by §§ 84 et seq. Stock Corporation Act. Amendment of the Articles of Association is governed by §§ 179 et seq. Stock Corporation Act in conjunction with § 16 Para. 2 of the Articles of Association of Hannover Re.

The powers of the Executive Board with respect to the issue and repurchase of shares are defined in § 6 "Contingent capital" and § 7 "Authorised capital" of Hannover Re's Articles of Association as well as in §§ 71 et seq. Stock Corporation Act. In this connection the Annual General Meeting authorised the Executive Board on 12 May 2006 pursuant to § 71 Para. 1 No. 8

Stock Corporation Act to acquire treasury shares on certain conditions.

The following paragraphs explain major agreements concluded by the company that are subject to reservation in the event of a change of control following a takeover bid and describe the resulting effects.

The two syndicated guarantees extended to Hannover Re in the amount of USD 2 billion each as well as a syndicated line of credit in the amount of EUR 500 million contain standard market change-of-control clauses that entitle the participating banks to require early repayment if Talanx AG loses its majority interest or drops below the threshold of a 25 percent participation or if a third party acquires the majority interest in Hannover Rückversicherung AG.

In addition, the retrocession covers in life and health and non-life business known as the "K" and "L" transactions contain standard market change-of-control clauses which in each case grant the other contracting party a right of termination if a significant change occurs in the ownership structure and participation ratios of the affected contracting party.

The company has not concluded any compensation agreements with the members of the Executive Board or with employees in the event of a takeover bid being made.

Proposal for the distribution of profits

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

Figures in EUR	Proposal for the distribution of profits
Payment of a dividend of EUR 1.60 on each eligible no-par-value share	192,955,414.40
Profit carried forward to new account	8,044,585.60
Disposable profit	201,000,000.00

Other information

Joint administration arrangements exist between our company and our subsidiary E+S Rückversicherung AG and extend to all functions of the two companies.

Tax matters are largely handled on a central basis for the Group by Talanx AG.

Our investments are managed by Ampega-Gerling Asset Management GmbH and real estate matters are handled by AmpegaGerling Immobilien Management GmbH.

BALANCE SHEET
as at 31 December 2006

Figures in EUR thousand	2006				2005
Assets					
A. Intangible assets:					
Other intangible assets				24,544	16,934
B. Investments					
I. Land and buildings, rights to land and buildings, leasehold			6,297		63,253
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies		4,038,479			3,878,955
2. Loans to affiliated companies		653,885			708,299
3. Participating interests		83,077			84,521
4. Loans to enterprises in which the company has a participating interest		–			2,338
			4,775,441		4,674,113
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		1,488,935			1,219,312
2. Bearer debt securities and other fixed-income securities		5,947,418			5,403,928
3. Mortgages and loans secured on land and buildings		260			917
4. Other loans					
a) Registered debt securities	101,193				100,027
b) Debentures and loans	125,926				85,099
c) Sundry loans	35,113				72,013
		262,232			257,139
5. Deposits with banks		182,346			250,673
6. Other investments		33,467			19
			7,914,658		7,131,988
IV. Deposits with ceding companies			5,803,280		4,830,073
				18,499,676	16,699,427

Figures in EUR thousand		2006			2005
Liabilities					
A. Capital and reserves					
I. Subscribed capital			120,597		120,597
II. Capital reserve			880,608		880,608
III. Retained earnings					
1. Statutory reserve		511			511
2. Other retained earnings					
as at 1.1.	399,100				
Allocation	185,000				
as at 31.12.		584,100			399,100
			584,611		399,611
IV. Disposable profit			201,000		190,000
				1,786,816	1,590,816
B. Subordinated liabilities				500,000	500,000
C. Technical provisions					
I. Provision for unearned premiums					
1. Gross		852,890			1,010,755
2. Less: reinsurance ceded		188,570			277,628
			664,320		733,127
II. Life assurance provision					
1. Gross		5,213,848			4,097,825
2. Less: reinsurance ceded		1,777,473			973.058
			3,436,375		3,124,767
III. Provisions for outstanding claims					
1. Gross		11,094,785			11,943,165
2. Less: reinsurance ceded		2,280,968			3,436,241
			8,813,817		8,506,924
IV. Provision for bonuses and rebates					
1. Gross		931			966
2. Less: reinsurance ceded		569			557
			362		409
V. Equalisation reserve and similar provisions			1,715,624		1,570,250
VI. Other technical provisions					
1. Gross		130,224			125,586
2. Less: reinsurance ceded		22,443			18,911
			107,781		106,675
				14,738,279	14,042,152

Figures in EUR thousand	2006		2005
Assets			
C. Receivables			
I. Accounts receivable arising out of reinsurance operations	1,187,975		1,585,896
from affiliated companies:			
196,772 (2005: 295,291)			
II. Other receivables	267,593		196,963
from affiliated companies:		1,455,568	1,782,859
203,289 (2005: 111,542)			
D. Other assets			
I. Tangible assets and stocks	10,416		7,797
II. Current accounts with banks, cheques and cash in hand	91,482		112,103
		101,898	119,900
E. Prepayments and accrued income			
I. Accrued interest and rent	102,385		85,295
II. Other accrued income	2,058		1,945
		104,443	87,240
F. Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)		121,428	123,981
		20,307,557	18,830,341

Figures in EUR thousand		2006	2005
Liabilities			
D. Provisions for other risks and charges			
I. Provisions for pensions and similar obligations	34,525		32,176
II. Provisions for taxation	120,534		81,340
III. Other provisions	47,500		65,481
		202,559	178,997
E. Deposits received from retrocessionaires		2,353,591	1,834,946
F. Other liabilities			
I. Accounts payable arising out of reinsurance operations	676,398		422,574
to affiliated companies:			
243,990 (2005: 97,690)			
II. Miscellaneous liabilities	49,824		260,196
		726,222	682,770
thereof			
from taxes:			
1,689 (2005: 1,135)			
for social security:			
187 (2005: 993)			
to affiliated companies:			
30,115 (2005: 222,400)			
G. Accruals and deferred income		90	660
		20,307,557	18,830,341

PROFIT AND LOSS ACCOUNT
for the 2006 financial year

Figures in EUR thousand	2006			2005
	1.1.–31.12.			1.1.–31.12.
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross written premiums	7,644,587			6,340,396
b) Retrocession premiums	1,969,486			2,007,225
		5,675,101		4,333,171
c) Change in the gross provisions for unearned premiums (+/-)	84,329			(5,130)
d) Change in the provisions for unearned premiums, retrocessionaires' share (+/-)	(74,131)			55,724
		10,198		50,594
			5,685,299	4,383,765
2. Allocated investment return transferred from the non-technical account, net of retrocession			105,666	92,243
3. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	4,498,169			3,060,858
bb) Retrocessionaires' share	1,893,880			1,380,271
		2,604,289		1,680,587
b) Change in provisions for outstanding claims				
aa) Gross[1]	4,096			(2,044,767)
bb) Retrocessionaires' share[1]	(885,500)			893,010
		(881,404)		(1,151,757)
			3,485,693	2,832,344
4. Changes in other technical provisions, net of retrocession				
a) Net life assurance provision		(759,788)		(566,629)
b) Other net technical provisions		34		1,123
			(759,754)	(565,506)
5. Bonuses and rebates, net of retrocession			212	(27)
6. Operating expenses, net of retrocession				
a) Gross acquisition expenses		1,681,278		1,502,535
Less: commissions and profit commissions received on retrocession		285,664		331,501
			1,395,614	1,171,034
7. Other technical charges, net of retrocession			4,061	2,630
8. Subtotal			145,631	(95,479)
9. Change in the equalisation reserve and similar provisions			(145,374)	(228,261)
10. Net technical result			257	(323,740)

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

Figures in EUR thousand			2006		2005
			1.1.–31.12.		1.1.–31.12.
Balance brought forward				257	(323,740)
II. Non-technical account					
1. Investment income					
a) Income from participating interest			29,838		8,402
affiliated companies:					
27,733 (2005: 3,140)					
b) Income from other investments					
affiliated companies:					
41,863 (2005: 69,211)					
aa) Income from land and buildings, rights to land and buildings, leasehold	4,761				6,239
bb) Income from other investments	516,387				406,617
		521,148			412,856
c) Appreciation on investments		6,819			4,112
d) Gains on the realisation of investments		169,618			817,493
e) Income from profit pools, profit and loss transfer agreements or partial profit and loss transfer agreements		184,343			92,285
			911,766		1,335,148
2. Investment charges					
a) Investment management charges, including interest		32,761			19,454
b) Depreciation		55,848			388,751
extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB)					
4,270 (2005: 346,608)					
c) Losses on the realisation of investments		23,242			31,214
d) Expenses from loss transfer		50			–
			111,901		439,419
			799,865		895,729
3. Allocated investment return transferred to the technical account			(159,461)		(122,040)
				640,404	773,689
4. Other income			65,530		64,552
5. Other charges[1)]			447,507		138,381
				(381,977)	(73,829)
6. Profit or loss on ordinary activities before tax				258,684	376,120

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

Figures in EUR thousand	2006			2005
	1.1.–31.12.			1.1.–31.12.
Balance brought forward			258,684	376,120
7. Taxes on profit and income	61,404			4,853
plus allocation for group assessment	–			(3,722)
		61,404		1,131
8. Other taxes	1,280			391
plus allocation for group assessment	–			1
		1,280		392
			62,684	1,523
9. Profit or loss for the financial year			196,000	374,597
10. Profit brought forward from previous year			5,000	403
11. Allocation to retained earnings: to other retained earnings			–	185,000
12. Disposable profit			201,000	190,000

Valuation of assets

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

Other intangible assets were valued at acquisition cost less scheduled depreciation in accordance with the normal operational useful life.

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

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

Loans to affiliated companies and loans to enterprises in which the company has a participating interest were valued at nominal value less amortisation or at the lower fair value.

The portfolio of securities was allocated to fixed assets or current assets depending on the intended use and valued in accordance with the provisions of § 341 b of the Commercial Code (HGB).

Shares, units in unit trusts, and other variable-yield securities as well as bearer debt securities and other fixed-income securities were valued according to the strict or modified lower-of-cost-or-market principle depending on the intended use.

Derivative instruments were valued on a mark-to-market basis.

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

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

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

Fixed assets and stock were valued at purchase cost less straight-line or declining-balance depreciation. Low-value items were written off in the year of acquisition.

Valuation of liabilities

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

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

Where the provisions indicated by the ceding companies are not expected to be adequate, they have been increased by appropriate additional amounts. Where no information was available from cedants, the provisions were estimated in the light of the business experience to date. The results of new treaties were at least neutralised. In some cases, provisions have been determined on an actuarial basis. If necessary, additional or complete estimates of the corresponding portfolio or profit elements were carried out where ceding company accounts with substantial premium income were missing. Missing ceding company accounts with a low premium income were included in the following year. The estimated gross premium income is 18.55% of the total volume.

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

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

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

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

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

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

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

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

In our opinion, the provisions for taxation and other provisions take into account all identifiable risks and uncertain liabilities. In the case of tax expenditure which relates to the financial year or previous years under the provisions of tax law, but for which probable tax relief will arise in subsequent years, an item on the assets side was established in accordance with § 274 (2) of the Commercial Code (HBG). This relates to corporation tax based on an unchanged rate of taxation of 25%, the German reunification charge and trade earnings tax.

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

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

The other liabilities were valued at the amounts repayable.

Currency conversion

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

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

Miscellaneous

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

The declaration of conformity required pursuant to § 161 German Stock Corporation Act (AktG) regarding compliance with the German Corporate Covernance Code has been submitted and made available to the stockholders.

Notes on assets

Figures in EUR thousand	2005	2006					
Change in asset items A., B.I. to B.III.	Book values 31.12.	Additions	Reclassi-fication	Disposals	Write-ups	Depreciation	Book values 31.12.
A. Intangible assets							
Other intangible assets	16,934	10,412	–	–	(7)	2,795	24,544
B.I. Land and buildings, rights to land and buildings, leasehold	63,253	1,540	–	56,847	–	1,649	6,297
B.II. Investments in affiliated companies and participating interests							
1. Shares in affiliated companies	3,878,955	206,544	–	46,771	–	249	4,038,479
2. Loans to affiliated companies	708,299	12,635	–	66,647	–	402	653,885
3. Participating interests	84,521	318	–	1,505	–	257	83,077
4. Loans to enterprises in which the company has a participating interest	2,338	52	–	365	–	2,025	–
5. Total B.II.	4,674,113	219,549	–	115,288	–	2,933	4,775,441
B.III. Other financial investments							
1. Shares, units in unit trusts and other variable-yield securities	1,219,312	1,139,178	–	867,227	2,748	5,076	1,488,935
2. Bearer debt securities and other fixed-income securities	5,403,928	4,454,980	(12,130)	3,882,918	3,525	19,967	5,947,418
3. Mortgages and loans secured on land and buildings	917	–	–	657	–	–	260
4. Other loans							
a) Registered debt securities	100,027	26,839	–	25,673	–	–	101,193
b) Debentures and loans	85,099	40,827	–	–	–	–	125,926
c) Sundry loans	72,013	6,334	(21,287)	21,947	–	–	35,113
5. Deposits with banks	250,673	48,595	–	116,922	–	–	182,346
6. Other	19	45	33,417	14	–	–	33,467
7. Total B.III.	7,131,988	5,716,798	–	4,915,358	6,273	25,043	7,914,658
Sum total	11,886,288	5,948,299	–	5,087,493	6,266	32,420	12,720,940

Land and buildings and rights to land and buildings

On 31 December 2006 the company had at its disposal two developed properties with business and other buildings in Hannover and Bremen as well as one floor of offices in Madrid. The book value of the floor of offices in Madrid amounted to EUR 887 thousand as at 31 December 2006. In addition, the company had shares in land without buildings in Hannover. The book value of the buildings on Roderbruchstraße in Hannover totalled EUR 1,432 thousand as at 31 December 2006.

Shares in affiliated companies and participations

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

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

2006					
Name and registered office of the company Figures in currency units of 1,000	**Participation (in %)**	**Capital and reserves (§ 266 (3) Commercial Code)**		**Result for the last financial year**	
Shares in affiliated companies					
Companies resident in Germany					
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany	100.00	EUR	2,504,843	EUR	184,343
holds 55.78% of the shares in:					
E+S Rückversicherung AG, Hannover/Germany		EUR	490,681	EUR	70,400
holds 50.00% of the shares in:					
Hannover Life Re of Australasia Ltd, Sydney/Australia		AUD	165,095	AUD	23,715
GbR Hannover Rückversicherung AG/ E+S Rückversicherung AG Grundstücksgesellschaft, Hannover/Germany		EUR	60,655	EUR	968
holds 20.00% of the shares in:					
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany[1]		EUR	65,613	EUR	4,885
holds 100.00% of the shares in:					
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda		EUR	952,260	EUR	130,529
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland		EUR	525,351	EUR	64,438
holds 100.00% of the shares in:					
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland		EUR	164,125	EUR	11,023
Hannover Reinsurance (Dublin) Ltd., Dublin/Ireland		EUR	199,803	EUR	27,141
holds 95.00% of the shares in:					
Hannover ReTakaful B.S.C. (c) Manama/Bahrain		BHD	20,000	BHD	–

2006					
Name and registered office of the company Figures in currency units of 1,000	**Participation (in %)**	**Capital and reserves (§ 266 (3) Commercial Code)**		**Result for the last financial year**	
Zweite Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany	100.00	EUR	380,000	EUR	4
holds 100.00% of the shares in:					
Hannover Life Reassurance (Ireland) Limited, Dublin/Ireland		EUR	245,894	EUR	63,772
Hannover Life Reassurance Company of America, Orlando/USA		USD	111,396	USD	2,380
GbR Hannover Rückversicherung AG/ E+S Rückversicherung AG Grundstücksgesellschaft, Hannover/Germany	50.00	EUR	60,655	EUR	968
Oval Office Grundstücks GmbH Hannover/Germany	50.00	EUR	59,305	EUR	1,305
Companies resident abroad					
Hannover Finance (Luxembourg), S.A., Luxemburg/Luxembourg	100.00	EUR	82,934	EUR	(35,908)
Hannover Finance (UK) Limited, Virginia Water/United Kingdom	100.00	GBP	116,089	GBP	(10)
holds 100.00% of the shares in:					
Hannover Life Reassurance (UK) Limited, Virginia Water/United Kingdom		GBP	37,939	GBP	5,888
Hannover Services (UK) Ltd., Virginia Water/United Kingdom		GBP	796	GBP	74
International Insurance Company of Hannover Ltd., Bracknell/United Kingdom		GBP	79,009	GBP	(425)
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR	147,230	ZAR	24,275
holds 100.00% of the shares in:					
Hannover Life Reassurance Africa Limited, Johannesburg/South Africa		ZAR	108,177	ZAR	7,032
Hannover Reinsurance Africa Limited, Johannesburg/South Africa		ZAR	556,779	ZAR	87,332
holds 100.00% of the shares in:					
Compass Insurance Company Limited, Johannesburg/South Africa		ZAR	64,173	ZAR	3,349
holds 51.00% of the shares in:					
Lireas Holdings (Pty) Ltd., Johannesburg/South Africa		ZAR	55,420	ZAR	38,987
Hannover Re Real Estate Holdings, Inc., Orlando/USA	86.51	USD	232,259	USD	28,027

2006 Name and registered office of the company Figures in currency units of 1,000	Participation (in %)	Capital and reserves (§ 266 (3) Commercial Code)		Result for the last financial year	
Hannover Life Re of Australasia Ltd, Sydney/Australia	50.00	AUD	165,095	AUD	23,715
Hannover Finance, Inc., Wilmington/USA	100.00	USD	679,170	USD	(72,573)
holds 100.00% of the shares in:					
Clarendon Insurance Group, Inc., Wilmington/USA		USD	380,827	USD	(79,140)
holds 100.00% of the shares in:					
Clarendon National Insurance Company, Trenton/USA		USD	377,393	USD	(79,140)
holds 100.00% of the shares in:					
Clarendon America Insurance Company, Trenton/USA		USD	174,427	USD	(18,644)
Clarendon Select Insurance Company, Tallahassee/USA		USD	25,430	USD	(1,710)
Harbor Specialty Insurance Company, Trenton/USA		USD	30,525	USD	(99)
holds 100.00% of the shares in:					
Praetorian Financial Group, Inc. Wilmington/USA		USD	503,054	USD	6,649
holds 100.00% of the shares in:					
Redland Insurance Company, Council Bluffs/USA		USD	45,621	USD	8,811
Praetorian Insurance Company, Itasca/USA		USD	457,192	USD	70,679
Kaith Re Ltd., Hamilton/Bermuda	88.00	USD	719	USD	(280)
Participations					
ITAS Vita S.p.A., Trento/Italy	34.88	EUR	64,886	EUR	1,764
ITAS Assicurazioni S.p.A., Trento/Italy	43.74	EUR	57,821	EUR	2,546
HANNOVER Finanz GmbH, Beteiligungen und Kapitalanlagen, Hannover/Germany[1)]	25.00	EUR	73,967	EUR	4,147
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany[1)]	20.00	EUR	65,613	EUR	4,885

[1)] *Financial year ending 31 December 2005*

Other notes on investments

Assets with a balance sheet value of EUR 3,192,527 (2005: 3,782,509) thousand were blocked as security for ceding companies. Security deposits were sometimes made available to banks for security loan transactions in favour of third parties. A guarantee fund of EUR 412 thousand has been established to secure commitments under partial retirement arrangements.

Fair values pursuant to § 54 RechVersV

The fair values of land and buildings for 2006 were determined using the gross rental method. In individual cases book values were used.

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

Shares, units in unit trusts, bearer debt securities and other securities were valued at market value. In the case of special investments for which no stock exchange price was available, valuation was made at cost of acquisition or net asset value (NAV).

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

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

Figures in EUR thousand	2006		
Fair values pursuant to § 54 RechVersV of asset items B.I. bis B.III.	Book value 31.12.	Fair value 31.12.	Difference 31.12.
B.I. Land and buildings, rights to land and buildings, leasehold	6,297	8,936	2,639
B.II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	4,038,479	4,679,901	641,422
2. Loans to affiliated companies	653,885	653,885	–
3. Participating interests	83,077	99,140	16,063
4. Loans to enterprises in which the company has a participating interest	–	–	–
5. Total B.II.	4,775,441	5,432,926	657,485
B.III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	1,488,935	1,694,426	205,491
2. Bearer debt securities and other fixed-income securities	5,947,418	5,935,843	(11,575)
3. Mortgages and loans secured on land and buildings	260	260	–
4. Other loans			
a) Registered debt securities	101,193	100,965	(228)
b) Debentures and loans	125,926	126,210	284
c) Sundry loans	35,113	37,016	1,903
5. Deposits with banks	182,346	182,346	–
6. Other investments	33,467	38,487	5,020
7. Total B.III.	7,914,658	8,115,553	200,895
Total	12,696,396	13,557,415	861,019

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

Of the units in unit trusts totalling EUR 1,254,510 (2005: 1,103,312) thousand shown under the "Other investments" in the item "Shares, units in unit trusts and other variable-yield securities", an amount of EUR 716,882 (664,985) thousand was allocated to fixed assets. The fair value amounts to EUR 868,240 (788,850) thousand. Based on the assumption that the impairments will not be permanent, write-downs of EUR 2,441 (4,191) thousand were not taken.

Of the bearer debt securities and other fixed-income securities, securities with a book value of EUR 2,556,161 (542,642) thousand and a fair value of EUR 2,526,162 (520,497) thousand were allocated to fixed assets. Write-downs of EUR 34,903 (24,366) thousand were not taken since a permanent impairment is not anticipated.

Special investments in private equity funds and asset pools held long term for which no market price was available were valued at acquisition cost or net asset value (NAV). Temporary impairments were disregarded to the extent that a full return flow of funds is anticipated within the aggregate term.

As at 31 December 2006 the portfolio contained 538 short calls on the S&P 500 share index. The underlying volume of these contracts amounted to EUR 57,143 thousand. These derivative financial instruments were recognised under other liabilities and valued at an acquisition cost of altogether EUR 3,180 thousand in accordance with the inequality principle. The fair value of this item on the balance sheet date stood at EUR 3,137 thousand.

Of the total fees paid to the auditor, EUR 769 (709) thousand related to the audit of the financial statements, EUR 267 (196) thousand to tax consulting and EUR 83 (117) thousand to other services.

Other receivables

Figures in EUR thousand	2006	2005
Receivables from affiliated companies	203,289	111,542
Receivables from the revenue authorities	29,736	25,429
Receivables from reinsured pension schemes	26,981	24,777
Claims from settlement of the purchase price of a participation	4,321	26,419
Receivables from representative offices	1,016	584
Interest and rent due	517	286
Advance payments on acquisition of participations	–	6,224
Other receivables	1,733	1,702
Total	267,593	196,963

Treasury shares

By a resolution of the Annual General Meeting of Hannover Rückversicherung AG adopted on 12 May 2006, the company was authorised until 31 October 2007 to acquire treasury shares of up to 10% of the capital stock existing on the date of the resolution. The company did not hold fully paid, no-par-value treasury shares within the financial year just-ended or as at 31 December 2006.

Accruals and deferred income

Figures in EUR thousand	2006	2005
Accrued interest and rent	102,385	85,295
Accrued administrative expenses	1,545	1,744
Deferred premium on bonds	278	58
Other	235	143
Total	104,443	87,240

Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)

A deferred item was established in the financial year for the probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB) in the amount of EUR 121,428 (123,981) thousand. Of this amount, EUR 64,864 (EUR 66,228) thousand was attributable to corporation tax including the German reunification charge and EUR 56,564 (57,753) thousand to trade tax.

Notes on liabilities

Subscribed capital

The company's subscribed capital remained unchanged as at 31 December 2006 in the amount of EUR 120,597 thousand. It is divided into 120,597,134 no-par-value registered shares.

Authorised capital of up to EUR 60,299 thousand is available with a time limit of 31 May 2009. Of this amount, up to EUR 1,000 thousand may be used to issue employee shares.

In addition, contingent capital of 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 convert participating bonds or profit-sharing rights. This contingent capital has a term until 11 May 2011.

Capital reserve

The company's capital reserve remained unchanged as at 31 December 2006 in the amount of EUR 880,608 thousand.

Retained earnings

An amount of EUR 185,000 thousand was allocated to retained earnings from the profit for the financial year.

Subordinated liabilities

Under a loan agreement dated 7 June 2005 Hannover Finance (Luxembourg) S.A. granted Hannover Re a junior loan of EUR 500,000 thousand in 2005 at an interest rate of 5.11% and with a term until 27 May 2015.

Provision for unearned premiums

Figures in EUR thousand	2006		2005	
Insurance line	gross	net	gross	net
Fire	143,787	105,666	195,461	118,201
Casualty	236,297	201,092	297,367	233,604
Accident[1]	11,850	9,776	11,310	9,021
Motor[1]	93,199	77,154	108,022	71,442
Aviation	126,085	99,664	147,894	117,774
Life	59,938	40,124	57,936	48,436
Other lines	181,734	130,844	192,765	134,649
Total	852,890	664,320	1,010,755	733,127

Life assurance provisions

Figures in EUR thousand	2006		2005	
Insurance line	gross	net	gross	net
Accident[1]	1,802	1,767	1,025	997
Life	5,181,635	3,407,983	4,062,644	3,093,798
Other lines	30,411	26,625	34,156	29,972
Total	5,213,848	3,436,375	4,097,825	3,124,767

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

Provisions for outstanding claims

Figures in EUR thousand	2006		2005	
Insurance line	gross	net	gross	net
Outstanding loss reserve				
Fire	1,309,537	1,098,334	1,382,201	862,730
Casualty	4,089,453	3,232,175	4,301,636	3,406,062
Accident[1]	134,539	112,360	115,720	91,032
Motor[1]	1,581,778	1,331,419	1,529,244	1,295,091
Aviation	866,402	591,766	906,171	585,159
Marine	965,249	705,211	992,429	617,703
Life	585,077	475,065	562,683	505,722
Other lines	1,550,323	1,211,246	2,146,680	1,137,372
	11,082,358	8,757,576	11,936,764	8,500,871
Separate value adjustment on retrocessions	–	44,301	–	–
	11,082,358	8,801,877	11,936,764	8,500,871
Provision for annuities				
Casualty	855	771	661	599
Accident[1]	3,042	3,032	1,441	1,439
Motor[1]	8,530	8,137	4,299	4,015
	12,427	11,940	6,401	6,053
Total	11,094,785	8,813,817	11,943,165	8,506,924

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

Equalisation reserve and similar provisions

Figures in EUR thousand	2006			
Insurance line	Position at 1.1.	Addition	Withdrawal and release	Position at 31.12.
Equalisation reserve				
Fire	122,619	40,278	–	162,897
Casualty	456,238	74,747	–	530,985
Accident [1]	55,848	11,823	–	67,671
Motor [1]	184,415	38,078	–	222,493
Aviation	204,938	17,918	17,913	204,943
Other lines	446,821	127,658	157,726	416,753
	1,470,879	310,502	175,639	1,605,742
Provisions which are similar to the equalisation reserve – major risks –				
Fire	47,494	9,222	–	56,716
Casualty	11,814	3,397	–	15,211
Accident [1]	230	84	–	314
Motor [1]	67	20	41	46
Aviation	99	–	99	–
Marine	2,543	1,882	–	4,425
Other lines	37,124	808	4,762	33,170
Total	1,570,250	325,915	180,541	1,715,624

Other technical provisions

Figures in EUR thousand	2006		2005	
Type of provisions	gross	net	gross	net
Profit commission	128,525	106,449	122,575	103,231
Commission	1,692	1,325	2,964	3,411
Road accident victims' assistance	7	7	–	–
Premium cancellation	–	–	47	33
Total	130,224	107,781	125,586	106,675

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

Technical provisions – total

Figures in EUR thousand	2006		2005	
Insurance line	gross	net	gross	net
Fire	1,691,611	1,438,781	1,779,809	1,179,769
Casualty	4,941,860	4,037,056	5,124,447	4,155,404
Accident [1]	219,599	195,256	185,658	158,630
Motor [1]	1,913,280	1,645,174	1,834,700	1,562,403
Aviation	1,204,312	901,310	1,265,888	913,022
Marine	975,848	714,600	1,000,351	624,571
Life	5,829,201	3,925,288	4,687,868	3,651,704
Other lines	2,232,591	1,836,513	2,869,826	1,796,649
	19,008,302	14,693,978	18,748,547	14,042,152
Separate value adjustment on retrocessions	–	44,301	–	–
Total	19,008,302	14,738,279	18,748,547	14,042,152

Provisions for other risks and charges

Figures in EUR thousand	2006	2005
Provisions for pension and similar liabilities	34,525	32,176
Provision for taxation	120,534	81,340
Sundry provisions		
Provisions for interest and similar charges	12,875	11,400
Provisions for outstanding payments	10,962	8,152
Provisions for currency risks	8,080	29,037
Provisions for partial retirement	2,768	1,363
Provisions for annual accounts costs	2,511	2,498
Provision for suppliers' invoices	742	2,115
Provisions for ligitation risks	297	297
Provisions for costs of legal action	215	175
Other provisions	9,050	10,444
	47,500	65,481
Total	202,559	178,997

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

Miscellaneous liabilities

Figures in EUR thousand	2006	2005
Accounts due to affiliated companies	30,115	222,400
Liabilities in respect of permanent establishments	10,406	189
Liabilitries from option premiums	3,182	–
Liabilities from deliveries and services	2,426	1,890
Liabilities in respect of the revenue authorities	1,689	1,135
Liabilities from interest and LOC	1,526	1,951
Liabilities from outstanding social security contributions	187	993
Liabilities from misdirected payments	–	29,579
Liabilities from securities transactions	–	1,812
Liabilities under lease agreements	–	78
Other liabilities	293	169
Total	49,824	260,196

Deferred items

Figures in EUR thousand	2006	2005
Long-term tenancy rights	–	558
Disagio	52	13
Other accruals and deferred income	38	89
Total	90	660

Contingent liabilities

We have secured through guarantees a surplus note in the amount of USD 400.0 million issued in 1999 with a term of 40 years by our subsidiary Hannover Finance, Inc., Wilmington/USA. In previous years we bought back an amount of USD 380.0 million, leaving USD 20.0 million still secured by the guarantees.

We have also secured through guarantees a debt issued in 2001 by our subsidiary Hannover Finance (Luxembourg) S.A., the volume of which now stands at EUR 138.1 million, a debt issued in 2004 in the amount of EUR 750.0 million and a debt issued in 2005 in the amount of EUR 500.0 million.

As part of the sale of the participation held in Willy Vogel AG through Willy Vogel Beteiligungsgesellschaft mbH in 2004, we provided a joint and several guarantee with the other partners for a total amount of EUR 7.1 million as security to cover possible guarantee claims.

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. The estimated amount of the reinsurance commitments as at the balance sheet date was EUR 33.4 million. The increase compared to the previous figure resulted from the almost 50 percent rise in the three-month EURIBOR in 2006.

Liabilities for remaining calls existed with respect to shares in affiliated companies and special investments in a total amount of EUR 155.0 (233.4) million.

We also provided security for letters of credit furnished by banks for subsidiaries.

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 USD 2,951.0 million (EUR 2,238.8 million). The securities held in the master trust are shown as available-for-sale investments.

Notes on the profit and loss account

Figures in EUR thousand	2006	2005	2006	2005	2006	2005	2006	2005
	Gross written premium		Gross premium earned		Net premium earned		Technical result for own account	
Fire	820,177	893,536	856,548	879,848	624,330	566,666	(5,049)	(40,064)
Casualty [1]	1,062,137	1,095,488	1,098,392	1,139,680	911,040	919,148	(54,083)	(80,935)
Accident [2]	137,294	118,582	136,556	117,583	115,925	83,332	1,462	10,264
Motor [1][2]	611,880	623,402	620,374	605,222	493,832	458,740	(51,589)	(81,688)
Aviation	385,912	429,804	394,525	434,241	251,913	289,667	74,274	53,873
Marine	424,822	368,116	424,822	368,116	203,105	256,137	(170,873)	(68,358)
Other lines	1,866,631	1,169,225	1,866,033	1,154,016	1,373,867	776,845	131,594	(126,170)
Total property and casualty	5,308,853	4,698,153	5,397,250	4,698,706	3,974,012	3,350,535	(74,264)	(333,078)
Life	2,335,734	1,642,243	2,331,666	1,636,560	1,711,287	1,033,230	74,521	9,338
Total insurance business [1]	7,644,587	6,340,396	7,728,916	6,335,266	5,685,299	4,383,765	257	(323,740)

[1] *From the 2006 financial year onwards the option of including special allocations to the provisions for outstanding claims in the non-technical account rather than the technical account will no longer be exercised. The figures for the 2005 financial year have been adjusted accordingly for the sake of improved comparability.*
[2] *From the 2006 financial year onwards the motor accident line is included under accident rather than motor. The figure for the previous year has not been adjusted.*

Total insurance business

Figures in EUR thousand	2006	2005
Gross claims incurred [1]	4,494,073	5,105,625
Gross operating expenses	1,681,278	1,502,535
Reinsurance balance [1]	749,573	(653,281)

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

Expenses for personnel

Figures in EUR thousand	2006	2005
1. Wages and salaries	41,493	36,653
2. Social security payments and expenses for welfare	6,261	6,169
3. Expenses for old-age pension scheme	1,396	1,453
4. Total expenses	49,150	44,275

Expenses for investments

Figures in EUR thousand	2006	2005
Fixed-income securities	33,415	47,474
Deposits	26,223	123
Separate value adjustment on interest receivable	15,227	–
Administrative expenses	13,249	15,008
Shares, units in unit trusts, participating interests	8,348	17,584
Deposit and bank fees	4,285	1,790
Futures and options contracts	4,101	7,173
Land and buildings	4,070	5,052
Loss transfer	50	–
Registered bonds and other loans	–	1,660
Shares in affiliated companies and participations as well as loans to affiliated companies and enterprises in which the company has a participating interest	2,933	343,555
Total	111,901	439,419

Other income

Figures in EUR thousand	2006	2005
Income from contracts with limited risk	20,891	–
Exchange rate gains	18,916	22,936
Cancellation of value adjustments	11,923	19,313
Profit from services	6,054	5,892
Allocated investment return	3,283	4,235
Release of non-technical provisions	2,359	1,235
Profit from clearing transactions	550	2,026
Reimbursement of expenses	396	1,504
Amounts realised	30	3
Income from winding up of a trust account	–	5,072
Payment for renewal rights	–	997
Other income	1,128	1,339
Total	65,530	64,552

Other expenses

Figures in EUR thousand	2006	2005
Expenses from contracts with limited risk	247,973	–
Deposit interest	69,219	59,691
Separate value adjustment on accounts receivable and retrocessions	68,478	17,842
Exchange rate losses	29,473	25,691
Financing interest	26,226	14,995
Separate value adjustment on other receivables	24,678	–
Expenses for the whole company	17,605	15,772
Expenses from services	6,047	5,882
Expenses for letters of credit	5,851	6,620
Interest charges on old-age pension scheme	1,942	1,779
Allocation to interest provisions	1,475	1,532
Interest charges from reinsurance transactions	393	759
Financing charges	–	14,663
Other interest and expenses	1,942	2,952
	501,302	168,178
Less: Technical interest	53,795	29,797
Total	447,507	138,381

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

Remuneration report

The remuneration report summarises the principles used to determine the remuneration of the Executive Board of Hannover Rückversicherung AG and explains the structure and amount of the income received by the Executive Board in the 2006 financial year. In addition, the amount of the remuneration paid to the Supervisory Board and the principles according to which this remuneration is determined are explained.

The remuneration report is based on the recommendations of the German Corporate Governance Code and contains information which forms part of the notes pursuant to § 285 of the Commercial Code (HGB). Consequently, we have not provided any further explanation of the information discussed in the remuneration report in the management report.

Remuneration of the Executive Board

Responsibility

The Supervisory Board has delegated responsibility for determination of the structure and amount of the remuneration paid to Hannover Re's Executive Board to the Standing Committee.

Objective

The purpose of the remuneration system for the Executive Board is to appropriately recompense the members of the Executive Board according to their scope of activity and responsibility. In this context, a large variable portion of the total remuneration makes direct allowance for the joint and individual performance of the Executive Board as well as for the performance of the company.

Structure of the remuneration received by the Executive Board

With this objective in mind, the remuneration system consists of three components: fixed emoluments, a variable bonus as well as a share-based remuneration component based on a virtual stock option plan with a long-term incentive effect and risk elements.

The fixed emoluments, paid in twelve monthly instalments, are guided by the professional experience and area of responsibility of the Board member in question.

The variable bonus is cash compensation measured by the performance in the financial year; half is based on the individual Board member's profit contribution and half on the net income generated by the Group as a whole.

The members of the Executive Board are entitled to receive stock appreciation rights under the virtual stock option plan implemented in 2000 for certain members of the Group's management.

The content of the stock option plan is based solely on the Conditions for the Granting of Stock Appreciation Rights. Under these conditions, stock appreciation rights are awarded separately for each financial year provided the internal and external performance criteria defined in advance by the Supervisory Board are met.

The internal performance criterion is satisfied upon achievement of the calculated target diluted earnings per share. The external performance criterion is the increase in the value of the Hannover Re share. The benchmark used to measure this increase in value is the weighted ABN Amro Rothschild Global Reinsurance Index. The benchmarks cannot be retrospectively altered.

Exercise of the stock appreciation rights does not give rise to any entitlement to the delivery of Hannover Re stock, but merely to payment of a cash amount linked to the performance of the Hannover Re share. The amount paid out is limited to a maximum calculated as a quotient of the total volume of compensation to be granted in the allocation year and the total number of stock appreciation rights awarded in the year in question.

Amount of remuneration received by the Executive Board

The total remuneration received by the Executive Board of Hannover Re is calculated from the sum of all compensation accruing in cash as well as in pecuniary advantages from non-cash compensation. It can be broken down as follows in the year under review:

Total remuneration received by the Executive Board

Figures in EUR thousand	2006	2005
Compensation in cash		
Fixed emoluments	1,210.2	1,102.5
Variable bonuses for the previous year	1,022.6	1,232.1
Remuneration from Group companies netted with the bonus	93.8	74.1
Stock participation rights exercised	729.0	541.3
	3,055.6	2,950.0
Taxable amount from non-cash compensation	57.3	62.0
Total	3,112.9	3,012.0

In the 2006 financial year no stock appreciation rights were granted for the 2005 allocation year since the internal performance criterion was not met; stock appreciation rights granted in previous years were exercised in an amount of EUR 0.7 million (EUR 0.5 million).

As at 31 December 2006 the members of the Executive Board had at their disposal a total of 121,012 (210,315) granted, but not yet exercised stock appreciation rights with a fair value of EUR 1.0 million (EUR 1.3 million).

The Annual General Meeting of Hannover Rückversicherung AG held on 12 May 2006 resolved by a voting majority of 85.5 % to avail itself of the option contained in the Act on the Disclosure of Management Remuneration (VorstOG) not to specify the remuneration of the Executive Board on an individualised basis by name.

Retirement provision

The pension agreements of the members of the Executive Board with Hannover Re contain commitments to an annual retirement pension calculated as a percentage of the fixed annual emoluments. There were seven individual commitments to the active Board members in the year under review. An amount of EUR 0.7 million was allocated to the provision for pensions in the year under review, which stood at EUR 4.8 million as at 31 December 2006.

The remuneration paid to former members of the Executive Board and their surviving dependants totalled EUR 0.5 million in the year under review. Altogether, an amount of EUR 6.0 million has been set aside for these commitments.

Sideline activities of the members of the Executive Board

The members of the Executive Board require the approval of the Supervisory Board to take on sideline activities. This ensures that neither the remuneration granted nor the time required for this activity can create a conflict with their responsibilities on the Executive Board. If the sideline activities involve seats on supervisory boards or comparable control boards, these are listed and published in the Annual Report of Hannover Rückversicherung AG. The remuneration received for supervisory board seats at Group companies is deducted when calculating the variable bonus and shown separately in the above table.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is determined by the Annual General Meeting of Hannover Rückversicherung AG and regulated by the Articles of Association.

From the 2005 financial year onwards, in accordance with § 12 of the Articles of Association, the members of the Supervisory Board receive fixed annual remuneration of EUR 10,000 per member in addition to reimbursement of their expenses. Furthermore, each member of the Supervisory Board receives variable remuneration of 0.03‰ of the operating profit (EBIT) reported by the company in the consolidated financial statement drawn up in accordance with International Financial Reporting Standards (IFRS). Variable remuneration is not paid if the EBIT is negative.

In addition, the members of the Balance Sheet Committee formed by the Supervisory Board receive an emolument of 30% of the previously described fixed and variable remuneration for their committee work. The members of the Standing Committee formed by the Supervisory Board receive an additional emolument of 15% of the previously described fixed and variable remuneration for their committee work.

The Chairman of the Supervisory Board or of a Committee receives three times the aforementioned amounts, while a Deputy Chairman receives one-and-a-half times the said amounts.

The remuneration for a financial year is due upon completion of the Annual General Meeting that ratifies the acts of the Supervisory Board for the financial year in question. Transaction tax payable upon the remuneration is reimbursed by the company.

Individual remuneration received by the members of the Supervisory Board in the year under review for the 2005 financial year

Figures in EUR thousand		2006
Name	**Function**	
Wolf-Dieter Baumgartl	Chairman of the – Supervisory Board – Standing Committee – Balance Sheet Committee	62.9
Dr. Paul Wieandt	Deputy Chairman of the Supervisory Board Member of the Balance Sheet Committee	29.1
Herbert K. Haas	Member of the – Supervisory Board – Standing Committee – Balance Sheet Committee	23.3
Karl Heinz Midunsky	Member of the Supervisory Board	15.2
Ass. jur. Otto Müller*	Member of the Supervisory Board	15.7
Dr. Immo Querner	Member of the Supervisory Board (since 27 June 2006)	0.5
Ass. jur. Renate Schaper-Stewart*	Member of the Supervisory Board	15.7
Dipl.-Ing. Hans-Günter Siegerist*	Member of the Supervisory Board	15.7
Dr. Klaus Sturany	Member of the – Supervisory Board – Standing Committee	17.2
Bodo Uebber	Member of the Supervisory Board (until 12 May 2006)	14.2
Total		209.5

* *Employee representatives*

All the members of the Supervisory Board receive an attendance allowance of EUR 500 for their participation in each meeting of the Supervisory Board and the Committees. These fees are included in the reported remuneration.

In the year under review no payments or benefits were granted to members of the Supervisory Board in return for services provided individually outside the committee work described above, including for example consulting or mediation services, with the exception of the remuneration paid to employee representatives on the basis of their employment contracts.

Loans to members of the management boards and contingent liabilities

In order to avoid potential conflicts of interest, Hannover Rückversicherung AG may only grant loans to members of the Executive Board or the Supervisory Board or their dependants with the approval of the Supervisory Board.

In 2006 no loan relationships existed with members of Hannover Re's Executive Board or Supervisory Board, nor did the company enter into any contingent liabilities for members of the management boards.

Securities transactions and shareholdings (directors' dealings)

Dealings in shares, options and derivatives of Hannover Rückversicherung AG effected by members of the Executive Board or Supervisory Board of Hannover Re or by other persons with managerial functions who regularly have access to insider information concerning the company and who are authorised to take major business decisions – as well as such dealings conducted by certain persons closely related to the aforementioned individuals – in excess of EUR 5,000 are to be reported pursuant to § 15a Securities Trading Act (WphG). No reportable transactions took place in the 2006 financial year.

Members of the Supervisory Board and Executive Board of Hannover Rückversicherung AG as well as their spouses or registered partners and first-degree relatives hold less than 1.0% of the issued shares. As at 31 December 2006 the total holding amounted to 0.024% of the issued shares, i.e. 29,110 shares.

Other information

The names of the members of the Supervisory Board and Executive Board are listed on pages 1 to 6.

The average number of employees was 642 in the financial year.

Talanx AG, Hannover, a wholly-owned subsidiary of HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover, includes our financial statements in its consolidated financial statements. The consolidated financial statements are deposited with the electronic company register.

Talanx AG holds a majority interest in our company directly and indirectly via HDI Verwaltungs-Service AG, Hannover, and Zweite HDI Beteiligungsgesellschaft mbH, Hannover

Events after the balance sheet date

At the beginning of the current year we increased our securitisation of reinsurance risks on the capital market by a further USD 106 million to USD 520 million. The transaction was effected through Kaith Re Ltd., which is registered in Bermuda as a segregated account company.

Winter storm "Kyrill", which caused extensive damage across Europe in January 2007, will probably produce a strain in the upper double-digit millions of euros for our account.
Hannover, 12 March 2007

Executive Board

Zeller Arrago Dr. Becke

Gräber Dr. König Dr. Pickel Wallin

AUDITORS' Report

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of the Hannover Rückversicherung AG, Hannover, for the business year from 1 January to 31 December 2006. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Hannover, 12 March 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Dahl	Schuster
Wirtschaftsprüfer	Wirtschaftsprüfer

REPORT OF THE SUPERVISORY BOARD
of Hannover Rückversicherung AG

In our function as the Supervisory Board we considered at length during the 2006 financial year – as in previous years – the position and development of the company. We advised the Executive Board on the direction of the company and monitored the management of business on the basis of written and verbal reports from the Executive Board. The Supervisory Board held four meetings in order to adopt the necessary resolutions after appropriate discussion. Resolutions were adopted by a written procedure with respect to five matters requiring attention at short notice. The Standing Committee and the Balance Sheet Committee, both committees formed by the Supervisory Board within the meaning of § 107 Para. 3 of the Stock Corporation Act (AktG), each met on two occasions. The Chairman of the Supervisory Board updated the full Supervisory Board on the Committees' major deliberations at its next meeting. Furthermore, we received quarterly written reports from the Executive Board on the course of business pursuant to § 90 of the Stock Corporation Act (AktG). These reports contain, inter alia, up-to-date details of the current planned and expected figures for the individual business groups. The reporting also covers strains from major losses as well as the investment portfolio, investment income, ratings and the development in the Group's global workforce. The quarterly reports with the quarterly financial statements and key figures for the Hannover Re Group constitute a further important source of information for the Supervisory Board. In addition, the Chairman of the Supervisory Board was constantly advised of major developments and impending decisions by the Chairman of the Executive Board. All in all, we were involved in decisions taken by the Executive Board as required by our statutory responsibilities and those placed upon us by the company's Articles of Association.

The Executive Board explained to us the profit expected for the 2006 financial year as well as the operational planning for the 2007 financial year.

As part of its discussion of important individual projects the Supervisory Board considered, inter alia, the sale of the US subsidiary Praetorian Financial Group, Inc., Wilmington, Delaware, for a price of USD 800 million. Following disposal of this company, in which our US specialty insurance is concentrated, Hannover Re will focus exclusively on its core business of reinsurance going forward. Another development of special significance was the establishment of a Sharia-compliant reinsurance company (Hannover ReTakaful B.S.C.) in Bahrain. This move was prompted by the fact that the market for such reinsurance products in predominantly Islamic countries is enjoying rapid and sustained growth.

The Supervisory Board also paid close attention to the development of the Group's other major subsidiaries and participations. The Supervisory Board approved capital increases of USD 200 million and EUR 100 million at Hannover Finance, Inc. (HFI) Wilmington, Delaware, and Hannover Finance (Luxembourg) S.A., Luxembourg, respectively. Both these capital measures were necessary in order to enable the companies to continue to exercise their financing functions within the Hannover Re Group and thereby safeguard the Group's further growth.

Against the backdrop of the severe strains incurred from various hurricanes in the southeastern United States and the Caribbean in 2004 and 2005, the Supervisory Board examined the attractiveness of natural catastrophe business in the context of a specialist analysis and informed itself of measures taken to improve accumulation and aggregate control and to reduce US windstorm exposure. In this connection the findings of a special audit of the accumulation assessment systems conducted by the Executive Board with external support were also discussed in detail. The explanation provided by the Executive Board of the retrocession structure in property and casualty reinsurance also formed part of the discussion of this issue.

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

The Supervisory Board again devoted close attention to the issue of Corporate Governance. A further review of the efficiency of the work performed by the Supervisory Board was set in motion, the results of which are to be discussed by the Supervisory Board in early 2007. The considerable importance attached to the standards of good and responsible enterprise management set out in the Corporate Governance Code is also evident from the Declaration of Conformity given by the Executive Board and Supervisory Board pursuant to § 161 Stock Corporation Act regarding compliance with the German Corporate Governance Code. The company is in compliance with all recommendations of the Code. The reader is further referred to the Corporate Governance report printed in the annual report of the Hannover Re Group and the company's publications in the Internet.

The new information included as a consequence of the Takeover Directive Implementation Act in the management reports of the parent company Hannover Re and the Hannover Re Group in accordance with § 289 Para. 4 and § 315 Para. 4 Commercial Code is to be explained by the Supervisory Board pursuant to § 171 Para. 2 Sentence 2 Stock Corporation Act. With respect to all these additional reporting items, including for example the composition of the common shares and of the direct or indirect participating interests which are relevant to this legal context, there have been no changes compared to the previous year. There is no restriction or control of voting rights. The appointment and withdrawal of members of the Executive Board and the amendment of the Articles of Association are guided by the provisions of stock corporation law and specified in detail in the Articles of Association. The conditions under which the Executive Board is empowered to issue or buy back shares of the company are also set out in the Articles of Association. The major agreements entered into by the company that are subject to reservation in the event of a change of control are described in the management report.

The accounting, annual financial statements and management report were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG DTG), Hannover. The Supervisory Board selected the auditor for the 2006 audit and the Chairman of the Supervisory Board awarded the concrete audit mandate. In addition to the usual audit tasks, the audit focused particularly on an examination of the internal control system for the avoidance of fraudulent acts as well as of the compensation paid internally within the Group across countries (transfer pricing with a special eye to the "Ordinance on records regarding income allocation" ["Gewinnaufzeichungsverordnung"]. A special focus in the context of the consolidated financial statements to be drawn up by Hannover Re in accordance with International Financial Reporting Standards (IFRS) was the examination of the appropriateness of the procedures and documentation used to show an adequate risk transfer under reinsurance contracts. Collaboration with the auditors took place on a trusting and cooperative basis. The special challenges associated with the international aspects of the audit were met without reservation. Since the audit did not give rise to any objections KPMG DTG issued an unqualified audit certificate. The Balance Sheet Committee discussed the annual financial statements and the management report at a meeting attended by the auditors. The auditors' report was distributed to all members of the Supervisory Board and scrutinised in detail – with the participation of the auditors – at the Supervisory Board meeting held to consider the annual results. The auditors were present at the Annual General Meeting.

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

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

1. its factual details are correct;

2. in the case of the transactions detailed in the report, the expenditure of the company was not unreasonably high and any possible disadvantages were offset."

We have examined

a) the annual financial statements of the company and the management report prepared by the Executive Board,

b) the consolidated financial statements of the Hannover Re Group and the Group management report prepared by the Executive Board and

c) the report of the Executive Board pursuant to of § 312 Stock Corporation Act (Report on relations with affiliated companies)

– in each case drawn up as at 31 December 2006 and awarded the auditors' unqualified audit certificate – and have no objections. The Supervisory Board has thus approved the annual financial statements and the consolidated financial statements; the annual financial statements are thereby adopted. We concur with the Executive Board's proposal regarding the appropriation of the disposable profit for 2006.

With effect from the end of the Annual General Meeting on 12 May 2006 Mr. Bodo Uebber resigned his seat on the Supervisory Board as a representative of the shareholders. The Supervisory Board thanked Mr. Uebber for his constructive work and praised his contribution to the company's development. At the request of the Executive Board, Hannover County Court – which has jurisdiction in this matter – appointed Dr. Immo Querner as a member of the company's Supervisory Board with effect from 27 June 2006 in accordance with § 104 Stock Corporation Act.

Hannover, 13 March 2007

For the Supervisory Board

Wolf-Dieter Baumgartl
Chairman

Declaration of conformity pursuant to § 161 Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code at Hannover Rückversicherung AG

The German Corporate Governance Code sets out major statutory requirements governing the management and supervision of German listed companies. It contains both nationally and internationally recognised standards of good and responsible enterprise management. The purpose of the Code is to foster the trust of investors, clients, employees and the general public in German enterprise management. Under § 161 Stock Corporation Act (AktG) it is incumbent on the Management Board and Supervisory Board of German listed companies to provide an annual declaration of conformity with the recommendations of the "German Corporate Governance Code Government Commission" published by the Federal Ministry of Justice or to explain which recommendations of the Code were/are not applied. Implementation of the recommendations by Hannover Rückversicherung AG does not diverge from the German Corporate Governance Code (amended version of 12 June 2006) in any respect.

Hannover, 10 November 2006

Executive Board   Supervisory Board

GLOSSARY

Accumulation loss: sum of several individual losses incurred by various policyholders as a result of the same loss event (e.g. windstorm, earthquake). This may lead to a higher loss for the direct insurer or reinsurer if several affected policyholders are insured by the said company.

Alternative risk financing: use of the capacity available on the capital markets to cover insurance risks, e.g. through the securitisation of natural catastrophe risks.

Bancassurance: partnership between a bank and an insurance company for the purpose of selling insurance products through the banking partner's branches. The link between the insurer and the bank is often characterised by an equity participation or a long-term strategic cooperation between the two parties.

Benefit reserves: value arrived at using mathematical methods for future liabilities (present value of future liabilities minus present value of future incoming premium), primarily in life and health insurance.

Block assumption transaction (BAT): proportional reinsurance treaty on a client's life or health insurance portfolio, by means of which it is possible, inter alia, for our clients to realise in advance the future profits so as to be able to efficiently ensure the attainment of corporate objectives, e.g. in the areas of financial or solvency policy.

Capital, reserves and technical provisions: an insurer's capital and reserves, also including the provisions committed to technical business and the equalisation reserve. Total maximum funds available to offset liabilities.

Catastrophe loss: loss which has special significance for the direct insurer or reinsurer due to the amount involved; it is defined as a catastrophe loss in accordance with a fixed loss amount or other criteria.

Cedant: direct insurer or reinsurer which passes on (also: cedes) shares of its insured or reinsured risks to a reinsurer in exchange for premium.

Cession: transfer of a risk from the direct insurer to the reinsurer.

Claims and claims expenses: sum total of paid claims and provisions for loss events that occurred in the business year; this item also includes the result of the run-off of the provisions for loss events from previous years, in each case after the deduction of own reinsurance cessions.

Combined ratio: sum of the loss ratio and expense ratio.

Credit status (also: creditworthiness): ability of a debtor to meet its payment commitments.

Creditworthiness: cf. → credit status

Critical illness coverages: cf. → dread disease coverages

Deposits with ceding companies/deposits received from retrocessionaires (also: Funds held by ceding companies/funds held under reinsurance treaties): collateral provided to cover insurance liabilities that a (re-)insurer retains from the liquid funds which it is to pay to a reinsurer under a reinsurance treaty. In this case, the retaining company shows a deposit received, while the company furnishing the collateral shows a deposit with a ceding company.

Derivatives, derivative financial instruments: these are financial products derived from underlying primary instruments such as equities, fixed-income securities and foreign exchange instruments, the price of which is determined on the basis of an underlying security or other reference asset. Notable types of derivatives include swaps, options and futures.

Direct (also: primary) insurer: company which accepts risks in exchange for an insurance premium and which has a direct contractual relationship with the policyholder (private individual, company, organisation).

Dread disease (also: critical illness) coverages: personal riders on the basis of which parts of the sum insured which would otherwise only become payable on occurrence of death are paid out in the event of previously defined severe illnesses.

Equalisation reserve: provision for the equalisation of substantial fluctuations in the claims experience of individual lines of business over several years.

Excess of loss treaty: cf. → non-proportional reinsurance

Expense ratio: administrative expenses in relation to the (gross or net) premium written.

Exposure: level of danger inherent in a risk or portfolio of risks; this constitutes the basis for premium calculations in reinsurance.

Facultative reinsurance: participation on the part of the reinsurer in a particular individual risk assumed by the direct insurer. This is in contrast to → obligatory (also: treaty) reinsurance.

Fair value: price at which a financial instrument would be freely traded between two parties.

Financial reinsurance: reinsurance with limited potential for profits and losses; the primary objective is to strive for risk equalisation over time and to stabilise the → cedant's balance sheet.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net: cf. → Gross/Retro/Net

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

Non-proportional reinsurance: reinsurance treaty under which the reinsurer assumes the loss expenditure in excess of a particular amount (→ priority) (e.g. under an excess of loss treaty). This is in contrast to → proportional reinsurance.

Obligatory (also: treaty) reinsurance: reinsurance treaty under which the reinsurer participates in a → cedant's total, precisely defined insurance portfolio. This is in contrast to → facultative reinsurance.

(Insurance) Pool: a risk-sharing partnership under civil law formed by legally and economically independent insurers and reinsurers in order to create a broader underwriting base for particularly large or unbalanced risks. The members undertake to write certain risks only within the scope of the insurance pool. They include such risks – while maintaining their commercial independence – in the insurance pool against a commission fee. Each insurer participates in the profit or loss of the insurance pool according to its proportionate interest. Reinsurance is often ceded or accepted in order to further diversify the risk. Pools can be divided into two types: coinsurance pools, in which all members take the role of primary insurers according to their interests, and reinsurance pools, in which a primary insurer writes the risks and then spreads them among the participating insurers by way of reinsurance.

Portfolio: a) all risks assumed by an insurer or reinsurer in a defined sub-segment (e.g. line of business, country) or in their entirety; b) group of investments defined according to specific criteria.

Premium: agreed remuneration for the risks accepted from an insurance company. Unlike the earned premium, the written premium is not deferred.

Primary insurer: cf. → direct insurer

Priority: direct insurer's loss amount stipulated under → non-proportional reinsurance treaties; if this amount is exceeded, the reinsurer becomes liable to pay. The priority may refer to an individual loss, an → accumulation loss or the total of all annual losses.

Property and casualty (re-)insurance: collective term for all lines of business which in the event of a claim reimburse only the incurred loss, not a fixed sum insured (as is the case in life and personal accident insurance, for example). This principle applies in all lines of property and casualty insurance.

Proportional reinsurance: reinsurance treaties on the basis of which shares in a risk or → portfolio are reinsured under the relevant direct insurer's conditions. → Premium and losses are shared proportionately on a pro-rata basis. This is in contrast to → non-proportional reinsurance.

Protection cover: protection of segments of an insurer's portfolio against major losses (per risk/per event), primarily on a non-proportional basis.

Provision: liability item as at the balance sheet date to discharge obligations which exist but whose extent and/or due date is/are not known. Technical provisions, for example, are for claims which have already occurred but which have not yet been settled, or have only been partially settled (= provision for outstanding claims, abbreviated to: claims provision).

Provision for unearned premium (also: unearned premium reserve): premium written in a financial year which is to be allocated to the following period on an accrual basis. This item is used to defer written premium.

Quota share reinsurance: form of proportional reinsurance under which the reinsurer assumes a contractually set percentage share of the written risk. Since the insurer is responsible for acquisition, pricing, policy administration and claims handling, the administrative expenditure for the reinsurer is very low. The latter therefore participates in the aforementioned expenses through payment of a reinsurance commission. This commission can amount to 15%–20% of the original premium depending upon the market and cost situation.

Rate: percentage rate (usually of the premium income) of the reinsured portfolio which is to be paid to the reinsurer as reinsurance premium under a → non-proportional reinsurance treaty.

Rating: systematic evaluations of companies with respect to their → credit status or the credit status of issuers with regard to a specific obligation. They are awarded by a rating agency or bank.

Reinsurer: company which accepts risks or portfolio segments from a → direct insurer or another reinsurer in exchange for an agreed premium.

Reserve ratio: ratio of (gross or net) technical provisions to the (gross or net) premium.

Retention: the part of the accepted risks which an insurer/reinsurer does not reinsure, i.e. shows as → net (retention ratio: percentage share of the retention relative to the gross written premium).

Retro: cf. → Gross/Retro/Net

Retrocession: ceding of risks or shares in risks which have been reinsured. Retrocessions are ceded to other reinsurers in exchange for a pro-rata or separately calculated premium.

Risk, insured: defines the specific danger which can lead to the occurrence of a loss. The insured risk is the subject of the insurance contract.

Securitisation instruments: innovative instruments for transferring reinsurance business to the capital markets with the goal of refinancing or placing insurance risks.

Segmental reporting: presentation of items from the annual financial statements separated according to functional criteria such as segments and regions.

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

Stochastic partnerships: targeted provision of financial support for primary insurers through reinsurance arrangements under which the reinsurer participates in the original costs of an insurance portfolio and receives as a consideration a share of the future profits of the said portfolio. This approach is used primarily for long-term products in personal lines, such as life, annuity and personal accident insurance.

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

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

Treaty reinsurance: cf. → obligatory reinsurance

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

Unearned premium reserve: cf. → provision for unearned premium

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

Hannover
Rückversicherung AG

Karl-Wiechert-Allee 50
30625 Hannover
Germany

Telephone +49/5 11/56 04-0
Fax +49/5 11/56 04-11 88
info@hannover-re.com

www.hannover-re.com

Investor Relations/
Public Relations

Eric Schuh, CFA

Telephone +49/5 11/56 04-15 00
Fax +49/5 11/56 04-16 48
eric.schuh@hannover-re.com

Investor Relations

Gabriele Bödeker

Telephone +49/5 11/56 04-17 36
Fax +49/5 11/56 04-16 48
gabriele.boedeker@hannover-re.com

Public Relations

Gabriele Handrick

Telephone +49/5 11/56 04-15 02
Fax +49/5 11/56 04-16 48
gabriele.handrick@hannover-re.com