somewhat different

Annual Report | 2006

+++ Hannover Re generates best result in company history +++ Very good results in property/casualty and life/health reinsurance +++ Operating profit (EBIT) EUR 819.9 million +++ Group net income EUR 514.4 million +++ Earnings per share EUR 4.27 +++ Book value per share +11.4% +++ Return on equity 18.7% +++ Proposed dividend EUR 1.60 +++ Very good earnings prospects for 2007 +++

hannover re®

STRATEGIC BUSINESS GROUPS
of the Hannover Re Group

hannover re®

Property and Casualty reinsurance
hannover re®

- E+S Rück, Hannover
- Hannover Re, Hannover
- Hannover Re Africa, Johannesburg
- Hannover Re Bermuda, Hamilton/Bermuda

Life and Health reinsurance
hannover life re®

- Hannover Life Re Africa, Johannesburg
- Hannover Life Re America, Orlando/Florida
- Hannover Life Re Australasia, Sydney
- Hannover Life Re Germany (E+S Rück), Hannover
- Hannover Life Re International, Hannover
- Hannover Life Re Ireland, Dublin
- Hannover Life Re UK, Virginia Water/London

Financial reinsurance
hannover re Advanced Solutions®

- Hannover Re Ireland, Dublin
- Hannover Re, Advanced Solutions Germany, Hannover

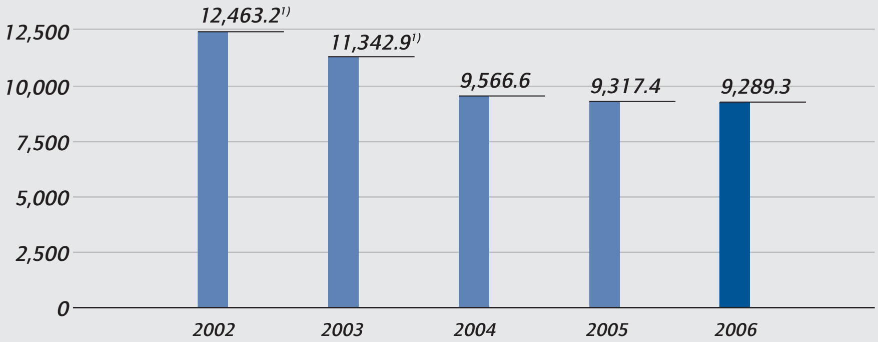
Specialty Insurance
hannover insurance

- Praetorian Financial Group, New York
- Clarendon Insurance Group, New York
- Compass Insurance Company, Johannesburg
- Inter Hannover, London

AN OVERVIEW

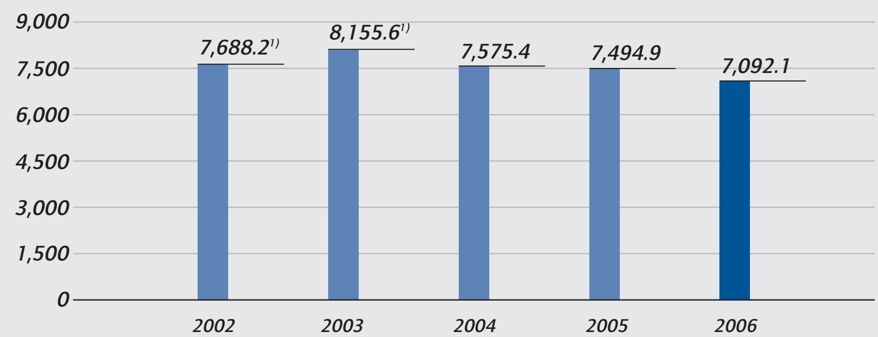
Gross written premium

Figures in EUR million



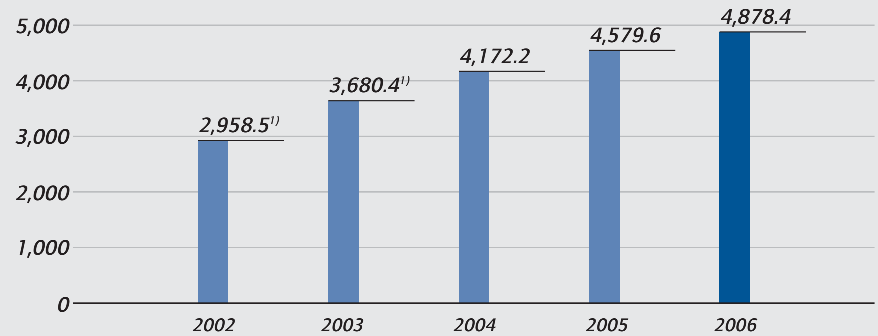
Net premium earned

Figures in EUR million



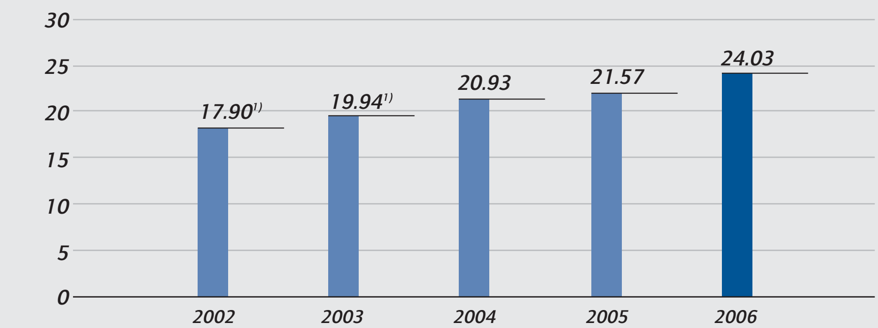
Policyholders' surplus

Figures in EUR million



Book value per share

in EUR



[1] *On a US GAAP basis*

KEY FIGURES

Figures in EUR million	2006	+/- previous year	2005	2004	2003[1]	2002[1]	More on page
Results							
Gross written premium	9,289.3	-0.3%	9,317.4	9,566.6	11,342.9	12,463.2	23/78
Net premium earned	7,092.1	-5.4%	7,494.9	7,575.4	8,155.6	7,688.2	23/78
Net underwriting result	(246.9)	-71.6%	(868.7)	(410.4)	(234.6)	(311.1)	
Net investment income	1,181.2	+5.9%	1,115.8	1,079.9	1,071.5	928.4	54/78
Operating profit (EBIT)	819.9		91.6	538.8	732.1	470.9	23/78
Group net income	514.4		49.3	279.9	354.8	267.2	23/78
Balance sheet							
Policyholders' surplus	4,878.4	+6.5%	4,579.6	4,172.2	3,680.4	2,958.5	
Total shareholders' equity	2,897.8	+11.4%	2,601.0	2,525.2	2,404.7	1,739.5	23/77
Minority interests	608.6	+12.6%	540.5	531.3	491.8	400.4	77
Hybrid capital	1,372.0	-4.6%	1,438.1	1,115.7	783.9	818.6	18
Investments (incl. funds held by ceding companies)	28,538.1	+3.7%	27,526.4	25,167.5	22,031.1	20,305.8	76
Total assets	41,386.4	+4.0%	39,789.2	36,177.5	32,974.7	33,579.0	76
Share							
Earnings per share (diluted) in EUR	4.27		0.41	2.32	3.24	2.75	14/78
Book value per share in EUR	24.03	+11.4%	21.57	20.93	19.94	17.90	15
Share price at year-end in EUR	35.08	+17.2%	29.93	28.75	27.72	24.30	10
Dividend	193.0		–	120.6	114.6	82.6	148
Dividend per share in EUR	1.60		–	1.00	0.95	0.85	148
Market capitalisation	4,230.5	+17.2%	3,609.5	3,467.2	3,342.9	2,361.0	11
Ratios							
Combined ratio (property and casualty reinsurance)	98.4%		112.8%	97.2%	96.0%	96.3%	26/110
Catastrophe/major losses as percentage of net premium earned[2]	2.7%		26.3%	8.3%	1.5%	5.2%	26/110
Retention	76.3%		79.2%	77.6%	71.9%	65.3%	23
Return on investment	5.0%		4.8%	5.0%	5.1%	4.7%	18
EBIT margin[3]	11.6%		1.2%	7.1%	9.0%	6.1%	18
Return on equity (after tax)	18.7%		1.9%	11.5%	17.1%	15.7%	15/18

[1] *2002–2003 on the basis of US GAAP*
[2] *Natural catastrophes and other major losses in excess of EUR 5 million gross for the Hannover Re Group's share*
[3] *Operating profit (EBIT)/net premium earned*

A printed version of the Hannover Re Group's Annual Report is also available in German. The report can be downloaded online in PDF format in English and German: www.hannover-re.com.

This is a translation of the original German text; the German version shall be authoritative in case of any discrepancies in the translation.

Contents

THE YEAR IN REVIEW
2006

Successful renewal season

The renewal negotiations as at 1 January 2006 testify to the sustained favourable market conditions in property and casualty reinsurance: thanks to the reduction of its peak exposures Hannover Re enjoys a more "weatherproof" portfolio and is still able to maintain a stable premium volume in the renewals.

Underwriting capacity for catastrophe risks

With "K5", its highest-volume securitisation (USD 414 million) to date, Hannover Re raises underwriting capacity on the capital market. It is thus able to protect its capital and profitability against contraction and price inflation on the retrocession market.

Life portfolio monetised

Through a securitisation of life insurance risks Hannover Re monetises an embedded value of EUR 100 million and thereby converts future earnings into current liquidity.

Reorganisation of US primary insurance business

Hannover Re transfers US specialty business to the newly established Praetorian Financial Group, Inc. The Clarendon Insurance Group, Inc. which had previously handled these activities, will henceforth concentrate on the management of terminated programs as well as the remaining commodity business. By establishing Praetorian Hannover Re opens up new avenues for profiting from the above-average valuation ratios for such specialised insurers.

Adoption of European Embedded Value

Hannover Re reports the European Embedded Value (EEV), i.e. the net value of its in-force life and health (re-) insurance portfolio, for the first time.

Catastrophe bond placed for European windstorm risks

Hannover Re successfully transfers one of its peak exposures to the capital market: its first traditional catastrophe bond "Eurus" covers severe windstorm events in Europe and further diversifies the company's risk management.

Excellent ratings confirmed

Both Standard & Poor's (AA- "Very strong") and A.M. Best (A "Excellent") confirm their ratings for Hannover Re. The two agencies highlight the company's convincing strategy, adequate capitalisation and superb market position.

Best reinsurer in the USA

In a survey conducted by the Flaspöhler Research Group leading US brokerage firms rank Hannover Re first among all reinsurers operating on the North American market for the second time in a row.

Business licence in China

Having obtained a licence to transact life and health reinsurance in China at the end of the year, Hannover Re is optimally placed in this rapidly growing market. Establishing a branch office in Shanghai ensures that the company can look to vigorous organic growth and a promising portfolio going forward.

Hannover ReTakaful writes Sharia-compliant reinsurance

By setting up a dedicated subsidiary, Hannover Re is the first of the large western reinsurance groups to respond to the emerging Islamic insurance market. Hannover ReTakaful transacts worldwide reinsurance business in accordance with Islamic law from its base in Bahrain.

Profitable sale of Praetorian

By selling its US subsidiary Hannover Re profits from the above-average valuation ratios for specialised insurers of this type. The company thereby completes the final logical step in its restructuring of specialty business and will now stay focused on its core business of reinsurance.

Wilhelm Zeller
Chairman of the
Executive Board

Dear shareholders,
Ladies and Gentlemen,

After a brief "hiccup" in the previous year – attributable to the extraordinary hurricane losses – I am pleased to be able to report to you on another successful financial year. Not only did we achieve our goals, we surpassed them: the Group net income is the highest ever recorded in the history of your company.

Your company thus left stormy seas behind it and sailed back into calmer waters last year. Having shouldered the adverse effects of an enormous catastrophe loss burden in 2005, we were able to profit – as is by no means uncommon after such loss events – from increased rates and improved conditions.

With this in mind, our largest and most important business group, *property and casualty reinsurance*, enjoyed highly favourable market conditions overall. Virtually all lines offered us attractive opportunities to write profitable business. On balance, rate increases were achieved for the seventh consecutive time. This was due, on the one hand, to a contraction in reinsurance capacity and, on the other hand, to the updating of pricing and rating models to include components that had previously been inadequately modelled – or indeed neglected altogether. Once external providers had similarly adjusted their models in early summer, prices for catastrophe covers climbed again as at 1 July – the second-most important renewal date for US business. Increases of up to 100 percent and even more were obtained under programmes that had been impacted by the severe hurricanes of 2005. In view of such favourable conditions – combined with the fact that the year under review was all but spared catastrophe losses – we were able to generate a very good result for the property and casualty reinsurance business group.

I would nevertheless like to reassure you, our valued shareholders, that irrespective of the latest price increases and the absence of costly natural disasters we do not rely solely on a favourable market environment. Your company has taken steps across a broad front to ensure that in the future exceptional major losses cannot place an excessive strain on the result: we have, for example, considerably scaled back our peak exposures while at the same time maintaining a stable premium volume, thereby improving the robustness of our portfolio's risk profile. What is more, alongside our use of traditional retrocessions – i.e. conventional reinsurance of our peak exposures – we are continuing and indeed stepping up our transfers of insurance risks to the capital market: having concluded "K5", our highest-volume risk securitisation to date, prior to the start of the year under review, we issued our first-ever traditional catastrophe bond to protect against European windstorm events in July.

I am also thoroughly satisfied with the development of *life and health reinsurance*. The significance of this business group is unfortunately often underestimated in comparison to property and casualty reinsurance. Yet in our eyes life and health reinsurance is a rising star. Why is this? It is our second-most important business group, and we are generating organic growth with highly gratifying double-digit rates of increase. In the international arena the pace of growth in life and health insurance has been sustained, creating a promising business platform for a reinsurer such as ourselves. The increasing size of the upper segment of the age pyramid in the developed industrialised nations continues to drive growth in annuity and health insurance. November 2006 brought especially good news for the future of our life and health reinsurance business group: the China Insurance Regulatory Commission awarded us a licence to establish a branch office for life and health reinsurance in the People's Republic of China. This opens up outstanding opportunities for our company to fully share in the impressive growth of the Chinese life insurance market.

Business progressed as anticipated in *financial reinsurance*: having got off to a good start in the first quarter we further enlarged our portfolio, most notably in Eastern Europe and Japan. Although early indications of a revival in demand for structured products emerged in the course of the year, gross premium fell short of the comparative figure for the previous year. This is surely due in part to the fact that some clients are still uncertain about the evaluation of specific contract structures from the standpoint of commercial law and in the eyes of regulators – doubts that are reflected in resistance among potential buyers. I am nevertheless convinced that demand for structured products will continue to stabilise.

Developments in our *specialty insurance* business group were most tumultuous: at the outset of the year under review we had transferred the entire portfolio of US specialty insurance to the newly established Praetorian Financial Group, Inc. with a view to optimising our structures. The Clarendon Insurance Group, Inc., which had previously been responsible for this business, has since concentrated on the management of terminated programs and the remaining commodity business. That this decision was the right one was already clearly demonstrated in December, when we reached agreement with the leading Australian insurer on the sale of Praetorian. We shall use the capital freed up by this transaction to expand property/casualty and life/health reinsurance. As soon as the sale has been completed – approval from the competent authorities is expected in the second quarter of 2007 – we shall then concentrate exclusively on our core business of reinsurance.

The performance of our *investments* also gave grounds for satisfaction. The sustained strong inflow of cash more than made up for price effects associated with rising yields on international bond markets and the curbing influence of the US dollar, enabling us to further boost the asset portfolios under own management. We took advantage of the favourable trend on equity markets to realise gains and make tactical adjustments to our positioning.

I am pleased to report that Standard & Poor's and A.M. Best, the rating agencies most relevant to our industry, confirmed their very good ratings for your company in the year under review. This is welcome and important news for us, since our clients attach ever-greater weight to the financial strength of their reinsurers. A first-class rating is more valuable today than it has ever been, especially for the writing of long-tail liability lines. This was underscored once again by the treaty renewals as at 1 January 2007: thanks to its excellent ratings Hannover Re profited particularly strongly from this trend.

The movement in our *share price* in the final weeks of the year under review was a source of special satisfaction for me. Following a rather disappointing first half-year, our share gained considerable ground and also left our internal benchmark, the weighted ABN Amro Rothschild Global Reinsurance Index, trailing clearly in its wake. The substantial potential for further price growth inherent in our share is borne out not least by what is still a low price/earnings ratio. I am confident that your company's potential will be reflected in the share price even more impressively going forward.

It is our stated dividend policy to distribute 35 to 40 percent of net income; in view of our highly gratifying business performance, we shall join with the Supervisory Board in proposing to the Annual General Meeting that a *dividend* of EUR 1.60 per share be paid.

Will the *current* year be able to keep pace with the successful 2006 financial year? Although Europe, and especially Germany and the United Kingdom, has already suffered a severe winter storm in January – which also produced a significant burden of losses for our account –, I believe that basic conditions are favourable. I was thoroughly satisfied with the outcome of the treaty renewals as at 1 January 2007, the date when roughly two-thirds of our treaties in property and casualty reinsurance were renegotiated. With a few exceptions the rate level was largely stable; in subsegments where rates did soften somewhat, they are still generally commensurate with the underwriting risks – and in those areas where this was not the case, we relinquished the business. As anticipated, we obtained further rate increases in property catastrophe reinsurance in the USA. Overall, the market has ceilinged out on a high level.

In life and health reinsurance we have positioned ourselves in interesting and profitably expanding market niches in recent years, thereby enabling us to generate solid growth on an organic basis. Your company has thus assured itself of a strong platform that promises a very good result.

We shall no longer be reporting on financial reinsurance as a separate business group. Instead, as is now common practice among all our major competitors, it will be included as part of property and casualty reinsurance. In the year under review I expect growing demand for structured covers and a pleasing profit contribution.

Similarly, following the sale of Praetorian, we shall no longer be showing the primary business written in specialty insurance as a separate segment. Particularly in view of the minimal remaining volume and our focus on our core business of reinsurance, we have decided to allocate this business to property and casualty reinsurance as well.

What other consequences will result from the sale of Praetorian? From the current financial year onwards we shall generate a significantly lower premium volume in our total business. Yet this in no way concerns me: based on our improved capital position, we can write more reinsurance business – including highly attractive catastrophe risks as well as life/health reinsurance – and/or increase the level of retained premiums. Ultimately, the decisive factor is this: the positive effect on our result will more than outweigh the profit lost through the sale of Praetorian.

In view of present market conditions in the individual business groups, I expect the current financial year to develop very favourably: for 2007 we are again looking to generate a return on equity of at least 15 percent. As you are aware, this profit forecast is always subject to the proviso that the burden of major losses comes in within the multi-year average and that there are no downturns on the capital market.

On behalf of the entire Executive Board I would like to thank you, our valued shareholders, for your trust. I can assure you that my colleagues and I have done everything in our power to equip your company as well as possible to handle the opportunities and risks that lie ahead. Our goal, as always, is to consistently improve the value of Hannover Re. With this in mind I look forward to the challenges of 2007.

Yours sincerely,

Wilhelm Zeller
Chairman of the Executive Board

SUPERVISORY BOARD
of Hannover Re

Wolf-Dieter Baumgartl [1) 2)] Berg Chairman	Chairman of the Supervisory Board Talanx AG HDI Haftpflichtverband der Deutschen Industrie V.a.G.
Dr. Paul Wieandt [2)] Königstein i. T. Deputy Chairman	Liquidator of Resba GmbH i. L.
Herbert K. Haas [1) 2)] Burgwedel	Chairman of the Executive Board Talanx AG HDI Haftpflichtverband der Deutschen Industrie V.a.G.
Karl Heinz Midunsky Munich	Former Corporate Vice President and Treasurer Siemens AG
Ass. jur. Otto Müller [3)] Hannover	
Dr. Immo Querner Ehlershausen (since 27 June 2006)	Member of the Executive Board Talanx AG HDI Haftpflichtverband der Deutschen Industrie V.a.G.
Ass. jur. Renate Schaper-Stewart [3)] Lehrte	
Dipl.-Ing. Hans-Günter Siegerist [3)] Nienstädt	
Dr. Klaus Sturany [1)] Dortmund	Member of the Executive Board RWE Aktiengesellschaft
Bodo Uebber Stuttgart (until 12 May 2006)	Member of the Executive Board DaimlerChrysler AG

1) Member of the Standing Committee
2) Member of the Balance Sheet Committee
3) Staff representative

Details of memberships of legally required supervisory boards and comparable control boards at other domestic and foreign business enterprises are contained in the individual report of Hannover Rückversicherung AG.

EXECUTIVE BOARD
of Hannover Re

Dr. Michael Pickel

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

Ulrich Wallin

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

André Arrago

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

Wilhelm Zeller
Chairman

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

Dr. Elke König

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

Dr. Wolf Becke

Life and Health markets worldwide

Jürgen Gräber

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

(from left to right)

THE HANNOVER RE SHARE

2006: A very good year for equity markets …

2006 a very good year on stock markets

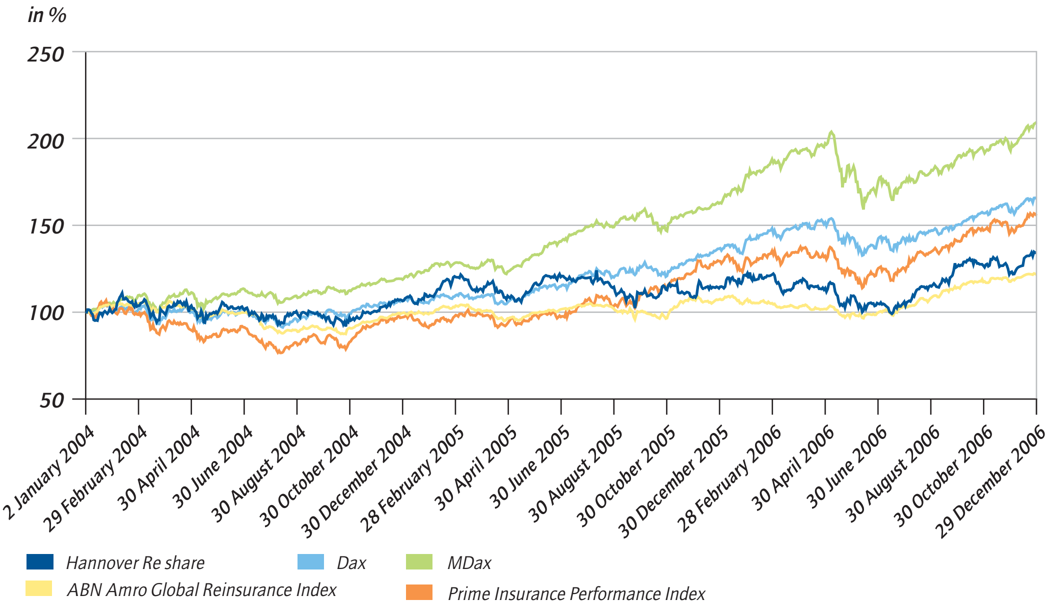
2006 was another very upbeat year on international capital markets, and hence the fourth good year in a row for Germany. This success was driven by brisk corporate profits and encouraging economic data at home and abroad that surpassed many expectations among capital market players. The German stock index (Dax) closed at 6,597 points on 29 December 2006, a gain of 22.0% on the year and a mere 3% short of its six-year high. German mid-caps again performed even better: the MDax – on which the Hannover Re share is listed – climbed 28.6% to reach 9,400 points for the first time.

The leading European benchmark, the DJ EuroStoxx50, lagged behind the Dax with a rise of 15.1%. Germany was thus the favourite among European equity markets. Although the Dow Jones ended the 2006 stock market year close to its all-time high, its performance of 16.3% on the year left movements in the USA well short of the gains seen in Germany.

… and for (re-)insurance stocks too

The German insurance industry can look back on a successful 2006 financial year. Following the heavy losses of 2004 and 2005, 2006 went down as one of the insurance periods with the lightest losses in the past 20 years. For reinsurers, in particular, the year under review was highly favourable. This development was reflected in the sector's Prime Insurance Performance Index (CXPI; formerly referred to as the "CDax for insurance stocks"), which had put on 21.4% by year-end and thus delivered a similar performance to the DAX.

The Hannover Re share outperformed our benchmark, the ABN Amro Rothschild Global Reinsurance Index, in a three-year comparison



As an international reinsurer with more than 80% of its premium income from foreign markets and an international investor structure, Hannover Re does not, however, measure its stock market success by any of the aforementioned standard indices – but rather by the share price movements and dividends of all listed reinsurers worldwide, as reflected in the weighted ABN

Amro Rothschild Global Reinsurance Index. This put on 13.5% in the year under review. With our overriding strategic principle of generating "above-average profitability" every year and being one of the three best reinsurers in the world, we are committed to the goal of sustained growth in our share price. Our strategic objective is to achieve an increase in the share price that surpasses the performance of our benchmark on a three-year moving average.

At the end of the three-year comparative period the Hannover Re share posted a gain of 35.2%, thus leaving the ABN Amro Rothschild Global Reinsurance Index (22.5%) clearly trailing by almost 13 percentage points on the moving average.

The Hannover Re share profited in the year under review

Hannover Re share posts double-digit percentage gain in 2006

Our share again performed well in the year under review. It started 2006 with a price of EUR 29.93 from the end of the previous year, and closed at EUR 35.08 on 29 December – a marked gain of 17.2 percent. Our share even charted a new six-year high on 27 December when it touched EUR 35.14.

Following the surge in prices in the stock market year just-ended, some capital market players see a need for consolidation on certain German indices – especially those for second-line stocks. In the assessment of other experts, however, the German equity market is on the verge of its fifth good year in succession – with the DAX already having the 7,000 mark in its sights. Irrespective of whichever scenario one considers to be more accurate, Hannover Re continues to enjoy a fundamentally favourable valuation and therefore offers further scope for improvement. Based on the consensus profit estimates as at the end of the year under review, the Hannover Re share is being traded with a price/earnings (P/E) ratio of around 8.7 for the 2007 financial year (MDax average: 19.8). The price/book (P/B) ratio as at year-end was about 1.4 (MDax average: 2.8).

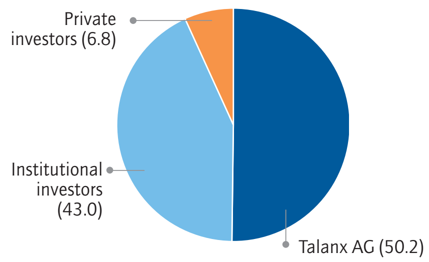
The performance of our share: supported by our Investor Relations activities

In the twelve years since our going public we have succeeded in significantly boosting the value and appeal of our share. The company's market capitalisation has been more than quadrupled since our stock market flotation at the end of 1994. This is equivalent to an average return of over 12% a year. Given a price of EUR 35.08 as at 29 December 2006, the market capitalisation now stands at EUR 4,230.5 million.

In light of our record result in 2006 the Executive Board and Supervisory Board will propose to the Annual General Meeting on 3 May 2007 that a dividend of EUR 1.60 be paid. This corresponds to 37.5% of Group net income.

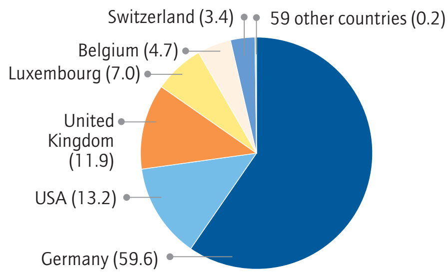
In addition to numerous entrepreneurial activities, a broad range of Investor Relations measures also positively shaped the perception of our company on capital markets. In today's business world it is absolutely essential to present strategic corporate objectives in a transparent and understandable manner for all capital market players. To this end, we use the complete spectrum of established and innovative Investor Relations measures to deliver timely, regular and comprehensive information about the development of Hannover Re's business and its potential opportunities for the future.

Shareholding structure in %



Investor Relations activities again stepped up in the year under review

Shareholding structure by countries (as % of free float)



We regularly meet with international capital market experts. In the year under review we had more than 2,000 contacts – by phone, e-mail or face-to-face – purely with the roughly 100 analysts and investors who communicate with us particularly frequently. We profiled our company at around 60 roadshows and investor conferences throughout the world. What is more, we hold telephone conferences with analysts, investors and the business press after the completion of each round of renewals, upon publication of our quarterly financial statements as well on special occasions.

Each year, in connection with the publication of our annual financial statements, we hold an analysts' conference on the same day in both Frankfurt/Main and London so as to personally inform capital market experts as quickly as possible about the company's results. An international seminar for investors and analysts, held annually on a rotating basis at our offices in Hannover and London, has been part of our standard repertoire since 2000. On 23 June 2006 we welcomed around 60 international financial analysts and investors to our International Investors' Day in London. We used this opportunity to provide background information on a range of topics, including "Risk management at Hannover Re", "Outlook for the 1 July renewal season in property and casualty reinsurance" and "Life/health reinsurance: The dynamic evolution of our global strategy".

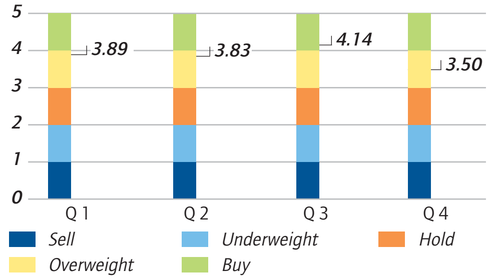
We also maintain an extensive Investor Relations website which offers constant access to all the latest key information on the company. New and interesting insights into Hannover Re and its share are presented in our "IR Online Magazine". A special brochure on Hannover Re's "Equity Story" delivers a focused summary of the company's strategy and potentials from a shareholder's perspective. Furthermore, Hannover Re recently responded to the steadily growing importance of sustainability in investment decisions with a detailed area of its website devoted to Corporate Social Responsibility.

In 2006 Hannover Re's Investor Relations website was rated for the third time in succession as one of the ten best among all German listed enterprises. For the third time running we placed first in the MDax, and for the third time in a row we also emerged with top honours in the insurance industry as a whole. In the overall rankings we came in three places higher than in the previous year at number six.

Analyst interest in HNR1 as strong as ever

In the course of the 2006 stock market year our company was analysed and evaluated by around 40 international financial analysts from all leading securities firms. According to Bloomberg and Reuters, altogether 134 opinions were handed down in the observation period. The majority of opinions were favourable for our company: 73 recommended the Hannover Re share as "buy/overweight", 52 said "hold" and only nine urged "underweight/sell". On a scale of five ("buy") to one ("sell"), the consensus for the year was 3.8 on average – a clear "overweight". At the outset of the new 2007 stock market year most analysts put the fair value of our share at about EUR 38.

Analysts' opinions of the Hannover Re share



Opinion	Number	Q1	Q2	Q3	Q4
Buy	52	16	10	16	10
Overweight	21	5	6	8	2
Hold	52	11	11	11	19
Underweight	6	3	2	–	1
Sell	3	1	–	–	2
Total	134	36	29	35	34

Information pursuant to § 315 Para. 4 German Commercial Code (HGB)

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 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.

Share information

in EUR	2006	2005	2004	2003[1)]	2002[1)]
Earnings per share (diluted)	4.27	0.41	2.32	3.24	2.75
Dividend per share	1.60	–	1.00	0.95	0.85

[1)] On a US GAAP basis

International Securities Identification Number (ISIN):	DE 000 840 221 5
Ticker symbols:	Share: Investdata: HNR1 Bloomberg: HNR1.GY Reuters: HNRGn.DE HNRGn.F ADR: HVRRY
Exchange listings:	Germany Listed on all German stock exchanges and Xetra; Frankfurt and Hannover in official trading USA American Depositary Receipts (Level 1 ADR Program) OTC (over-the-counter market)
Share class:	No-par-value registered shares
First listed:	30 November 1994
Shareholding structure as at 31 December 2006:	Talanx AG: 50.2% Free float: 49.8%
Common shares as at 31 December 2006:	EUR 120,597,134.00 EUR
Number of shares as at 31 December 2006:	120,597,134 no-par-value registered shares
Market capitalisation as at 31 December 2006:	EUR 4,230.5 million
Highest share price on 27 December 2006:	EUR 35.14
Lowest share price on 17 July 2006:	EUR 25.85
Annual General Meeting:	3 May 2007, 10.30 a.m. Hannover Congress Centrum Kuppelsaal Theodor-Heuss-Platz 1–3 30175 Hannover, Germany

As an *optimally diversified* and *economically independent* reinsurance group of *above-average profitability*, our overriding strategic objective is to generate *value-oriented* growth. All other goals are derived from and subordinate to this overriding objective.

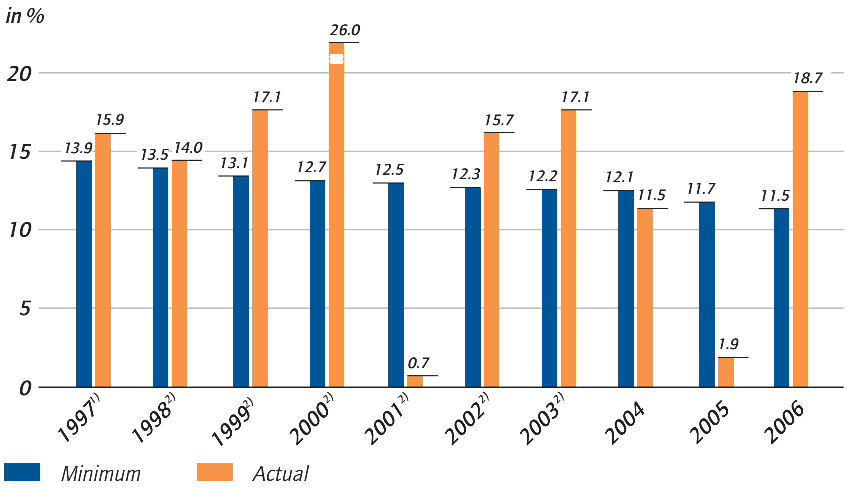
Above-average profitability:
For us this means that we strive to be one of the three most profitable reinsurers worldwide in terms of

- return on equity and
- annual growth in earnings per share.

Optimal diversification:
- We seek to generate maximum profits with our available equity by
- making flexible use of capital in those business groups, regions and lines that offer the highest returns.

Economic independence:
For us this means:
- financing growth with self-generated profits and
- avoiding imbalances that would necessitate contributions by shareholders.

After-tax return on equity



[1] Based on German Commercial Code (HGB) [2] Based on US GAAP

Strategic objectives, principles and action fields

Strategic objectives

1. Profit target
   - Minimum return on equity of 750 basis points above the risk-free interest rate
   - Annual double-digit growth in the
     - operating profit (EBIT)
     - earnings per share
     - book value per share

     (triple 10 target)
2. Capital management
   - Capital resources geared to
     - our own risk modelling (for risk-based capital)
     - requirements of the Federal Financial Supervisory Authority (BaFin) and the rating agencies (for capital adequacy ratio)
   - Preferential use of hybrid capital and other equity substitutes
   - Rating: S&P AA- and A.M. Best A
   - Allocation of capital to areas promising the highest returns
3. Share price
   - Performance target: outperform Global Reinsurance Index
   - Target to be achieved through
     - consistent rise in profitability
     - above-average Investor Relations (IR) activities

Strategic principles

4. Investments

Preferably for

- achievement of an optimally diversified portfolio
- geographical, line-of-business and product priorities

5. Growth

- Primarily organic
- Acquisitions only in life and health reinsurance
- No equity participations in insurance enterprises

6. Invested assets

- Mix guided by continuous dynamic financial analysis and the requirements of matching currency coverage
- Minimum return: risk-free interest rate plus the cost of capital

7. Organisation and infrastructure

- Organisation
  - geared to business processes
  - is effective and efficient
  - safeguards know-how and cost leadership
- Optimal support for business processes through information and communication systems
- Accounting
  - satisfies internal and external reporting requirements
  - supports our business processes through provision of transparent and timely information

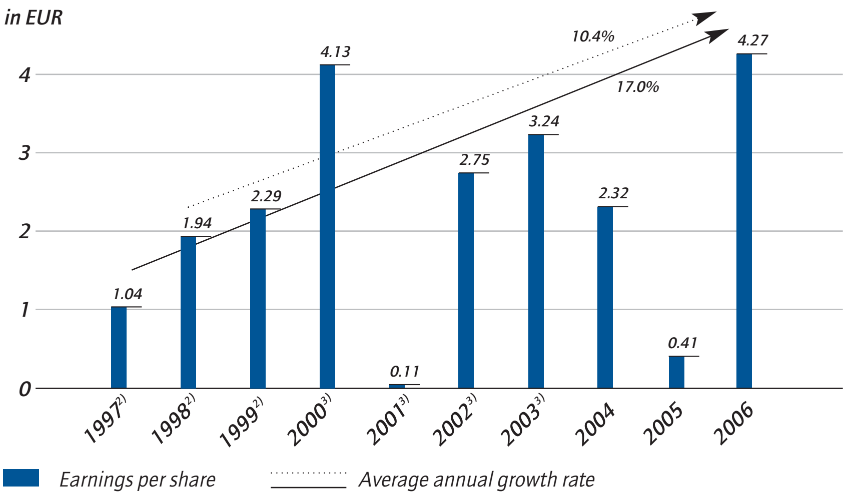
8. Human resources policy

- We offer attractive jobs for
  - ambitious
  - performance-minded employees
  - who identify with our corporate objectives
- Constant enhancement of skills and motivation
- Fostering of entrepreneurial thinking on all levels
- Delegation of tasks, authorities and responsibility wherever possible
- Management by objectives (MbO)
- Performance-related compensation

9. Enterprise and risk management

- Intrinsic Value Creation (IVC) is our central management tool
- Comprehensive risk management safeguards continued business survival

Earnings per share[1]



[1] Allowing for the 1:3 stock split in July 2002
[2] Modified DVFA/GDV calculation method (including amortisation of goodwill)
[3] Earnings per share according to US GAAP, diluted

Strategic action fields

10. Performance Excellence

- Holistic management system for execution of our strategy
- Systematic and continuous process of improvement supported by
- external appraisals

Our overriding strategic objective is to generate *value-oriented* growth

- as an optimally diversified and
- economically independent reinsurance group
- of above-average profitability.

In order to manage the Group with an orientation towards value, we sought a tool that would enable us, on the one hand, to measure accomplishment of these goals and, on the other, to break them down to the level of individual profit centres.

In property and casualty reinsurance we have many years of positive experience using a ratio based on underwriting years, namely "DB 5": level 5 of our contribution margin accounting method constitutes the clear profit after earning the discounted claims expenditure plus all external and internal costs, including the cost of capital. In life and health reinsurance we use the European Embedded Value (EEV). The two concepts together provide the basis for our central management tool: Intrinsic Value Creation (IVC).

With the aid of IVC we steer the Group as a whole, its four business groups and the individual operating units. This comparability enables us to identify value creators and value destroyers and thereby optimise the allocation of capital and resources.

Furthermore, as the core business result within the scope of our holistic management system Performance Excellence, IVC measures the extent to which we are able to implement our strategy.

For the purpose of ensuring that we can reliably achieve our strategic objectives, we have broken them down to the level of operating units with profit responsibility (profit centres). In the context of our management reporting we verify twice a year the extent to which attainment of these objectives is supported by the growth in real operating value creation and its value drivers.

At the level of our business groups we have specified our long-term goals as shown in the following table. It should, however, be noted that for our business groups – with the exception of life and health reinsurance – we only set targets for profit growth, not premium growth, on account of their cyclical nature (see table: Profit growth targets).

This cascading of the Group strategy is further underpinned by the system of Management by Objectives. Financial and non-financial targets are agreed with managers that dovetail with the strategic objectives. With effect from the year under review IVC has been a mandatory integral component of the objectives agreed with all managers in the market sections.

Profit growth targets

Business group	Key data	Target	2006	2005	2004	2003	2002
Property/Casualty reinsurance[1]	Combined ratio	≤ 100%	98.4%	112.8%	97.2%	96.0%	96.3%
	Net cat. loss ratio	8%	2.7%	26.3%	8.3%	1.5%	5.2%
	EBIT margin[2]	≥ 10%	17.1%	(0.7%)	13.4%	13.3%	8.7%
	EBIT growth	10–20%	n.a.	(107.5%)	(0.6%)	52.4%	853.7%
Life/Health reinsurance[1]	Gross premium growth	12–15%	15.2%	11.4%	(4.4%)	(7.9%)	4.2%
	EBIT margin[2]	≥ 5%	5.9%	4.1%	3.9%	3.2%	2.3%
	EBIT growth	12–15%	49.8%	21.4%	25.7%	25.8%	(4.0%)
Financial reinsurance[1]	EBIT margin[2]	≥ 7.5%	10.3%	9.2%	10.2%	9.5%	4.0%
	EBIT growth	≥ 0%	(6.0%)	(37.7%)	(16.8%)	209.9%	(27.2%)
Specialty Insurance[1]	Combined ratio	≤ 95%	190.6%	111.3%	115.3%	98.3%	93.8%
	EBIT margin[2]	≥ 10%	(66.1%)	(10.0%)	(14.8%)	4.9%	8.3%
	EBIT growth	10%	44.3%	(64.9%)	(347.9%)	(17.3%)	105.5%
Group	Investment return	4.5%	5.0%	4.8%	5.0%	5.1%	4.7%
	Return on equity	11.5%[3]	18.7%	1.9%	11.5%	17.1%	15.7%
Triple-10 target →	EBIT growth	≥ 10%	795.0%	(82.9%)	(26.4%)	55.5%	331.2%
	Growth in earnings per share	≥ 10%	942.7%	(82.4%)	(28.4%)	17.8%	2,400.0%
	Growth in book value per share	≥ 10%	11.4%	3.0%	6.3%	11.4%	4.0%
	xRoCA[4]	5%	n.a.	0.6%	3.4%[5]	6.2%[5]	n.a.

[1] Continuing operations only
[2] Operating profit (EBIT)/net premium earned
[3] 750 basis points above the risk-free interest rate (as at 31 December 2006 = 4.03% = current 5-year average)
[4] xRoCA = Excess return on capital allocated
[5] In 2003 and 2004 the present value components are based on the value of in-force business, since 2005 they have been based on the European Embedded Value (EEV)

IVC – our key ratio

We use the following formula to calculate the IVC:

IVC = adjusted operating profit (EBIT) – (capital allocated x weighted cost of capital)

The adjusted operating profit (EBIT) consists principally of the reported Group net income after tax and the change in the balancing items for differences between present values and amounts stated in the balance sheet (one adjustment for property/casualty and one for life/health reinsurance). In addition, the interest on hybrid capital, minority interest in profit and loss and extraordinary profits and losses are eliminated.

We consider the allocated capital to be the average shareholders' equity plus minority interests, the balancing item for the difference between present value and carrying amount from property/casualty reinsurance as well as the average hybrid capital. Capital is allocated to the profit centres according to the risk content of the business in question.

In calculating the cost of capital, our assumption for the cost of shareholders' equity – based on a Capital Asset Pricing Model (CAPM) – is that the investor's opportunity costs are 350 basis points above the risk-free interest rate. Value is created in excess of this return. The definition of our targeted minimum return on equity as 750 basis points above "risk-free" thus already contains a not insignificant target value creation. The rate of return on the balancing item for present value is calculated at the cost of shareholders' equity and on debt capital at the actually paid interest for hybrid capital. Weighted according to the composition of the allocated capital defined above, the weighted cost of capital applicable uniformly to all profit centres is calculated from these interest rates.

The economical allocation of shareholder's equity and the efficient use of hybrid capital and other equity substitutes ensure that we have the lowest weighted cost of capital in the industry (6.85% in 2005).

Since comparison of absolute amounts is not always meaningful, we have introduced the xRoCA (excess return on capital allocated) in addition to the IVC. This describes the IVC in relation to the allocated capital and shows us the relative excess return generated above and beyond the weighted cost of capital.

Our business groups generated the following value contributions and excess returns:

Calculation of the IVC

Figures in EUR million	2005		2004		2003	
	IVC	xRoCA	IVC	xRoCA	IVC	xRoCA
Property/Casualty reinsurance	(106)	(2.3%)	163	4.4%	152	4.9%
Life/Health reinsurance[1]	149	35.7%	45	13.3%	29	10.2%
Financial reinsurance	43	16.9%	77	22.1%	83	22.0%
Specialty Insurance	(39)	(7.1%)	(117)	(18.8%)	3	0.6%
Consolidation	(13)	–	–	–	–	–
Group	35	0.6%	168	3.4%	267	6.2%

[1] *In 2003 and 2004 the present value components are based on the value of in-force business, since 2005 they have been based on the European Embedded Value (EEV).*

The IVC for 2006 will be announced at the Investors' Day on 29 June 2007 following submission of the required EEV information. The data will also be published on our website on the same day.

THE HANNOVER RE GROUP
Our global presence

America

Hannover Rückversicherung AG
Canadian Branch - Chief Agency
Toronto, Canada

Hannover Rückversicherung AG
Canadian Branch - Facultative Office
Toronto, Canada

Clarendon Insurance Group, Inc.
New York, USA
(100.0%)

Praetorian Financial Group, Inc.
New York, USA
(100.0%)

Hannover Re Services USA, Inc.
Chicago/Itasca, USA
(100.0%)

Hannover Life Reassurance Company of America
Orlando, USA
(100.0%)

Hannover Re (Bermuda) Ltd.
Hamilton, Bermuda
(100.0%)

Hannover Services (México) S.A. de C.V.
Mexico-City, Mexico
(100.0%)

Hannover Rückversicherung AG
Bogotá Representative Office
Bogotá, Colombia

Europe

Hannover Rückversicherung AG
Hannover, Germany

E+S Rückversicherung AG
Hannover, Germany
(55.8%)

Africa

Hannover Life Reassurance Africa Limited
Johannesburg, South Africa
(100.0%)

Hannover Reinsurance Africa Limited
Johannesburg, South Africa
(100.0%)

Compass Insurance Company Ltd.
Johannesburg, South Africa
(100.0%)

%-figures = participation
You may find the addresses of our branch offices and subsidiaries on pages 178 to 180

Hannover Life Reassurance (Ireland) Limited
Dublin, Ireland
(100.0%)

Hannover Reinsurance (Ireland) Ltd.
Dublin, Ireland
(100.0%)

International Insurance Company of Hannover Ltd.
Bracknell/London,
Great Britain
(100.0%)

Hannover Life Reassurance (UK) Limited
Virginia Water/London,
Great Britain
(100.0%)

Hannover Services (UK) Ltd.
Virginia Water/London,
Great Britain
(100.0%)

Hannover Rückversicherung AG Stockholm Branch
Stockholm, Sweden

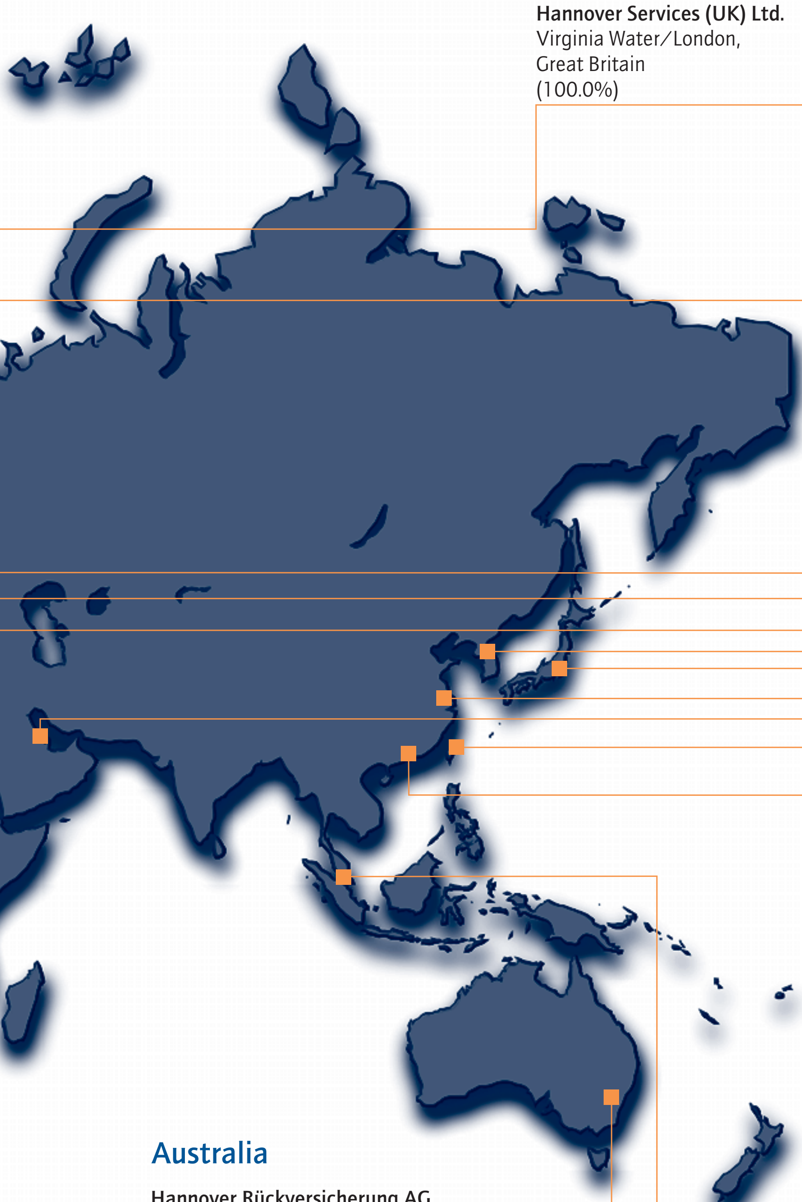
International Insurance Company of Hannover Ltd. Scandinavian Branch
Stockholm, Sweden

Hannover Re Gestion de Réassurance France S.A.
Paris, France
(100.0%)

Hannover Rückversicherung AG Succursale française pour la Réassurance Vie
Paris, France

Hannover Re Services Italy Srl
Mailand, Italy
(99.6%)

HR Hannover Re, Correduría de Reaseguros, S.A.
Madrid, Spain
(100.0%)



Asia

Hannover ReTakaful B.S.C. (c)
Manama, Bahrain
(100.0%)

Hannover Rückversicherung AG Seoul Representative Office
Seoul, Korea

Hannover Re Services Japan KK
Tokyo, Japan
(100.0%)

Hannover Rückversicherung AG Shanghai Representative Office
Shanghai, China

Hannover Rückversicherung AG Taipei Representative Office
Taipei, Taiwan

Hannover Rückversicherung AG Hong Kong Branch
Hong Kong, China

Hannover Rückversicherung AG Malaysian Branch
Kuala Lumpur, Malaysia

Australia

Hannover Rückversicherung AG Australian Branch - Chief Agency
Sydney, Australia

Hannover Life Re of Australasia Ltd
Sydney, Australia
(77,9 %)

MANAGEMENT REPORT
of the Hannover Re Group

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.

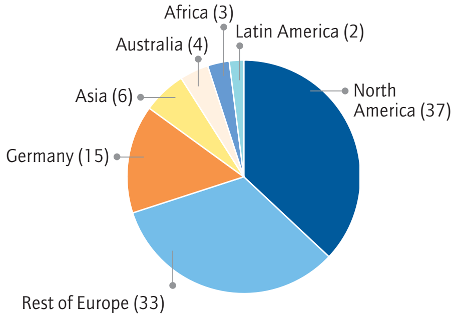
The Eurozone emerged as a driver of growth for the global economy in the year under review. The rise in output and growing domestic demand were key factors in offsetting negative effects from the USA and Japan. The upward revaluation of the euro against the US dollar and the yen also suggest that economic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

We were thoroughly satisfied with the development of the 2006 financial year. Market conditions in property and casualty reinsurance remained attractive, enabling us to write profitable business in virtually all segments.

Gross premium by region in %



After two years of results overshadowed by a heavy toll of natural disasters, the burden of catastrophe losses in the year under review – at 2.7% – was well below the multi-year average of 8% of net premium in property and casualty reinsurance. The vigorous pace of growth observed in international life and health reinsurance was undiminished, opening up good opportunities for our business. Financial reinsurance saw again an increased interest in structured products. Our fourth business group, specialty insurance, was notable on two counts: firstly, the ongoing restructuring of the business at the beginning of the year under review and, secondly, the announcement that Praetorian Financial Group, Inc. had been sold to an Australian insurance group in December 2006. Once this transaction has been completed – most likely in the second quarter of 2007 – we shall concentrate exclusively on our core business of reinsurance.

In compliance with IFRS 5 we are reporting the result of our subsidiary Praetorian Financial Group, Inc. in both the consolidated and segmental statement of income (after tax) in a separate line ("net income from discontinued operations"). In order to ensure comparability of the reported figures, those referring to the previous year were – to the extent required by IFRS – adjusted accordingly. For further explanation and additional information please see Section 5.2 of the Notes "Disposals and discontinued operations."

The development of the individual business groups is discussed in the following pages.

The gross premium income booked by the Hannover Re Group came in on a par with the previous year at EUR 9.3 billion (EUR 9.3 billion). At constant exchange rates growth of 0.3% would have been generated. The Group's retention contracted by a modest 2.9 percentage points to 76.3% (79.2%). Net premium decreased by 5.4% to EUR 7.1 billion (EUR 7.5 billion).

Overall, we were highly satisfied with the performance of our investments: the sustained strong inflow of cash more than offset price effects associated with the rise in yields on international bond markets, causing the portfolio of assets under own management to grow by EUR 0.1 billion year-on-year to EUR 19.2 billion. Ordinary investment income excluding deposit interest climbed by 19.9% to EUR 784.8 million (EUR 654.6 million). As part of our active portfolio management the balance of profits and losses on disposals came in at EUR 217.4 million (EUR 162.2 million). Total net investment income climbed – despite a further fall in deposit interest – by 5.9% to EUR 1,181.2 million (EUR 1,115.8 million).

The operating profit (EBIT) in the year under review was most gratifying; it was boosted to EUR 819.9 million (EUR 91.6 million). It should, however, be borne in mind that the comparable result for 2005 was heavily affected by the exceptional hurricane losses. Group net income in the year under review stood at an excellent EUR 514.4 million after EUR 49.3 million in the previous year. This corresponds to record earnings per share of EUR 4.27 (EUR 0.41).

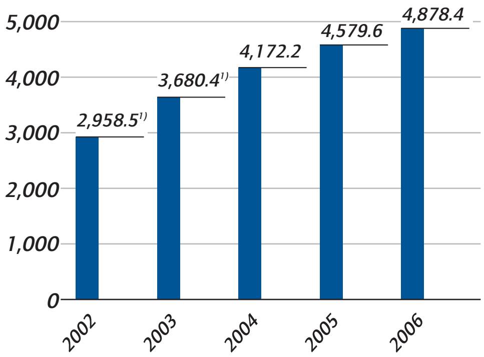
Financial strength further reinforced

Hannover Re's financial strength was also further reinforced in the year under review: shareholders' equity increased by 11.4% compared to the previous year to reach EUR 2.9 billion (EUR 2.6 billion). The book value per share consequently improved by 11.4% to EUR 24.03 (EUR 21.57). The total policyholders' surplus – shareholders' equity, minority interests and hybrid capital – grew by 6.5% to EUR 4.9 billion (EUR 4.6 billion).

In view of the overriding importance of a very good rating for a reinsurer's business in today's market environment, we are pleased to report that the rating agencies Standard & Poor's and A.M. Best confirmed Hannover Re's strong ratings.

Policyholders' surplus

in EUR million



[1] *On a US GAAP basis*

We use retrocession, i.e. the passing on of portions of our covered risks to other reinsurers, as a risk optimisation tool. As at year-end the resulting reinsurance recoverables on unpaid claims stood at EUR 3.0 billion (EUR 4.7 billion). This represents a decrease of 35.7% relative to the previous year, attributable inter alia to the reduction of commodity business at our US subsidiary Clarendon. We nevertheless continue to attach considerable importance to the quality of our retrocessionaires: more than 95.8% of the companies with which we maintain such business relations have an investment grade rating of "BBB" or better from Standard & Poor's.

Our business groups

In the following section we discuss the development of the financial year on the basis of our four strategic business groups: property and casualty reinsurance, life and health reinsurance, financial reinsurance and specialty insurance. In addition, the segmental report provided in the annual financial statement shows the key balance sheet items and profit components broken down into each business group.

Property and casualty reinsurance

In the context of our total portfolio, property and casualty reinsurance is the largest, most significant and also the most difficult business group.

Further improvement in market conditions

In the year under review the state of the market was once again favourable: the renewal season as at 1 January 2006 already demonstrated that the "hard" market was holding up. The treaty renewals in April, July and October underscored, in particular, the further improvement in market conditions for catastrophe-exposed property business in the United States.

Rate hikes in property reinsurance had been prompted first and foremost by the exceptionally intense 2005 hurricane season. Increases of 100% and 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.

Key figures for property and casualty reinsurance

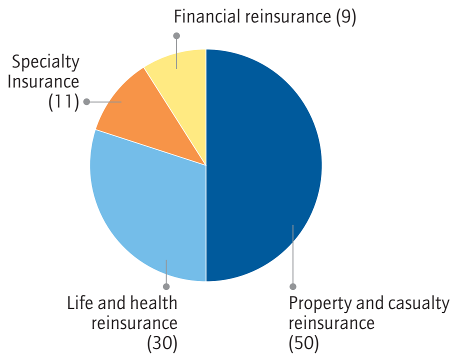
Figures in EUR million	2006	+/- previous year	2005	2004	2003[1)]	2002[1)]
Gross written premium	4,619.7	-0.4%	4,639.3	4,211.1	4,787.1	6,020.0
Net premium earned	3,913.8	-0.2%	3,922.9	3,456.2	3,500.0	3,502.1
Underwriting result	63.9	-112.8%	(500.5)	98.5	141.1	130.8
Net investment income	693.1	+27.2%	544.8	440.7	393.4	255.9
Operating result (EBIT)	670.0		(28.3)	463.0	465.9	305.6
Group net income	382.2		4.3	270.7	167.0	154.1
Earnings per share in EUR	3.17		0.04	2.24	1.52	1.59
Retention	84.9%		85.9%	83.0%	72.2%	62.7%
Combined ratio	98.4%		112.8%	97.2%	96.0%	96.3%

[1)] *On a US GAAP basis*

Additional risk transfer to the capital market

In the 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.

Gross premium by business group in %



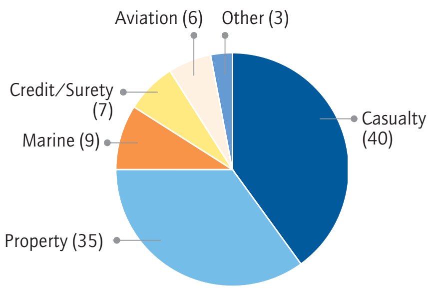
Rates on the retrocession market, through which reinsurers obtain protection covers for peak exposures, surged exceptionally vigorously, as a consequence of which risk transfers to the capital market took on even greater importance for reinsurers: in 2006 alone catastrophe ("CAT") bonds with a volume 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 as part of its risk management approach. 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 obtained protection on the capital market against one of our peak exposures in natural catastrophe business while at the same time further improving the diversification of our risk management.

Thanks to this advantageous positioning, Hannover Re was able to profit from the attractive market conditions that opened up. Another factor here was an aspect of our treaty negotiations with clients known as "showing" and "signing". What this means is that as an established and financially strong reinsurer with excellent ratings we are offered and awarded virtually the entire spectrum of reinsurance business. This is a clear competitive edge inasmuch as we are able to select the business that best lives up our profitability standards.

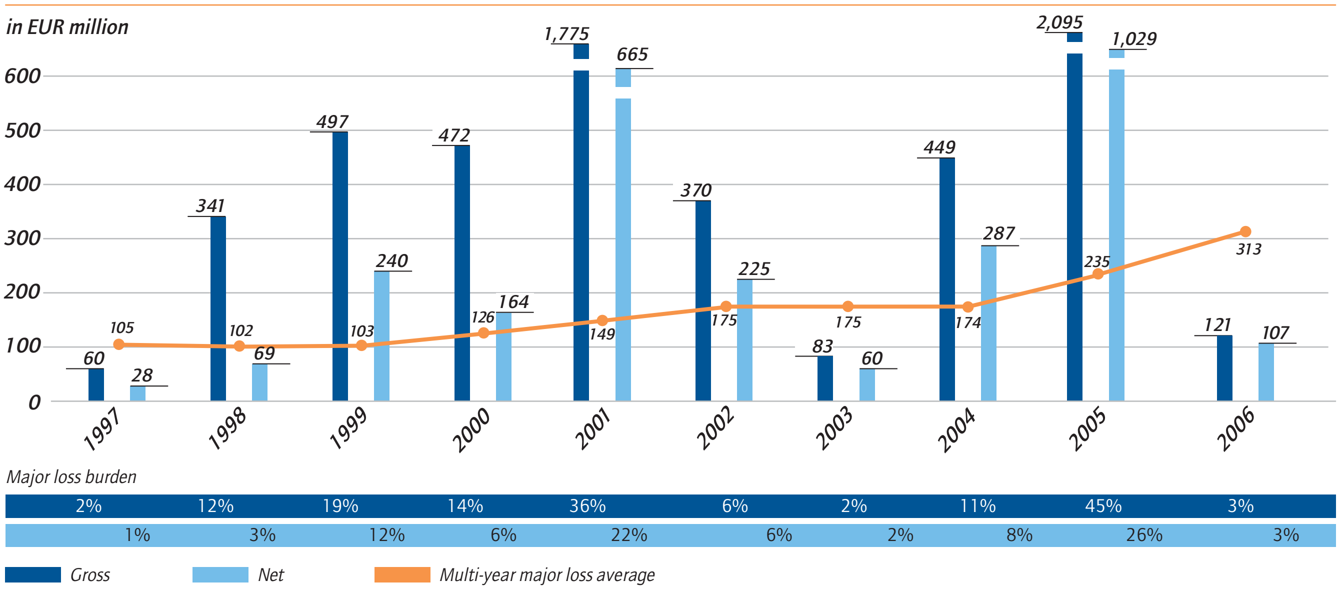
Percentage breakdown of gross premium income in property and casualty reinsurance by line of business



Despite the reduction of peak exposures in the year under review, gross written premium in property and casualty reinsurance came in on a par with the previous year at EUR 4.6 billion (EUR 4.6 billion). At constant exchange rates, especially against the US dollar, growth of 0.1% would have been booked. The level of retained premium showed a minimal decrease of one percentage point to stand at 84.9% (85.9%). The net premium earned of EUR 3.9 billion was also nearly unchanged year-on-year (EUR 3.9 billion).

Unlike in the two previous years, the loss expenditure was well below average in the year under review. Although we incurred a number of major claims, including for example a satellite loss, two fire claims in Germany and cyclone "Larry" in Australia, the total burden of major losses for net account amounted to a satisfactory EUR 107.3 million (EUR 1.0 billion). This is equivalent to 2.7% of net premium in property and casualty reinsurance and is thus well below the multi-year average of 8%. In the previous year the corresponding figure had been as high as 26.3% due to the extraordinary burden of losses from the hurricane events. The combined ratio stood at 98.4% (112.8%) in the year under review. This value reflects our current portfolio mix. We continue to set aside prudent levels of reserves, especially for more recent years in long-tail casualty business. It was, however, also necessary to make allowance for belated claim notifications in marine business.

Major losses below the multi-year average*



* 1997–2004: 5%, 2005: 6% and 2006: 8% of net earned premium in property and casualty reinsurance

In view of the modest burden of catastrophe losses, the underwriting result surged sharply after the hurricane-impacted 2005 financial year to reach EUR 63.9 million (-EUR 500.5 million). Thanks to a strong underwriting cash flow, net investment income improved on the previous year by 27.2% to EUR 693.1 million (EUR 544.8 million). The operating profit (EBIT) in property and casualty reinsurance amounted to EUR 670.0 million (-EUR 28.3 million) in the year under review, while Group net income totalled EUR 382.3 million (EUR 4.3 million). Earnings per share reached a gratifying EUR 3.17 (EUR 0.04).

Germany

Insurance market under pressure

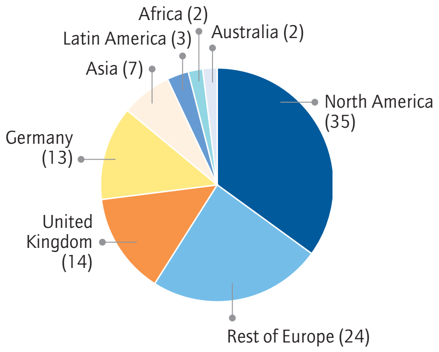
In Germany the good results of recent years served to intensify competitive pressure on the primary insurance sector. Industrial fire and fire loss of profits insurance were particularly hard hit by the sharp decline in prices. Even major claims running into the triple-digit millions of euros failed to halt this trend in the year under review, and with sufficient capacity available worldwide this market situation is unlikely to change significantly in the medium term. The motor market, an important segment for our company, is also experiencing a fierce competitive struggle for market shares in primary business, causing prices to crumble.

The market environment on the reinsurance side nevertheless remained positive in the year under review, with adequate rates and conditions. Exceptions here were the fire and fire loss of profits lines, in which proportional treaties saw double-digit premium erosion. The reinsurance commissions in proportional motor business, on the other hand, remained largely stable, while commissions for excess of loss arrangements even increased somewhat. Despite a slightly poorer overall business performance, we were still able to generate clearly positive results and achieved our defined profit target.

Our position further strengthened

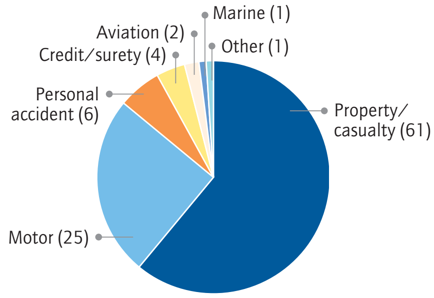
As one of the leading reinsurers in Germany we succeeded in further expanding our position in the year under review. This was due not least to new customer relationships, which we were able to acquire despite continuing market consolidation. What is more, we increased our treaty shares under long-standing accounts, thereby boosting our overall market share. Particularly among mutual insurers we were able to enlarge our portfolio – an especially gratifying achievement in view of our already high market share.

Geographical breakdown of property and casualty reinsurance in % of gross premium income



The rate decline as well as the tense claims situation in industrial fire and fire loss of profits business produced an overall unsatisfactory result for our account. In contrast, the performance of motor liability insurance, our largest line, and liability insurance was highly positive; prices remained stable. As far as major losses were concerned, we principally incurred two fire claims in Germany with a net strain of some EUR 29 million.

Percentage breakdown of gross written premium in Germany by line of business



Our subsidiary E+S Rück, which operates as a specialist reinsurer for the German market, is highly valued by its clients thanks primarily to its excellent financial standing and the continuity of its business relationships. E+S Rück continues to rank second in Germany, the second-largest non-life reinsurance market in the world.

Reinsurance market still adequate

In addition to professional reinsurance protection, we offer the clients of E+S Rück a wide-ranging array of services: among other things, we assist our clients with product development (especially in the field of insurance offerings for senior citizens), portfolio analysis and innovative projects such as the "Pay as you drive" system. A feature of this system is permanent monitoring via a recording/transmission device installed in the vehicle that logs mileage and individual driving habits, thereby making it possible to calculate the premium according to the driver's behaviour behind the wheel. In concrete terms, this means that as a policyholder adopts progressively less risky driving habits, so his or her premium is reduced.

Overall, we were satisfied with the development of business in our domestic market.

Profitability

Every shot a bull's eye. With deadly accuracy the archer fish shoots down its prey from the plants along the nearby river banks. Its ammunition: water.

With the same accuracy we continue to pursue our overriding strategic principle: we do not aspire to be one of the largest, but rather one of the best reinsurers – in other words, one of the three most profitable in the world. We measure this not only by our return on equity, but also by consistent growth in our earnings per share.

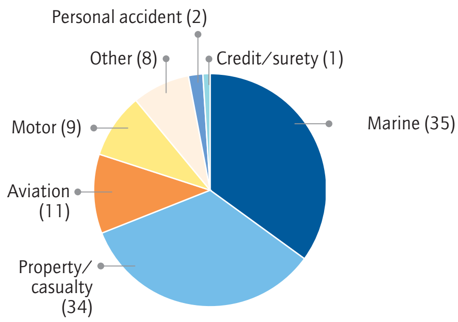
Rest of Europe

Significant rate increases for catastrophe-exposed business

United Kingdom and Ireland

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

Percentage breakdown of gross written premium in the United Kingdom by line of business



Property catastrophe covers in the United Kingdom benefited in the year under review from the adjustment of pricing models in the wake of the 2005 hurricanes, enabling rate increases of up to 20% to be obtained. As part of our risk management we nevertheless scaled back our windstorm-exposed business.

Rates in motor insurance held stable for upper layers, while they moved higher for lower and middle layers following an increase in claims.

In the casualty sector Hannover Re profited from its very good rating. Rates were largely stable, with only a few segments seeing modest reductions – although these declines were somewhat more marked in professional indemnity and directors' and officers' (D&O) covers.

Owing to the enormous losses associated with the 2005 hurricanes, the international property catastrophe business written on the London Market showed particularly significant rate increases. Prices up to 150% higher were obtained due to the shortage of capacity. This development went hand-in-hand with appreciably improved conditions for reinsurers. As part of our strategic risk management we nevertheless scaled back our peak exposures. On the claims side, we did not incur any sizeable loss events in the year under review.

The London Market is also a prominent centre for the underwriting of marine and aviation risks; Hannover Re ranks among the market leaders here.

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

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.

With insured market losses of roughly EUR 6 to 8 billion each for hurricanes "Katrina" and "Rita" 2005 went down as by far the most costly year in the history of marine reinsurance; the year under review, by contrast, passed off quietly without any major losses.

All in all, we were very satisfied with the results of our marine business written on the London Market; this was also true of the business development in other European countries. Although premium erosion was observed here in the primary sector, especially in cargo insurance, the rate level in reinsurance remained stable. Unlike on the London Market, marine business in these regional segments is focused mainly on freight and hull exposures. Our market share in other European markets is relatively low compared to our involvement in the London Market, since improvements in conditions were few and far between here – not least due to the favourable loss experience of recent years. The countries of Eastern and Central Europe were an exception in this regard.

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 of late led to pressure on commissions in the reinsurance sector, which – unlike in the previous year – it proved impossible to entirely resist. Large insurance groups, in particular, were able to push through their demands owing to a surplus of capacity. On the other hand, clients continued to focus on reinsurers noted for their financial soundness and professionalism, a situation from which Hannover Re benefited.

In the year under review we thus maintained our position as one of the market leaders and made up for volume lost as a consequence of cedants carrying higher retentions by acquiring new business and enlarging our existing shares. For reasons of diversification we stepped up our surety business and our acceptances of political risks. Credit and surety reinsurance therefore generated further outstanding results in the year under review, and for the first time returned to growth. No major losses were incurred in these lines either.

Very good results in credit and surety

Western and Southern Europe

The French insurance market suffered a further contraction in premium volume in motor lines; with accident numbers falling, insurers again posted good results in the year under review, leading to greater pressure on rates. On the reinsurance side rates proved to be inadequate in the year under review: although the number of accidents was down, spending on seriously injured victims of traffic accidents moved higher. The situation was exacerbated by the entry of new providers: in order to gain market shares they were even willing to accept insufficient rates, thus depressing the level even further – when in fact rate increases were needed.

Hannover Re is the second-largest provider of reinsurance coverage in *France* and the market leader for personal accident and builder's risk insurance. Overall, we do not pursue any specific growth targets here, preferring to ensure that terms and conditions are commensurate with the risks. In segments offering attractive conditions we extend our involvement. In builder's risk insurance, too, we vigorously grew our portfolio in the year under review; this strategy of consistent expansion is pursued as a long-term objective. The very good cooperation between our facultative and treaty reinsurance sections generated a good performance and increased premium volume, while at the same time cementing our position in the market.

No significant loss events were recorded in the year under review; not least due to the situation in motor insurance, our result for the French market nevertheless failed to live up to expectations in 2006.

Good results and an increased premium volume in Spain

Competition in *Spain and Portugal* intensified in the year under review, as new reinsurers increasingly forced their way into European markets. This was especially true of Spain, where property catastrophe coverage is provided by the state. We nevertheless succeeded in expanding our non-proportional portfolio. Very good results were generated in the fire and motor lines. We achieved our goal of boosting our market share in the casualty sector in builder's risk and professional indemnity insurance. All in all, we enlarged our premium volume and posted very good results in Spain. In Portugal, too, we recorded good results in 2006 on the whole, although a number of mid-sized claims cut into profits in fire insurance. The development of motor business was not satisfactory, as a consequence of which we were very cautious in our acceptances.

A hallmark of the insurance market in the *Benelux countries* in the year under review was increased competition from foreign companies, especially in the *Netherlands*. The insurance industry here enjoyed healthy profits in recent years, leading to fierce competition and declining rates – especially in industrial property business and the motor line. Some insurers have already begun to implement the European Motor Liability Directive, which provides for an increase in the previous standard minimum insured limit of EUR 2.5 million to EUR 5.0 million for bodily injury per claim and EUR 1 million per person. In *Belgium* our business progressed according to plan in both motor and, most notably, worker's compensation insurance.

In the Netherlands Hannover Re concentrates on clients among the ranks of mid-sized insurers and mutual insurance societies. Especially as far as this target group is concerned, our business is geared to long-term relationships. The year under review saw an increasing competitive struggle over property catastrophe covers due to the arrival of additional capacities from Bermuda. No major losses were incurred in this segment. Property business, on the other hand, incurred a sizeable number of claims, prompting a modest rise in the loss ratio. All in all, we were satisfied with the business development.

Minimal growth in Italy, but highly satisfactory results

The *Italian* non-life market again produced very weak growth in the year under review owing to the sluggish state of the economy – albeit without significant implications for our business. The period of consolidation, which probably reached its peak in 2006, similarly had no effects on Hannover Re's portfolio thanks to our clear client and market segmentation. Our focus is on small and mid-sized ceding companies. In addition to enjoying professional reinsurance protection, special target clients can look forward to additional services such as training activities and consulting support.

As in other markets, it has become increasingly important for a reinsurer in Italy to have an above-average rating, enabling Hannover Re to tap into additional business opportunities. We are the fourth-largest reinsurer in Italy.

Aside from a motor liability claim and a fire loss, with a resulting market loss in the lower double-digit million euros, Italy was spared major claims and natural disasters. Rates consequently came under appreciable pressure in some lines, including for example motor and industrial fire insurance. The premium volume contracted slightly in the year under review, although the result was once again thoroughly satisfactory.

Good results put pressure on prices in Northern Europe

Northern Europe

Hannover Re is well positioned in the markets of Northern Europe; we are a leading partner for mutual insurers, an area where our business is geared to long-term relationships. The *Danish* and *Norwegian* markets experienced a construction boom in the year under review. In general terms, the insurance industry in this region generated good results. In Denmark, our largest market in Northern Europe, this triggered more intense competition in private business. On the reinsurance side rates came under modest pressure in all segments where programmes had been loss-free. Following the strain caused by winter storm "Erwin" in the previous year, natural catastrophe covers were spared any significant losses. The property lines recorded a higher claims frequency after two years of virtually no losses. We achieved good results in the motor segment, and personal accident business largely passed off without significant losses in the year under review.

Eastern Europe

The insurance markets of Central and Eastern Europe continued to grow disproportionately strongly relative to Western European markets, although price competition is extremely intense; this is even the case in markets – such as Russia – with a higher than average number of major and basic claims.

With insurers carrying higher retentions, competition among reinsurers intensified. Still, the general environment for reinsurers remained very largely stable, and rates only came under appreciable pressure in a few programmes. All in all, however, reinsurance margins were adequate.

For Hannover Re, the markets of Central and Eastern Europe offer considerable growth potential. We are one of the four key reinsurance players in these regions. We write business in all lines, albeit with a strict eye to profitability considerations. Our underwriting policy is therefore opportunistic in approach. We continued to reorganise our portfolio in favour of more profitable non-proportional treaties at the expense of high-volume, low-margin proportional business. The premium volume contracted marginally. In property business we incurred a significant number of claims relating to individual risks, but overall we were satisfied with the achieved result.

Basic environment for reinsurance in Eastern Europe stable

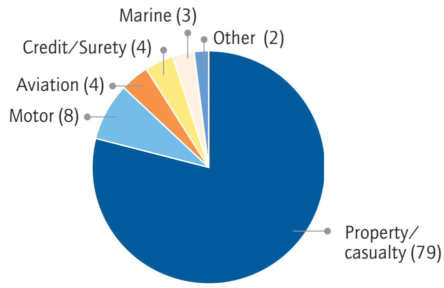
North America

The North American (re-)insurance market is the largest and most important single market for Hannover Re and indeed for all players worldwide. It accounts for 41.5% of our total premium volume.

The considerable strains from the 2005 hurricanes did not cause a lasting disruption in the financial recovery of US insurers. The companies were able to further enlarge their equity capital over the past three years, and the modest rate cuts in some segments – e.g. in casualty business – can therefore come as no surprise. All in all, the situation on the US primary market was therefore rather mixed. There was a drastic shortage of capacity for natural hazards covers, as a consequence of which prices continued to rise – sometimes by considerably more than 50%. Almost all major insurers substantially reduced their own catastrophe exposures and increased their retentions appreciably. On the other hand, in property insurance without any natural catastrophe exposure, for example in the case of policyholders in the Midwest, there was a tendency towards price reductions.

Particularly in the case of major (so-called Fortune 1000) accounts, casualty business saw rate reductions – most notably for casualty umbrella covers. Prices in directors' and officers' (D&O) insurance stabilised in the second half of the year, albeit on a low level. In large areas of the standard casualty market rates held stable, with modest reductions and slight increases balancing each other out. The claims frequency in the year under review was somewhat lower in certain segments, including for example workers' compensation, medical malpractice and D&O covers.

Percentage breakdown of gross written premium in the USA by line of business



Continued positive trend in property catastrophe business

Property catastrophe business developed particularly favourably for reinsurers. In the aftermath of the previous year's severe hurricane events this segment was notable for an imbalance between supply and demand. The marked capacity shortage and the updating of pricing and rating models to include hitherto neglected or inadequately reflected components led to substantial price hikes on the reinsurance side. Particularly in the July 2006 renewals – once the catastrophe modelling agencies had recalibrated their models –, Hannover Re obtained another appreciable increase in rates under programmes impacted by the hurricanes. Some of these rate rises even exceeded 100%. At the same time, as part of our strategic risk management, we scaled back our peak exposures – for example in coastal regions – and thereby significantly improved our risk profile: were another hurricane on the scale of "Katrina" to occur in 2007, the burden of losses for our company would be only half the size.

Property business with no natural catastrophe exposure was for the most part characterised by premium erosion in the year under review. For this reason we write this business opportunistically and with the aid of systematic cross-marketing: when we accept our clients' catastrophe covers, we expect them to cede other attractive business to us at the same time. What is more, we continuously strive to identify sectors where profitability is no longer satisfactory – and in such cases we reduce our shares and/or stop writing new business. In light of the softening market we are instead turning to special segments in which rate movements are less volatile, for example regionally based mutual insurers.

Having substantially enlarged our market share in the aftermath of the events of 11 September 2001, we continued to slightly reduce the business volume as the market softened. Nevertheless, in a number of different segments – such as property, specialty liability and other casualty business – we continue to be one of the leading reinsurers.

We maintain business relations with more than 500 companies in the United States. Our market penetration is already high; nevertheless, in view of the fact that the USA is currently home to around 1,100 insurance groups, there is still sufficient scope to selectively enlarge our market share. In cooperation with a number of brokerage firms we have therefore successfully undertaken marketing activities aimed at acquiring further new clients and extending our already very strong position.

In the casualty sector our underwriting policy is geared primarily to non-proportional business. Only a few proportional treaties that promise satisfactory profitability have been continued. Based on our very good ratings and the associated positive assessment of our financial strength, we are one of the few reinsurers that clients can consider for placement of their long-tail casualty risks. In this segment Hannover Re writes risks highly selectively and was again able to generate attractive business in the year under review. Despite rate decreases in some casualty lines, the market was more stable than initially anticipated.

In *credit and surety reinsurance* we again made the most of the favourable business opportunities; Hannover Re is the market leader here.

The primary market in credit insurance continues to enjoy double-digit growth and very good results. Surety business is stable, although conditions came under pressure due to a low claims frequency and the absence of major losses. On the reinsurance side too business again developed very favourably; the rate level in the surety line – the dominant business for Hannover Re – was particularly attractive. We maintained – and in some instances even extended – our influential market position, while recording above-average profitability. Our volume in the area of political risks was significantly enlarged.

We were thoroughly satisfied with results in credit and surety reinsurance, although we were unable to repeat our very good result of 2005. No significant loss events were recorded in the year under review.

Bearing in mind that the bulk of our worldwide *marine and aviation portfolio* is written on the London Market, the development of this business is discussed in the section on the United Kingdom (see pages 30 and 31).

Our US business is written almost exclusively through brokers. It was therefore all the more gratifying that for the second time in succession Hannover Re emerged as the best reinsurer overall in a survey conducted by the highly respected US Flaspöhler Research Group in the year under review. 366 experts from leading brokerage houses participated in the survey, evaluating 28 reinsurers active on the US market. This achievement takes on even greater significance in view of the fact that the bulk of North American reinsurance business is normally handled by brokers.

Good business year in North America overall

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

Other international markets

Latin America

Very satisfactory results in Latin America

Mexico, Colombia, Venezuela, Ecuador and *Argentina* are the most important Latin American markets for our company. The very low inflation rate in all these countries in 2006 was also of indirect benefit to the insurance industry. Consumption was boosted by the opportunity to obtain low-interest loans, thereby generating stronger demand for insurance products – especially motor, mortgage protection and life insurance. Yet in overall terms, too, the premium volume on the aforementioned markets grew.

Motor business profited inter alia from a drop in auto thefts. In part, this is doubtless attributable to the improved state of the economy in Colombia and Ecuador. Loss ratios improved to reach an acceptable level.

Hannover Re did not incur any natural catastrophe burdens in its most significant Latin American markets, and reinsurance prices consequently came under pressure in the treaty renewals.

In accordance with our strategic objectives we enlarged our portfolio of profitable, non-proportional business and also slightly increased our overall premium volume.

The results generated from Latin American markets were highly satisfactory.

Africa

Our most important market on the African continent is *South Africa*, where we are represented by our Johannesburg-based subsidiary, Hannover Re Africa.

The South African insurance market was characterised by further appreciable softening tendencies in the year under review. With margins declining, profitability also deteriorated in motor insurance. Thanks to the sustained discipline of market players in 2006, the reinsurance market was not substantially affected by the downward cycle in the insurance sector and remained stable.

Premium volume boosted in South Africa

In South Africa Hannover Re writes predominantly specialty business, i.e. niche risks accepted by specialised companies. In this segment Hannover Re Africa writes both proportional and non-proportional treaties, whereas commodity business in South Africa is accepted solely on a non-proportional basis. Overall, we boosted our premium volume in the South African market. Hannover Re Africa is a sought-after partner for all lines, not least because of its quick and flexible handling.

In other African markets we are standing by our strategy of enlarging our portfolio of profitable non-proportional business. It remains the case that this goal can only be achieved incrementally, since on the African continent treaties are preferably placed together in bouquets.

Hannover Re Africa's loss ratio increased slightly owing to a number of sizeable claims. Our clear strategic positioning and disciplined underwriting policy nevertheless enabled us to generate a highly gratifying underwriting result in the year under review; overall, Hannover Re Africa enjoyed the best year in its history.

Asia

Japan is by far our largest Asian market. After years of economic stagnation, business activity here has picked up. The associated positive side-effects have also benefited the insurance industry. Thanks to our presence in Tokyo, where we maintain a service company, we are able to stay in constant contact with our clients. We enjoy the status of "core reinsurer" with most of the country's major insurers.

Our most important single line in Japan is natural catastrophe reinsurance, which we write predominantly on a non-proportional basis. In the year under review we obtained rate rises of up to 10% for both windstorm and earthquake covers. This increase was made possible primarily by the recalibration of simulation models following the severe hurricanes of 2005 in the USA. Against this backdrop we modestly expanded our windstorm and earthquake portfolio.

In personal accident insurance the market proved to be stable. We enlarged our premium volume in light of attractive business opportunities and wrote profitable business in virtually all programmes. What is more, due to changes in the regulatory framework we were able to begin writing private insurance business in the so-called Kyosai market (small mutual aid societies) in the year under review, thereby putting in place an additional pillar for the diversification of our business in Japan.

The Japanese casualty market also proved to be relatively stable; we modestly expanded our portfolio here. Especially in the case of overseas covers and pharmaceutical risks, there is a need for greater data transparency in order to optimise risk assessment. All in all, our business in Japan developed very favourably. Our result was not affected by any significant major claims.

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

Our strategic objective throughout the entire region continues to be the expansion of our non-proportional portfolio. We are, however, also focused on writing profitable proportional business in lines with no correlation to natural catastrophe exposures. In this respect, the year under review offered us additional attractive opportunities. With the exception of the Surat flooding in *India* in August 2006, our account was spared any major losses. In India we grew our business against a backdrop of rising premiums. We achieved a very good result here despite the flood damage.

The strongest growth market in Asia after India is *China*. This is especially true of motor insurance, although the reinsurance density of this business is not yet particularly marked. China continues to be a target market for the international insurance and reinsurance industry, and competition is correspondingly intense. This situation is further exacerbated by the fact that the China Insurance Regulatory Commission (CIRC) requires at least 50% of all reinsurance cessions to be placed with locally licensed reinsurers. The Chinese market is still dominated by proportional treaties – although developments in the year under review demonstrated that non-proportional business is slowly gathering momentum. We maintain good business relations with Chinese insurers and are keeping a very close eye on the market. Our involvement in this region is, however, still limited because rates are generally inadequate.

In *Taiwan* we stepped up our focus on non-proportional business, thereby further optimising the structure of our portfolio. Similarly, in *South Korea* and *Hong Kong* we write almost exclusively non-proportional covers. In view of the attractive prices in personal accident and casualty insurance we continued to grow our premium volume in these lines.

All in all, we were highly satisfied with our results in Asia.

Australia and New Zealand

For fifteen years now Australia has been enjoying an economic boom. After years of a hard market, growth in the insurance sector was flat in the year under review against a backdrop of fierce local competition; in primary insurance this was especially true of the property lines and casualty business, most notably professional indemnity. On the reinsurance side, however, the price level largely held stable and premiums were still commensurate with the risks.

Hannover Re ranks third in the Australian non-life reinsurance market. We are a reliable and attractive partner for our clients because we not only have a very good rating, but we are also locally represented through our branch office in Sydney.

Australian market delivers good results

In this region too we concentrate first and foremost on non-proportional business and write only a very small number of proportional covers. Cyclone "Larry" was a catastrophe event that caused an estimated market loss of some AUD 500 million in the year under review. It nevertheless also had positive repercussions on the renewals as at 1 October 2006: price increases of up to 30% were obtained for the affected programmes – even though the cyclone only cost Hannover Re net loss expenditure in the single-digit million euro range. We were thus satisfied with our result on the Australian continent. The expansion of our activities in 2004 to include facultative business produced a sharp surge in premium for the year under review and ensured good market penetration, and Hannover Re has therefore further optimised its position in this market.

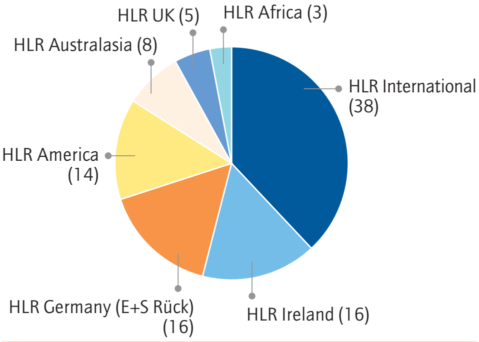
Life and health reinsurance

Pace of growth in life and health reinsurance undiminished

The 2006 financial year passed off very favourably for us. Life and health reinsurance (encompassing life, health, annuity and personal accident business) is driven by very similar demand factors in many markets around the world. Decisive here are, on the one hand, demographic influences – especially the significant rise in longevity – and, on the other, the growing imbalance between the actively employed and pensioners. In addition, the generally low level of interest rates is necessitating early efforts to accumulate savings for retirement.

This starting scenario tends to create a very advantageous climate for the products marketed by private life, health and annuity insurers – not least because in many markets tax incentives are provided to encourage consumers to take out such policies.

Breakdown of gross premium by business centers in % (before consolidation)



Different by nature

It is the only member of its species to take to the air: Wallace's flying frog uses its long webbed toes to glide over considerable distances and actively control its "flight path".

Not for nothing do we consider ourselves "the somewhat different reinsurer". That we are different by nature is demonstrated impressively by our rapid, flexible and undogmatic maximisation of business opportunities. In so doing, our focus is not on rankings or market share, but wholly and exclusively on profitability.

On the German life insurance market demand normalised in the year under review. In retrospect, German life insurers consider 2004 and 2005 to be exceptional years: following the tax-induced boom of 2004, 2005 proved – as anticipated – to be a difficult year for new business.

The product mix shifted markedly in favour of annuity insurance in 2006. State-subsidised "Riester" pensions, which are available in numerous variants – both the conventional form with the customary interest rate guarantees and in the form of unit-linked products –, are now playing the central role. Sales of risk-oriented covers for individual provision or surviving dependants also remain brisk.

In the international arena we have not seen any let-up in the pace of growth in personal lines year-on-year, hence establishing a promising platform for a reinsurer such as ourselves.

Hannover Life Re – the international life and health reinsurer

The life and health reinsurance business group within the Hannover Re Group is transacted by a network of seven reinsurance companies based in Hannover, Virginia Water/London, Dublin, Johannesburg, Orlando/Florida, and Sydney.

In this context the Hannover-based Hannover Life Re International performs a special steering function by handling the integrated risk management of the business group. It is supported by foreign branches in Paris, Stockholm, Kuala Lumpur and Hong Kong.

Our strategically important business in the Far East, encompassing the Chinese-speaking economic region as well as Japan and the Korean market, is to be strengthened by the addition of a branch office in China. We were given the green light to establish this office in November 2006 by the China Insurance Regulatory Commission (CIRC) in Beijing.

Retrocessions

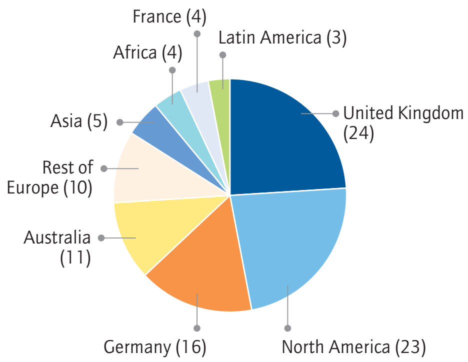
We maintain long-standing relationships with a small number of professional reinsurers for the passing on of proportional retrocessions, which as a matter of principle we place directly (i.e. not through reinsurance brokers). The retrocessionaires are major companies with first-class ratings, typically AA from Standard & Poor's and A+ from A.M. Best.

We closed the "L2" financing transaction – placed in 1999 – early with effect from 31 December 2006 and withdrew it from the retrocessionaires. This gave rise to one-off expenditure running into the mid-double-digit million euros.

With this withdrawal we have now terminated all four of the "L" series transactions placed in the years 1998 and 1999 ("L1" to "L4") and integrated the residual portfolios into our retention.

The "L6" transaction, which we placed on the capital market effective 31 December 2005 with a volume of EUR 100 million, developed according to plan in 2006. This securitisation consists of an in-force portfolio of unit-linked policies from Germany and Austria.

Geographical breakdown of life and health reinsurance as % of gross premium



Development of premium income

Premium volume boosted again

Gross written premium from our worldwide cedants grew to EUR 2.8 billion in the year under review – an increase of 15.2% on the previous year (EUR 2.4 billion).

We generated enlarged premium volumes from a number of regions. In Europe, the United Kingdom (risk-oriented covers and enhanced annuities) and France (bancassurance) emerged as particularly strong drivers of growth, whereas premium in Germany and Scandinavia was slightly lower owing to the expiry of sizeable life and disability portfolios that had been acquired in earlier years.

Asian business, particularly from China and Korea, was sharply higher thanks to new treaty relationships, while US life business recorded only modest growth. In this respect it should, however, be borne in mind that under the applicable accounting rules of SFAS 113 a growing portion of our US business no longer has any influence on the reported premium income. The allocation to premium deposits, on the other hand, rose sharply in 2006. This can be attributed not only to US health business but also to large-volume financing transactions from Luxembourg, which are booked as deposit accounting contracts.

We enjoyed gratifying growth rates in South Africa, where we now rank among the market leaders for the reinsurance of individual life products.

In the year under review, with the aim of optimising the product mix, we expanded our cessions to North American retrocessionaires. Allowing for the new "L6" transaction placed at the end of 2005, the level of retained premiums fell 7.4 percentage points year-on-year to 85.4%. Net premium earned consequently totalled EUR 2.4 billion, a gain of 5.1% on the previous year (EUR 2.3 billion).

Key figures for life and health reinsurance

Figures in EUR million	2006	+/- previous year	2005	2004	2003[1]	2002[1]
Gross written premium	2,793.6	+15.2%	2,425.1	2,176.6	2,276.3	2,471.5
Premium deposits	1,166.2	+278.5%	308.1	311.4	257.9	255.8
Gross premium incl. premium deposits	3,959.8	+44.9 %	2,733.2	2,487.9	2,534.2	2,728.3
Net premium earned	2,373.4	+5.1%	2,257.6	1,956.3	1,936.3	2,142.3
Premium deposits	1,084.4	+295.1%	274.5	267.2	213.4	115.2
Net premium incl. premium deposits	3,457.8	+36.6%	2,532.1	2,223.5	2,149.7	2,257.5
Investment income	305.4	+10.9%	275.3	221.6	179.4	268.4
Claims expenses	1,495.3	+5.7%	1,415.2	1,212.6	1,270.4	1,218.7
Expenses for benefit reserves	192.8	-25.3%	258.0	241.2	297.8	574.1
Commissions	823.9	+20.4%	684.1	589.6	414.4	453.0
Own administrative expenses	50.0	-15.8%	59.3	55.9	44.9	56.6
Other income/expenses	22.7	-198.1%	(23.1)	(2.0)	13.8	(34.5)
Operating result (EBIT)	139.5	+49.8%	93.1	76.7	61.0	48.5
Net income after tax	102.6	+72.2%	59.6	38.0	46.6	30.0
Earnings per share in EUR	0.85		0.49	0.32	0.43	0.31
Retention	85.4%		92.8%	90.2%	85.1%	86.9%
EBIT margin[2]	5.9%		4.1%	3.9%	3.2%	2.3%

[1] *On a US GAAP basis*
[2] *Operating profit (EBIT)/net premium earned*

The portfolio mix by individual lines continued to improve in accordance with our strategic planning; the proportion of the total assumed portfolio generated by our preferred lines of life and annuity stood at almost 87% (82%).

No sizeable loss events were incurred in the year under review.

Results

The performance of the life and health reinsurance business group is primarily determined by the following factors:

- development of the biometric risks of mortality, morbidity and longevity,
- development of the structural risk associated with the persistency of the business in force,
- movements on the international capital markets, especially in the relevant currencies of EUR, USD, GBP, ZAR and AUD,
- our own administrative expenses.

In addition, on the level of individual cedant relationships – especially where financing transactions are involved –, it is important to monitor the development of the customer-specific credit risk.

The mortality factor is the most significant biometric risk for our portfolio – in this respect our most notable exposures are in the United Kingdom, South Africa, Australia and Asia. The overall experience was satisfactory in the year under review, although certain regional differences cannot be overlooked. The claims experience within the year also exhibits a seasonal pattern, especially in the case of substantial death benefits – which occurred predominantly in the first half of 2006.

The biometric risk of morbidity, which manifests itself in lines as different as health, long-term care annuity, critical illness and disability, is assumed primarily in the United States (in the form of Senior Health Medicare Supplement plans), Singapore (as long-term care annuities), the United Kingdom and South Africa (as critical illness covers), Germany (in the form of disability covers) and Australia (as critical illness covers and disability annuities). Results continued to be favourable overall, although margins were slimmer than in previous years due to more intense competition, especially in the USA and Australia.

The longevity factor is of considerable relevance to our company due to our market leadership in the field of UK single-premium enhanced annuities. Our actuarial analyses indicate that this business is progressing in line with our projections.

The risk associated with the persistency of the in-force reinsured portfolios, which can be regarded as the dominant risk with respect to our financing transactions in Europe, the USA and South Africa, developed largely as expected in the year under review.

Movements on international capital markets had a neutral effect on the business result of Hannover Life Re in the year under review, although income from self-managed assets increased by around 0.9% due to the enlarged investment portfolio.

The cost and reporting structures in life and health reinsurance continue to be lean and efficient. With an expense ratio of 1.8% in relation to the gross written premium, we have the lowest figure among all comparable internationally operating reinsurers.

The credit risk associated with ceding companies did not materialise in the year under review; we are not aware of any instance in which the corporate rating of a client of Hannover Life Re significantly deteriorated or where the responsible supervisory authority was compelled to take

Significantly higher net income

steps to safeguard the interests of policyholders. We attribute this state of affairs, which has prevailed for many years now, to our prudent scrutiny of client quality as part of our marketing approach supported by customer relationship management.

The consolidated operating profit (EBIT) in life and health reinsurance was again significantly boosted in 2006; at EUR 139.5 million it surpassed the previous year's figure by 49.8%. The EBIT margin, calculated as a quotient of the operating profit (EBIT) and net premium earned, stood at 5.9%. It therefore exceeded the medium-term target of 5.0% for the first time.

Group net income came in at EUR 102.6 million, an increase of 72.2% over the previous year (EUR 59.6 million). This was equivalent to earnings of 0.85 EUR (0.49 EUR) per share.

Germany

In 2006 the German life insurance industry returned to the modest long-term growth track seen in the early years of this decade, with the dual pillars of private and occupational annuity insurance with regular premium payments gaining considerable market shares – especially the so-called "Riester-Rente" pension product. Nevertheless, another pension product qualifying for tax assistance on inception of the policy – the "Rürup-Rente" – also showed appreciable growth. In comparison to earlier years, the appeal of single-premium business and traditional mixed life insurance products has diminished.

In the primary insurance sector our clients' resources are being taxed primarily by the new EU Mediation Directive as well as the change-over to the new actuarial interest rate of 2.25% per annum effective 1 January 2007.

E+S Rück, which bears responsibility for the German market within the Hannover Re Group, acquired inter alia a new account from the German bancassurance market in the year under review. The number of German cedants thus rose to 38 companies (26 life insurers, 5 personal accident insurers, 4 pension funds and 3 health insurers).

Premium income from the German market climbed by a gratifying 4.3% to EUR 447.3 million. The underwriting result was notable for a very good experience with the biometric risks. Under a personal accident financing transaction we did, however, see a deterioration in the lapse rate, which we neutralised in the fourth quarter of 2006 via an appropriate adjustment recognised in income.

Rest of Europe

United Kingdom still the largest market

United Kingdom

The United Kingdom continues to be Europe's most important life reinsurance market – UK life insurers traditionally make the most of the opportunities to ease their risk burden and also optimise their solvency through large quota share reinsurance arrangements.

As Hannover Life Re we are active in this key market through three risk carriers: Hannover Life Re UK, Hannover Life Re Ireland and the Group parent Hannover Re.

Our subsidiary Hannover Life Re UK based outside London handles conventional business from the United Kingdom, Ireland and the Isle of Man, with a focus on so-called protection business – i.e. the reinsurance of the biometric risks of mortality and critical illness. Health business has not been written to date, and the volume of disability business is minimal.

Hannover Life Re Ireland concentrates on a few key special accounts and continues to support its UK affiliate with quota share acceptances from the market. Hannover Re, on the other hand, has been active in the enhanced annuities market for many years – business that picked up considerably for our company in 2006.

Total gross written premium in the United Kingdom climbed by 28.3% to EUR 686.9 million (EUR 535.4 million); of this amount, 27% was attributable to Hannover Life Re UK, 26% to Hannover Re and the remaining 47% to Hannover Life Re Ireland. For the first time, therefore, the United Kingdom is Hannover Life Re's largest worldwide market – ahead of the USA, Germany, Australia and France.

Overall, the risk experience for mortality and critical illness was thoroughly satisfactory. Our annuity portfolio, which is dominated by the run-off of a previously acquired portfolio of enhanced annuities from the years 2000 – 2003, is developing according to plan.

Business volume in bancassurance enlarged

Hannover Life Re UK delivered a record operating profit (EBIT) of EUR 16.9 million (+24.6%). The EBIT margin thus amounted to 20.6% of net premium earned, while net income after tax came in at EUR 11.6 million after EUR 9.2 million in the previous year.

Ireland

Our Dublin-based subsidiary Hannover Life Re Ireland writes worldwide treaty business with concentrations in the USA, UK, Canada, South Africa and a number of Asian markets.

Staffed by a small expert team, it can respond flexibly to our clients' needs and offer solution models that either involve a full risk transfer or are booked as so-called deposit accounting contracts.

The company booked a sharp surge of 19.9% in gross written premium to EUR 597.6 million in 2006, while net premium earned grew by 15.1% to EUR 524.6 million.

Results were influenced by two special effects, namely the commutation of an earlier large contract with a North American cedant and the establishment of an additional reserve for persistency risks from the United Kingdom associated with the amendment of tax arrangements for term life policies in occupational retirement provision (pension fund "A-Day" in May 2006). On balance this gave rise to extraordinary income of EUR 32.5 million in the year under review.

The operating profit (EBIT) amounted to EUR 72.8 million after EUR 15.0 million in the previous year. The EBIT margin thus stood at 13.9%, while net income totalled EUR 63.7 million (EUR 13.3 million).

France, Italy, Spain and Arab countries

Our life branch in Paris and the service offices in Milan and Madrid serve cedants in a sizeable European market zone encompassing France, Spain, Portugal, Italy, Malta, the countries of the former Yugoslavia, Albania and Greece. In addition, the Paris branch services accounts in the Near East, Maghreb and French-speaking Canada.

Through enlargement of the business volume – new clients were acquired and existing accounts in the area of bancassurance expanded – premium income from this region was boosted to EUR 366.7 million (EUR 180.3 million) in the year under review. The Paris branch contributed the lion's share of EUR 289.4 million.

Results in this region continued to be highly gratifying.

Scandinavia, Eastern Europe, Israel and Turkey

Marketing and underwriting responsibility for these markets rests with our life branch in Stockholm. It writes predominantly risk-oriented business, although the portfolio also includes a significant financing transaction with a Swedish insurance group.

In the year under review we substantially extended our market position in Scandinavia and Israel. The Turkish market, which offers considerable potential especially in the bancassurance sector, has increasingly become a focus of our marketing activities.

The premium volume fell by 10% compared to the previous year and totalled EUR 83.6 million. Profitability nevertheless continued to be satisfactory.

North and Central America

The US market, the largest life reinsurance market in the world, is served by our Orlando/Florida-based subsidiary Hannover Life Re America with the support of an underwriting office for group risks on Long Island/New York.

We continue to concentrate on non-traditional areas of the market, including block assumption transactions, Medicare Supplement business and facultative risks from Latin America.

We are scarcely active in the conventional individual risk reinsurance market, where business typically consists of large-volume quota share cessions on an original premium basis, since in our assessment the level of prices and conditions prevailing on the market is still not adequate.

Gross premium totalled EUR 503.3 million in 2006, a modest increase of 1.7%. Net premium earned remained virtually unchanged at EUR 215.6 million, while the level of premium retained by Hannover Re Life America stood at 42.9%.

Competition in the Medicare Supplement market has intensified sharply in the past year and a half as a consequence of the favourable results booked over the last four years. We noticed appreciable pressure on profitability in some parts of our portfolio.

All in all, therefore, Hannover Life Re America's operating profit (EBIT) retreated somewhat from EUR 17.4 million in the previous year to EUR 15.9 million. Net income after tax declined to EUR 8.7 million (EUR 10.5 million).

Our office in Mexico City writes business from its domestic Mexican market as well as other Central American countries. Based on our service orientation, with the special importance that we attach to underwriter training, we have succeeded in building a loyal customer base. Gross premium in the year under review amounted to EUR 27.5 million, and results were again satisfactory.

Other international markets

Africa

Our subsidiary Hannover Life Re Africa, which is based in Johannesburg with a branch office in Cape Town, has concentrated on individual business in recent years and writes predominantly life, critical illness and – to a lesser extent – disability covers. The markets served are South Africa and certain English-speaking African markets.

The company has built up special expertise in innovative individual life products and ranks among the market leaders for reinsurance of these products.

Successful new distribution model in South Africa

In the spring of the year under review we supported the market launch of a new life insurer in South Africa which relies entirely on direct customer canvassing over the Internet or by telephone. The experience to date with this distribution model, which is backed by customised underwriting software that we developed in-house, has comfortably exceeded expectations in both qualitative and quantitative terms.

The company's gross written premium climbed by 12.2% to EUR 105.4 million and net premium earned – boosted by an increased retention from 1 January 2006 onwards – grew by as much as 18.8% to EUR 63.3 million.

Results in all lines were within the planned actuarial limits. The operating profit (EBIT) totalled EUR 3.2 million (-18.2%); this produced an EBIT margin of 5.2% of net premium earned.

Net income after tax fell by EUR 0.3 million to EUR 2.1 million.

Asia

We traditionally serve the Asian region from two Hannover Life Re branches: the branch office in Kuala Lumpur is responsible for the ASEAN markets and South Asia, while the branch office in Hong Kong handles the Chinese-speaking economic region as well as Japan and Korea. We write largely risk-oriented business in the life, critical illness and personal accident lines.

Gross premium income surged by a vigorous 51.4% to EUR 103.6 million in the year under review. Growth is currently driven first and foremost by the markets of China and Korea.

Results in all markets can be described as good to very good.

In November 2006, as already mentioned, we received a licence from the China Insurance Regulatory Commission to establish a life office in China. This gives us excellent prospects of being able to tap into the impressive growth of the Chinese life insurance market to the fullest extent.

Australia and New Zealand

Good growth rates in Australia

Our Sydney-based subsidiary Hannover Life Re Australasia is responsible for business in the markets of Australia, New Zealand and Oceania. We have been market leader in this region for many years.

The company concentrates on writing life, critical illness and disability annuities. A special feature of its business is that it also assumes mortality and morbidity risks in connection with occupational retirement provision.

The gross premium volume enjoyed strong growth of 11.7% to reach EUR 302.7 million. Net premium earned climbed by 13.7% to EUR 188.8 million.

Profitability varied: results in the life and critical illness lines were very favourable, but higher inflation in Australia necessitated an adjustment of the reserves for current disability annuities with a corresponding strain on the result.

Directly written group life business, on the other hand, delivered a highly gratifying performance with non-recurring income in the high single-digit million euros from the commutation of IBNR reserves.

All in all, the operating profit (EBIT) of EUR 26.3 million came in 55.6% higher than the previous year's figure of EUR 16.9 million. Net income after tax stood at EUR 20.9 million (EUR 11.1 million).

Financial reinsurance

The difference between financial reinsurance and traditional property/casualty reinsurance principally rests in the nature of the individual client's reinsurance needs: whereas property and casualty reinsurance involves an unlimited risk transfer between insurer and reinsurer in the context of a single portfolio or various lines of business, financial reinsurance contains additional components alongside the risk transfer: the optimisation of the client's overall balance sheet situation with the aid of structured reinsurance products. Requirements such as these – which are usually of a highly specific nature – give rise to solutions that are specially tailored to the particular client.

When it comes to underwriting the risks, however, financial reinsurance uses the same actuarial models and contract constructions as those found in traditional property and casualty reinsurance. Following several years of uncertainty, the year under review brought positive news: a sharp fall-off in negative headlines ushered in increasing normalisation in demand for structured products in the United States. Yet there is still uncertainty among our clients and potential buyers, as a consequence of which the number of inquiries and actual contracts closed still cannot be compared with the period prior to the probe launched by the New York Attorney General and the Securities and Exchange Commission (SEC) into the activities of some reinsurers.

The adoption of the EU's "Reinsurance Directive" must be assessed positively. European Union member states are now in the process of drawing up specific regulations and definitions governing financial reinsurance business. As a result, we are seeing a resurgence in acceptance of our products among our European clients.

The debate surrounding convergence of different accounting standards continues to move forward at a brisk pace and will likely affect some cedants' results in the future. We see here an opportunity for structured covers to become established across accounting borders.

The redefinition of risk transfer standards for financial reinsurance is expected to bring by far the most significant developments in this mapping out of the way ahead. All major supervisory bodies, legislative organs and industry representatives have formed working groups that are exploring various conceptual ideas relating to the scope and measurement of risk transfer.

Following the contraction in premium volume in recent years, signs of growing interest in structured covers could be discerned in the year under review. All three main products, namely surplus relief, aggregate excess of loss and spread loss contracts, were in demand.

New business generated in Eastern Europe and Asia

In Eastern Europe and Asia we generated profitable new business. The portfolio in Latin America also developed favourably, and here too we were able to renew all important contracts.

Key figures for financial reinsurance

Figures in EUR million	2006	+/- previous year	2005	2004	2003[1]	2002[1]
Gross written premium	878.5	-4.9%	924.1	1,183.3	1,632.7	1,242.6
Net premium earned	698.3	-16.2%	833.8	1,206.1	1,563.4	1,211.0
Net investment income	104.6	-55.4%	234.7	342.2	438.3	357.2
Operating result (EBIT)	72.2	-6.0%	76.8	123.3	148.2	47.8
Net income after tax	55.3	+11.8%	49.4	88.9	99.1	39.7
Earnings per share in EUR	0.46		0.41	0.74	0.90	0.41
Retention	89.8%		90.6%	93.3%	94.3%	95.2%
EBIT margin[2]	10,3%		9.2%	10.2%	9.5%	4.0%

[1] On a US GAAP basis
[2] Operating profit (EBIT)/net premium earned

We are one of the world's three largest providers of traditional structured reinsurance products. The brand name Hannover Re Advanced Solutions underscores our expertise in developing individually tailored customer solutions. Based on our considerable experience, technical expertise and not least our proven financial track record, we enjoy numerous long-term client relationships in the United States, by far our largest market. We work together with large and specialist brokerage houses, with whom we maintain similarly close relations. Most of our business contacts in the United Kingdom are with Lloyd's syndicates and London-based brokerage firms. The German market is served by our subsidiary E+S Rück.

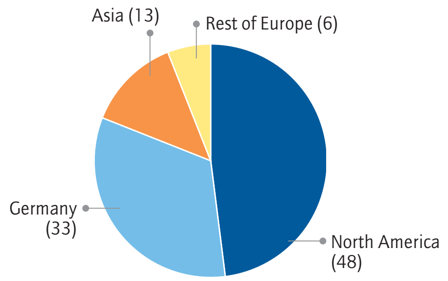
Increased net income in the financial reinsurance business group

Internal cooperation within our organisation across business groups enables us to calculate an adequate premium according to the risk content of the business. The Hannover Re Group's risk assessment tools are applied consistently by all underwriters in the financial reinsurance and property/casualty reinsurance business groups. This competitive edge opens up further market potential for our company.

By and large, we can look back on a satisfactory financial year in financial reinsurance. Gross written premium contracted by 4.9% to EUR 878.5 million (EUR 924.1 million). At constant exchange rates the decrease would have been 4.6%. With the level of retained premium slightly lower than in the previous year, net premium declined by a more appreciable 16.2% to EUR 698.3 million (EUR 833.8 million).

Due to the commutation or expiry of numerous old contracts over the past two years, resulting in a substantial decrease in technical provisions and an associated contraction in interest income, net investment income declined sharply. The operating profit (EBIT) consequently fell by 6.0% to EUR 72.2 million (EUR 76.8 million). Nevertheless, we were thus still able to achieve our medium-term goal of generating an EBIT margin of at least 7.5% in the year under review. Group net income gained 11.8% to EUR 55.3 million (EUR 49.4 million) due to a significant reduction in minority interests. The financial reinsurance business group therefore contributed earnings of 0.46 EUR (0.41 EUR) per share to Group net income.

Geographical breakdown of financial reinsurance in % of gross premium income



Specialty insurance

We use the term "specialty insurance" to designate a form of primary insurance which concentrates on closely defined, homogeneous portfolios of niche or other non-routine business that is not normally offered or adequately covered by traditional insurers. Major aspects of the business (from acquisition through the issuing of policies and premium collection to claims settlement) are normally outsourced and handled by specialised managing general agents (MGAs) or third-party administrators (TPAs).

In the year under review Hannover Re's activities in the specialty insurance business group were conducted principally through four subsidiaries: by far the largest share of the total portfolio was written by the New York-based Praetorian Financial Group, Inc. and Clarendon Insurance Group, Inc. We are also represented in the European market by the UK-based International Insurance Company of Hannover Ltd. (Inter Hannover), Bracknell/Berkshire, and in South Africa Compass Insurance Company Ltd., Johannesburg.

Rates on the American primary insurance market were stable in our preferred lines. Competition nevertheless intensified markedly for sizeable accounts, especially in casualty business. On the other hand, substantial rate increases were obtained in catastrophe-exposed property business, especially for hurricane-exposed risks on the US Gulf Coast and in southern states as well as earthquake risks in California. Particularly with regard to the latter, however, it should also be noted that prices for reinsurance covers were appreciably higher than in the previous year.

Numerous new players entered the specialty insurance market in the year under review. This can come as no surprise, since in past years too insurers were happy to use the distribution channel of MGAs – through which the bulk of Praetorian's in-force business is written – as an anti-

Restructuring of specialty insurance business group completed

cyclical source of new business during soft market phases with low rates. This process now appears to be repeating itself.

In March of the year under review we completed the final steps in the restructuring of our specialty insurance business group in the United States: in order to create clearly defined areas of responsibility, we transferred all US specialty business to the newly established Praetorian Financial Group, Inc.; this was preceded by an internal organisational separation of functions. The Clarendon Insurance Group, Inc., which had previously been responsible for this business, will henceforth concentrate on the management of terminated programs and the remaining commodity business.

Key figures for specialty insurance

Figures in EUR million	2006	+/- previous year	2005	2004	2003[1]	2002[1]
Gross written premium	1,047.7	-28.2%	1,459.3	2,121.1	2,646.7	2,729.1
Net premium earned	108.6	-78.1%	496.5	955.1	1,155.9	832.9
Underwriting result	(98.3)	+74.6%	(56.3)	(146.2)	20.0	51.9
Net investment income	34.0	-26.1%	46.0	37.5	60.4	46.9
Operating result (EBIT)	(71.7)	+44.4%	(49.7)	(141.5)	57.1	69.0
Net income after tax	41.2[2]		(2.4)[3]	(90.7)	42.2	43.3
Earnings per share in EUR	0.34		(0.02)	(0.75)	0.39	0.45
Retention	(0.6%)		22.5%	40.6%	46.4%	37.8%
Combined ratio	190.6%		111.3%	115.3%	98.3%	93.8%

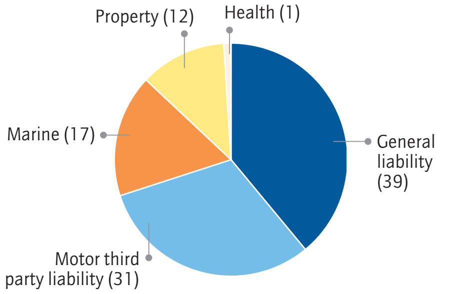
[1] *On a US GAAP basis*
[2] *Thereof from discontinued operations: EUR 88.2 million*
[3] *Thereof from discontinued operations: EUR 24.8 million*

Praetorian Insurance group

Praetorian's new management concentrated on internal company structures: its immediate task was to review existing partnerships with an eye to their quality and the type of business written. Profitable partnerships were continued, whereas cooperation with producers of commodity business was discontinued. Selected specialty contracts were taken over from Clarendon. Praetorian's management team also introduced a new organisational structure based on a matrix of line-of-business specialists and program managers. In January 2006 the rating agency A.M. Best, which is of particular relevance to US business, confirmed its rating of "excellent" ("A-").

Praetorian is one of the few US insurers to concentrate exclusively on specialty insurance. With licences covering all federal states it is one of the market's leading providers. The contracts are written by around 50 managing general agents (MGAs) that have links with Praetorian. However, in what is currently an attractive market climate we also renewed commodity business on an opportunistic basis, including for example workers' compensation covers.

Praetorian's gross written premium by line of business in % (before consolidation)



Praetorian delivers very healthy profit contribution

In December 2006 we announced that we had reached agreement with the leading Australian insurer on the sale of Praetorian. The purchase price of around USD 800 million was equivalent to 2.1 times Praetorian's expected shareholders' equity excluding goodwill as at the end of the year under review. The transaction is still subject to regulatory approval in the USA; we expect to receive this approval and hence close the transaction in the second quarter of 2007. Hannover Re intends to systematically invest the released risk capital of roughly EUR 600 million in the expansion of its property/casualty and life/health reinsurance business.

Praetorian generated gross premium income of EUR 1.6 billion before consolidation in the year under review – an increase of 164% on the previous year (EUR 0.6 billion). In view of the agreement reached in December 2006 regarding the sale of Praetorian, this company's business is referred to as "discontinued operations" in the Notes to this annual report. For further explanation please see item 5.2 of the Notes "Disposals and discontinued operations". Net premium grew also impressively owing to a further rise in the level of retained premium, climbing by 104.9% to EUR 417.2 million (EUR 203.6 million). The operating result (EBIT) reached EUR 106.1 million (EUR 30.5 million) thanks to an outstanding combined ratio of 78.6%.

Clarendon Insurance Group

In accordance with our strategic planning, Clarendon was transformed in the year under review from an active insurer to a company that manages almost exclusively terminated contracts. In the course of the year Clarendon also transferred to the newly established Praetorian the portfolio of specialty business that is to be continued. Business that was not already in run-off or had not been transferred to Praetorian (such as certain hurricane-exposed property programs in Florida) was actively terminated wherever possible. The company has not yet, however, been able to scale back the residual catastrophe-exposed business to the desired extent due to regulatory restrictions, including state-imposed moratoria. For this reason we were compelled to retain the programme of protection cover for the remaining natural catastrophe exposures – albeit now at considerably increased costs.

The gross premium income booked by Clarendon before consolidation totalled EUR 771.0 million (EUR 1,128.1 million) in the year under review. The bulk of this volume derived from fronting transactions for Praetorian. Net premium therefore totalled a mere EUR 0.2 million. On account of considerable strains from protection covers that had to be purchased one last time to protect expiring windstorm business in Florida, Clarendon's operating result (EBIT) in the year under review was heavily in the red (-EUR 94.6 million).

International Insurance Company of Hannover

Inter Hannover consolidated its existing portfolio from cooperations with various managing general agents in the year under review. New business was, however, selectively expanded – most notably in Spain, Italy and France. Overall, though, rate declines in primary insurance on Europe's main markets had a negative impact on the premium volume and results. The company booked gross premium income of EUR 227.0 million (EUR 279.5 million) and net income of EUR 1.5 million (EUR 4.1 million).

Compass Insurance Company

Our South African subsidiary Compass again benefited from new business relationships in the year under review and extended its premium volume accordingly. Gross premium income climbed to EUR 57.1 million (EUR 45.0 million), while the after-tax profit stood at EUR 1.1 million (EUR 1.1 million).

Total business

The gross premium income booked by all companies transacting specialty insurance contracted by a substantial 28.2% in the year under review to EUR 1.0 billion (EUR 1.5 billion). At constant exchange rates the decline would have been 27.7%.

The operating result (EBIT) deteriorated to -EUR 71.7 million (-EUR 49.7 million) on account of the expensive programme of protection cover purchased for Clarendon. This also explains why the combined ratio surged to 190.6 % – after 111.3 % in the previous year – and should not be considered as having any informational value. Due to the inclusion of Praetorian's very good profit contribution as a discontinued operation, Group net income nevertheless climbed to EUR 41.2 million (-EUR 2.4 million). This corresponded to earnings of 34 cents (-2 cents) per share.

South African subsidiary Compass expands its business

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%), the S&P 500 (+15.8%) and the Nikkei (+7.9%).

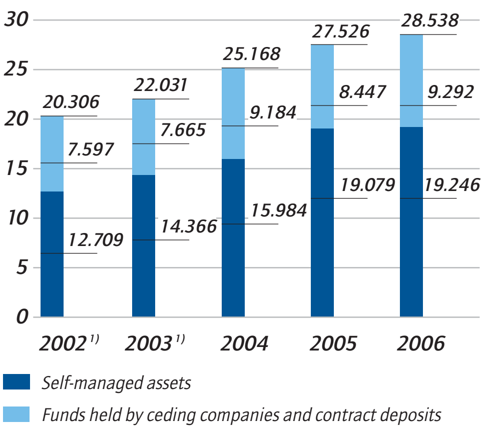
Prime rates moved sharply higher by 100 basis points in both the USA (to 5.25%) and the Eurozone (to 3.50%). The yield curve in the Eurozone flattened gradually in the course of the year, albeit without inverting markedly as was the case in the USA. Ten-year US treasury bonds yielded average returns 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.

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.

Investments

in EUR billion



1) 2002–2003 on a US GAAP basis

Active risk management on the basis of balanced risk/return analyses

Partnership

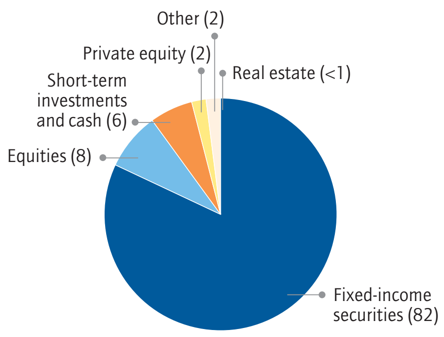
In so-called "fungus farms" leaf-cutting ants help to cultivate fungus by themselves cutting up leaves for use as substrate, which the fungus needs to grow. Such fungus colonies are only able to function so smoothly and efficiently because the diverse range of activities – from transportation of the leaves to creation of the substrate – is closely harmonised. What is more, they are geared to generating maximum benefit for the entire colony.

The Hannover Re Group focuses on the rapid, flexible and undogmatic maximisation of business opportunities. Spread across more than 100 subsidiaries, branches and representative offices in roughly 20 countries, our 2,000 employees cooperate perfectly so as to make the most of every available opportunity. Thanks to our partners, we have evolved into one of the most profitable reinsurance groups in the world in the space of just 30 years.

Net investment income improves by 5.9%

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.

Breakdown of investments in %



Within the scope of our asset/liability management activities, the allocation of investments by currency is determined by the development of underwriting items on the liabilities side of the balance sheet. We are thus able to achieve extensive currency matching of assets and liabilities, thereby ensuring that our result is not significantly affected by fluctuations in exchange rates. As at year-end 41.5% of our asset portfolio was held in US dollars, 42.6% in euros and 6.6% in pounds sterling.

Quality of fixed-income securities consistently high

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 19.2 billion (EUR 19.1 billion) despite the weak US dollar and rise in average yields. Ordinary income, which was positively affected by the increased average yields, came in considerably higher than in the previous year at EUR 784.8 million (EUR 654.6 million).

Deposit interest and expenses contributed EUR 221.9 million (EUR 351.6 million) on balance to net investment income. Gains of altogether EUR 305.1 million were realised on disposals in the reporting period as part of our active management approach, as against losses of EUR 87.7 million. The positive balance of EUR 217.4 million thus came in higher than in the previous year (EUR 162.2 million). Net investment income consequently improved by 5.9% year-on-year to EUR 1,181.2 million (EUR 1,115.8 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 4.0 as at year-end 2006.

Our portfolio of fixed-income securities as at 31 December 2006 was virtually unchanged at EUR 15.7 billion, a rise of 0.4%. The increase in yields in Euroland led to the realisation of losses in the bond portfolio totalling EUR 24.1 million (EUR 44.2 million) on balance. In view of the 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 short- or medium-duration instruments. Unrealised losses in our portfolio of fixed-income securities totalled EUR 133.1 million, compared to gains of EUR 56.2 million in the previous year.

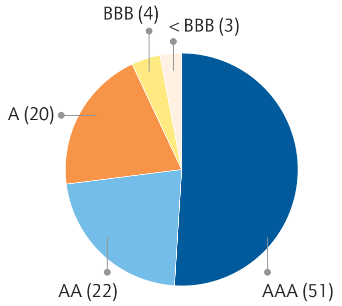
The quality of our fixed-income securities – measured in terms of the average rating of the instruments – was maintained on a consistently high level. The proportion of securities rated "A" or better – at 93.3% – was higher than in the previous year (91.8%).

As at 31 December 2006 we held a total amount of EUR 721.3 million in short-term assets, including overnight money and time deposits, and EUR 351.8 million in current assets. Funds held by ceding companies climbed to EUR 9.3 billion (EUR 8.4 billion).

In light of the favourable trend on stock markets we again realised increased gains on *equities*. The equity allocation increased slightly to around 8% (6%), while in absolute terms the equity portfolio grew to EUR 1,596.3 million (EUR 1,213.3 million). New equity investments were made predominantly in index-tracking instruments from the Eurozone. By using targeted option strategies we exploited market volatilities in order to optimise our portfolio.

Equity allocation slightly higher at 8%

Percentage breakdown of fixed-income securities by rating categories



Of our total holdings of *alternative investments* that have been accumulated steadily over a number of years, an amount of EUR 529.1 million (including uncalled capital) was apportionable to investments in private equity funds, EUR 307.7 million to high-return bond funds and loans, EUR 110.5 million to structured real estate investments and EUR 69.4 million to CDO equity tranches. The fair value of the portfolio showed favourable growth.

Within our *real estate portfolio* altogether eight buildings and undeveloped sites belonging to Hannover Re and E+S Rückversicherung AG worth EUR 110.5 million were sold effective 31 August 2006, thereby realising net gains of EUR 1.8 million.

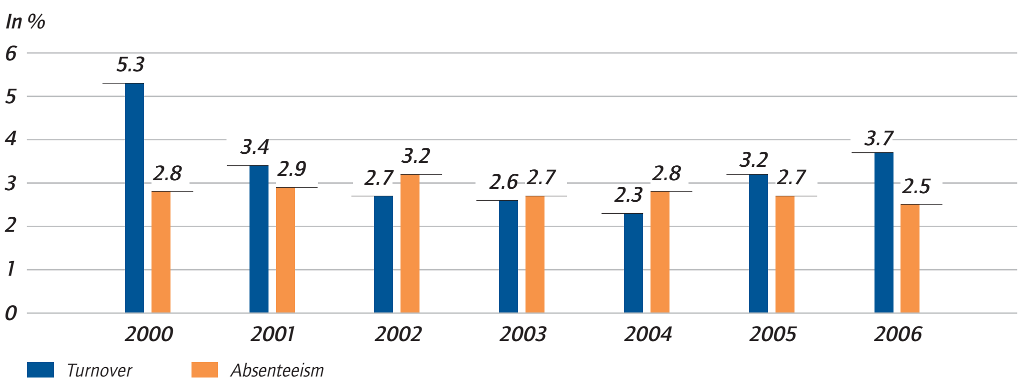
In addition, shares held by our subsidiary Hannover Re Real Estate Holding Ltd. in US real estate companies based in Washington, D.C. and Jacksonville were sold on 13 July and 22 December respectively for a total price of USD 115.3 million. Profits of USD 43.3 million were realised. These transactions were effected in order to profit from the attractive conditions currently prevailing on the real estate market. Hannover Re will continue to invest in real estate in the future; in the current year we shall begin to assemble an international portfolio.

Human resources

Key personnel data

The Hannover Re Group employed 2,002 (1,989) staff as at 31 December 2006. The turnover ratio at Home Office in Hannover of 3.7% (3.2%) – measured in relation to the average workforce of 881 – was on a par with previous years. The rate of absenteeism fell to its lowest level since 2000 at just 2.5%.

Staff turnover and absenteeism

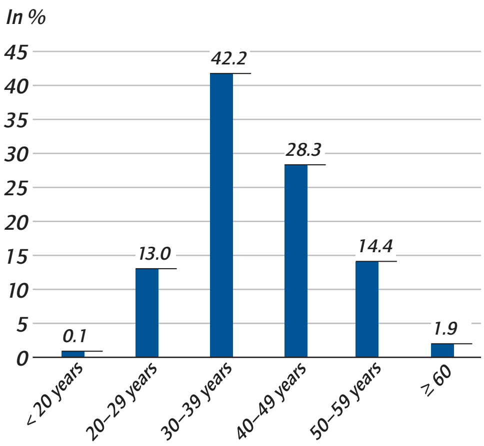


Low staff turnover and absenteeism demonstrate employee satisfaction

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 also plays a role here. 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.

More than half the workforce at our Home Office in Hannover 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.

Age structure



Balance between career and leisure

Part-time working models offer considerable flexibility for staff

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 at Hannover Home Office – 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 Lüneberg and Hannover University of Applied Sciences, and secondly at prominent institutions of higher learning nationwide, 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 for insurance and financial mathematics at the Leibniz University of Hannover.

Total investment in further training: six days for each staff member per year

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 at our Hannover Home Office. 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.

Participation of staff in the Group Performance Bonus (Hannover Home Office)

2006	Number
Senior executives	64
Managerial levels up to the rank of Chief	317
Total participants	381
Proportion of the total workforce	42.7%

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 compensation received by members of the Executive Board and Supervisory Board and their shareholdings please see the remuneration report provided as part of our Corporate Governance report.

Performance-based compensation system for staff in Hannover

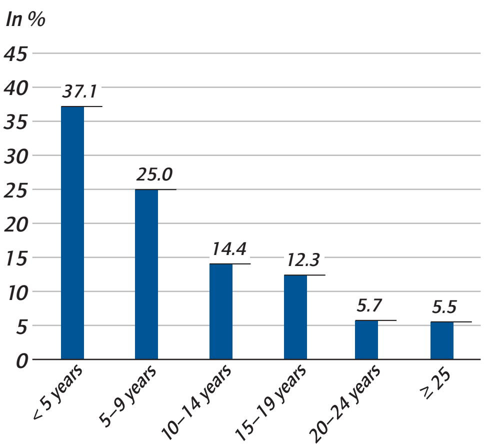
The remuneration report is based on the recommendations of the German Corporate Governance Code and contains information that is also mandatory in accordance with the requirements of § 315 Para. 2 No. 4 German Commercial Code (HGB). This information is discussed as a whole in the remuneration report. Consequently, we have not provided any further explanation in the present management report.

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.

Range of training opportunities to be expanded

Length of service



Breakdown of employees by country

	2006			2005
Country	**Total**	**Male**	**Female**	**Total**
Germany	877	430	447	857
USA	568	264	304	564
South Africa	140	62	78	157
United Kingdom	91	46	45	87
Sweden	78	32	46	82
Australia	50	23	27	50
France	38	20	18	42
Malaysia	31	14	17	32
Ireland	34	17	17	28
Mexico	19	11	8	19
Bermuda	19	13	6	17
China	18	5	13	20
Italy	12	5	7	12
Japan	7	5	2	7
Spain	6	1	5	6
Canada	5	1	4	6
Bahrain	4	3	1	–
Taiwan	4	2	2	2
Korea	1	1	–	1
Total	2,002	955	1,047	1,989

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

Profitability and sustainability not a contradiction

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 the Hannover Re Group 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

We take our social responsibility seriously

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.

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

The reinsurance of catastrophe risks is part of our core business; a constant knowledge transfer between business and research that enables our company to apply the very latest insights is indispensable. With this in mind 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.

Independence

Instead of taking up chloroplasts through its food supply like any other mollusc, the vivid green sap-sucking slug simply produces them itself. By going against every rule of biology – since photosynthesis is a job for plants –, it thereby frees itself of dependence on cutaneous respiration.

We too shall strive to continue operating with a similar level of independence and economic autonomy. This means that we shall finance our further growth as the Hannover Re Group solely with self-generated profits. We are equally dedicated to ensuring that we avoid any financial imbalances that might necessitate contributions from shareholders.

Performance Excellence

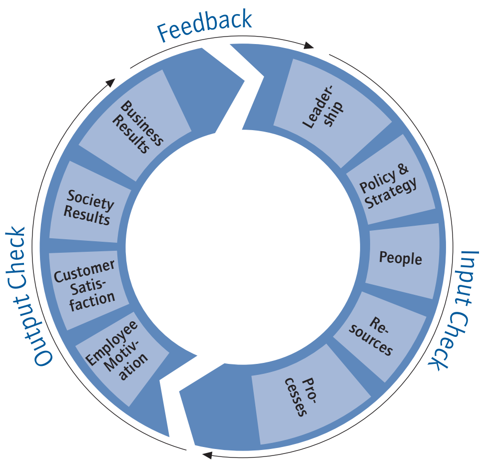
Performance Excellence is a holistic management system

Performance Excellence (PE) is a forward-looking, holistic management system for the entire Hannover Re Group, 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 leadership, policy and strategy, people as well as resources and process management. In so doing, our goal is to achieve optimal results in terms of customer and employee satisfaction as well as business performance.

Hannover Re's headquarters demonstrated its sophisticated quality management by delivering a superb result in the first external IBEC assessment (IQNet Business Excellence Class) covering several areas of the company. Our Home Office in Hannover was praised for its excellent management. With this advanced management system we also have at our disposal an outstanding tool that will enable us to fully satisfy future requirements. Yet not only at the company's main location in Hannover is Performance Excellence a high-priority issue: Hannover Life Re US in Orlando was our first non-German subsidiary to undergo external assessment – and it hit the ground running with a very good result.

Integrated assessment (IBEC)



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.

International reputation

Hannover Re is held in high international esteem. In the year under review a survey conducted by the respected US Flaspöhler Research Group ranked us the best reinsurer in the North American broker market for the second time in succession. Compared to the outcome of the last survey two years ago, the results showed further substantial improvement. Special reference was made to the cordial personal relationships with underwriters in Hannover and our prompt case handling. This is all the more remarkable if we remember that Hannover Re writes its entire North American portfolio from Hannover. As far as market know-how and customer orientation are concerned, geographical distance is evidently no obstacle for Hannover Re.

Best reinsurer in North America for the second time in succession

Risk report

Overall system of risk monitoring and management

We always take our opportunities 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 Group.
- In light of the information currently available, all conceivable risks that could jeopardise the Group'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 depends on the nature of the risk in question.
- The systems are constantly reviewed in light of efficiency considerations and they are ad-

Risk Committee charged with bringing transparency to the entire risk situation justed in line with the prevailing business environment.

Our risk report reflects the requirements of German Accounting Standard DRS 5-20, supplemented by further information in the Notes (Section 6 "Management of technical and financial risks"). The details provided in the Notes are based on the requirements of International Financial Reporting Standard (IFRS) 4.

Structure of our risk management

Risk Committee:
The members are the Chairman of the Executive Board, the Chief Financial Officer, the member of the Board responsible for life reinsurance, the member of the Board responsible for coordinating non-life reinsurance, the Central Divisional Manager Controlling and the Chief Risk Officer.

Group Risk Management:
attends – under the leadership of the Chief Risk Officer – to aggregate control, natural catastrophe modelling, actuarial claims analysis and dynamic financial analysis (DFA) and deals with operational risks and reporting.

Business groups:
Up to and including the year under review Hannover Re's business groups were as follows: property and casualty reinsurance, life and health reinsurance, financial reinsurance, specialty insurance and – from the risk management perspective – investments.

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 casualty),
  – 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).

The additional information to be included in the management report pursuant to § 315 Para. 4 German Commercial Code (HGB) as a consequence of the Takeover Directive Implementation Act is provided in the section "The Hannover Re share."

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 the Group as a whole participate in the strategy review. In addition, within the framework of the annually held Global Management Forum – attended by all senior executives of the Hannover Re Group in Germany and abroad – strategic issues are explored and available courses of action discussed. In the year under review the risk management of the Hannover Re Group was one of the key topics under consideration.

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. The adequacy of our own actuarial calculations is 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 the year under review we not only completed our "K5" transaction but also placed a conventional catastrophe bond, the first time that we had used such a tool. The bond, which has a volume of USD 150 million, was placed with institutional investors from Europe and North America. It covers windstorm events in seven European countries for a period of roughly three years.
- In order to assess the risks posed by natural hazards the Hannover Re Group 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, the natural hazards specialists within the Hannover Re Group 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,

Breakdown of technical operating risks into risks of random fluctuation, risks of error and risks of change

Our reserves are subject to constant internal and external review this data based on individual scenarios is then collated for the portfolio as a whole, which is considered both on a gross basis and for net account after application of the existing retrocession structure. The data described here is also an integral component of our reporting to internal bodies, regulators and rating agencies.

- The extreme events caused by natural disasters in recent years have also demonstrated that it makes sense not only to use purely probabilistic natural hazards models for the purposes of 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.

Qualitative effects of a pandemic on our existing portfolio modelled

- 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 the Hannover Re Group. 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, Home Office in Hannover 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. We therefore took as our starting point a risk spectrum geared to scenarios that the US Centers for Disease Control and Prevention (CDC) designated as "severe" on the basis of the Spanish influenza from the years 1918/1919. It emerged that the financial repercussions of such a pandemic on the various parts of our portfolio differ greatly and are to some extent contradictory, producing a total financial strain in the order of EUR 130–150 million. In this context primary effects, such as deaths caused directly by the virus, were overlaid with secondary effects such as deaths caused by the excessive burden placed on healthcare systems (physicians, clinics) and the default of Hannover Life Re's retrocessionaires. The conclusion drawn from these calculations is that a pandemic on this scale would probably wipe out Hannover Life Re's operating profit (EBIT) for one year, but would not have a lasting negative impact on the portfolio's longer-term value creation.
- The interest guarantee risk, on the other hand, is of only minimal risk relevance due to contractual exclusions.

Financial reinsurance

Hannover Re's financial reinsurance business involves the development of individually structured covers for our clients with a view to stabilising their results and affording balance sheet protection. The primary emphasis here is on financial optimisation rather than a traditional risk transfer. Financial reinsurance as a whole acquired a bad name because some companies were accused of using it to "dress up" their books. Demand for financial reinsurance products crumbled – especially in the USA – as a consequence of this uncertainty and the protracted discussions surrounding the business practices of certain companies. In the year under view, however, we are pleased to report that business once again developed according to plan. We have transacted financial reinsurance for more than 25 years and over time we have continuously enhanced our underwriting guidelines and specified them more closely in light of our experience. A specially created Compliance Committee monitors compliance with legal, accounting and underwriting standards and responds to official inquiries, among other tasks. In our assessment, our underwriting guidelines ensure that any potential instances of abuse can be prevented. The closing of contracts after a loss occurrence, backdating of transactions, informal understandings not documented in the contract and the booking of business with no risk transfer as reinsurance are all practices that are prohibited under our underwriting guidelines.

Specialty insurance

Our specialty insurance business group concentrates on niche and non-standard business involving small customer groups and special needs (e.g. unusual occupational risks and fine art collections). In contrast to our other business groups, traditional insurance functions – such as new business acquisition, underwriting and claims settlement – are handled by external specialised managing general agents (MGAs) and other third-party service providers. This very extensive outsourcing of functions gives rise to special risks. The corresponding control mechanisms include:

- regular checks to ensure that managing general agents and outside service providers are in compliance with our restrictive standards,
- on-site inspection of the implemented internal control system.

In the year under review all specialty business written by Clarendon Insurance Group, Inc. was concentrated in the hands of the newly established Praetorian Financial Group, Inc. Henceforth, Clarendon will focus on the management of terminated programs as well as the remaining commodity business. In December 2006 we sold Praetorian so as to be able to concentrate on our core business of reinsurance going forward. The transaction is still subject to the approval of regulators, which we expect to receive in the second quarter of 2007.

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:

Comprehensive risk strategy for the investment portfolio

- Risk limitation in the investment sector takes precedence over return maximisation. The goal is to generate an optimal contribution margin while adhering to defined maximum risk limits.
- Investments are guided by the requirements of the reinsurance business (e.g. with respect to currencies and 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.

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 (e.g. due to a pandemic). 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 company-wide and line-independent basis in all functional areas of the Group.

Assessment of the risk situation

Sophisticated systems and methods used to steer our business

As an internationally operating reinsurance group 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 assets, financial position and net income. Yet such risks always go hand-in-hand with opportunities, since opportunity and risk are two sides of the same coin. 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 assets, financial position or net income.

Further information on our risk management system, and in particular quantitative data on individual risks, is provided in Section 6 of the Notes, "Management of technical and financial risks."

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

Non-life reinsurance

We were broadly satisfied with the renewals as at 1 January – the date when around two-thirds of our treaties are renegotiated. Although the hard market has now peaked and ceding companies are increasingly running higher retentions thanks to improved capital resources, the rate level remained largely stable with only a few exceptions. In areas that did see significant rate reductions (e.g. in aviation business), they generally retreated on what were still rather high price levels. In other areas, such as catastrophe-exposed US property business, further sharp increases were obtained as anticipated. It is gratifying to report that underwriting discipline also held firm among our competitors, and we were therefore again able to achieve prices and conditions that were commensurate with the risks. The effects of the market softening that has begun to set in will not be reflected in our results before 2008/2009.

Winter storm "Kyrill", which swept across large parts of Europe in January 2007 and caused a market loss of EUR 4 to 7 billion, should favourably affect rates in European catastrophe business. For Hannover Re, "Kyrill" produced a net loss burden in the order of EUR 120 to 180 million.

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 good 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.

Prices and conditions in property and casualty reinsurance largely commensurate with the risks

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, when around 85% of our portfolio was renewed. 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 liability 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.

Market development in North America broadly favourable

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. 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. All in all, though, business in Germany developed highly satisfactorily: thanks to new accounts and increased shares under existing customer relationships we were able to further boost our already large market share and extend our position as one of the leading reinsurers in the profitable German market.

Risk management further optimised through capital market transactions

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 raised their 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. Despite the moderate hurricane losses incurred in the USA in 2006, the local market continued to develop favourably in view of the intense hurricane seasons of 2004 and especially 2005. Although rates in catastrophe-exposed property business fell somewhat short of the mid-year renewal date as at 1 July 2006, they were still highly gratifying and around 35% higher than the previous year's level. In light of the increase in natural disasters and the progressive concentration of values, these price increases 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. 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.

In North American casualty business rates held stable in some segments, while slight price erosion made itself felt in other lines. In long-tail casualty business it was, however, possible to obtain price increases. 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 hurricane 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.

Risk management remains a high priority for our company. We have already made provisions across a broad front – and will continue to do so – 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 credit risks associated with reinsurance recoverables to the capital market for the first time. This securitisation enables us to further reduce the default risk on reinsurance recoverables and hence improve the quality of our capital.

Despite the softening tendency on the markets, we consider conditions in non-life reinsurance to be broadly favourable: in view of our focus on profitable, non-proportional business, our opportunistic underwriting policy and our excellent ratings, we are in a position to generate attractive business. We continue to have our sights set firmly on profitable niche segments in non-life reinsurance, and we therefore expect our business to develop favourably in the current financial year and beyond.

Following the sale of Praetorian Financial Group, Inc., our company's US primary insurance subsidiary transacting specialty lines – the deal is expected to be completed in the second quarter of 2007 –, Hannover Re will concentrate exclusively on its core business of reinsurance. Sufficient scope for profitable growth is available to us here – including for example the continuing opportunities in US catastrophe business, in life reinsurance and in Germany as well as through the cultivation of new markets in Central and Eastern Europe and in Sharia-compliant reinsurance.

From 2007 onwards only two strategic business groups: non-life reinsurance and life and health reinsurance

From 2007 onwards we shall limit our segmentation to two strategic business groups, namely "non-life reinsurance" and "life and health reinsurance". Non-life reinsurance will include not only property and casualty lines, but also financial reinsurance and specialty business. Against this backdrop the premium volume in this enlarged business group is expected to come in substantially higher.

We anticipate stronger demand for structured covers. In particular, the progressive changeover to IFRS accounting and the associated increased volatility in results are prompting our clients in Europe to make greater use of such products. The switch from US GAAP to IFRS planned for Japan in the years 2008 to 2010 consequently also offers considerable promise for our future business. Last but not least, the impending implementation of Solvency II – with its capital requirements for the European insurance industry – is also stimulating demand for structured reinsurance solutions.

Since 1 January 2007 we have written structured covers in Ireland solely through Hannover Re Ireland. This company has taken over the business written by E+S Re Ireland and Hannover Re Dublin, our two other providers previously active in this field.

Very healthy profit contribution in non-life reinsurance

The Group's premium income from primary insurance – what used to be its specialty insurance business – will be substantially reduced following the sale of Praetorian. The remaining volume is generated by the subsidiaries Clarendon Insurance Group, Inc. in the USA, Inter Hannover in the United Kingdom and Compass in South Africa. Clarendon will continue to scale back the existing commodity business in the current financial year. Owing to the increased costs of protection cover incurred in the period until June for residual natural catastrophe risks, we expect this part of the Group to post a result in negative territory.

Total non-life reinsurance business is forecast to deliver a very healthy profit contribution, provided the burden of catastrophe losses and major claims remains with the expected value of 8% of net premium. In addition to winter storm "Kyrill", the major losses incurred to date consist of a modest windstorm loss in Northern Europe, flood damage in Indonesia and the crash of a satellite. All in all, net loss expenditure is still within the expected bounds.

Life reinsurance

Hannover Life Re is looking forward to a continued positive climate in both the current year and 2008 that should enable us 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 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.

Significant increase in premium income in life reinsurance

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 steadily 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 our premium income and operating profit (EBIT), even allowing for the strong foundation that we already have in place following the above-average growth achieved in 2006.

Overall business outlook

Bearing in mind the favourable market conditions and further optimisation of our risk management, we are looking forward to another good financial year in 2007: as things currently stand, we expect to generate a return on equity of at least 15%. This is subject to the premise that the burden of catastrophe losses does not significantly exceed the expected level and that there are no unforeseen adverse movements on capital markets. As for the dividend distribution, the company remains committed in this scenario to a payout ratio in the range of 35 to 40%.

Another good financial year anticipated in 2007

In non-life reinsurance we are very well placed to operate profitably even as the market softens. Developments in life reinsurance promise further growth momentum. Our gross premium income in total business will contract appreciably following the sale of Praetorian Financial Group. Based on our improved capital position, however, we will be able to write an increased volume of attractive catastrophe business or enlarge our portfolio in other lines. In other words, the positive effect will more than outweigh the profit lost through the sale of Praetorian.

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.

Based on our current knowledge of market conditions in our two business groups and on the capital markets, we expect to enjoy further good business opportunities in 2008.

We define our long-term goals as follows:

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 reinsurance, on the other hand, we have set ourselves an annual growth target of 12%–15% for both gross premium income and the operating profit (EBIT). Only in this business group are we prepared to contemplate value-enhancing acquisitions.

On the Group level our return-on-equity target is at least 750 basis points above the risk-free interest rate.

Both the earnings per share and the book value per share also constitute central management ratios and performance indicators for our company: our strategic objective is to increase these key figures – together with the operating profit (EBIT) – by at least 10% every year (Triple 10 target).

CONSOLIDATED ACCOUNTS
of the Hannover Re Group

CONSOLIDATED BALANCE SHEET
as at 31 December 2006

Figures in EUR thousand		2006	2005
Assets	**Notes**	**31.12.**	**31.12.**
Fixed-income securities – held to maturity	7.1	1,602,057	458,717
Fixed-income securities – loans and receivables	7.1	915,593	745,982
Fixed-income securities – available for sale	7.1	13,062,150	14,383,176
Fixed-income securities – at fair value through profit or loss	7.1	166,463	88,111
Equity securities – available for sale	7.1	1,586,071	1,213,291
Equity securities – at fair value through profit or loss		10,207	–
Trading	7.1	22,368	22,834
Real estate	7.1	17,979	198,122
Investments in associated companies	7.1	166,646	170,414
Other invested assets	7.1	623,329	563,493
Short-term investments	7.1	721,287	769,758
Cash		351,776	465,161
Total investments and cash under own management		19,245,926	19,079,059
Funds held		8,730,734	8,169,282
Contract deposits		561,426	278,028
Total investments		28,538,086	27,526,369
Reinsurance recoverables on unpaid claims	7.2	3,048,496	4,739,026
Reinsurance recoverables on benefit reserve	7.2	447,537	94,089
Prepaid reinsurance premium	7.2	339,096	463,528
Reinsurance recoverables on other technical reserves	7.2	7,822	19,436
Deferred acquisition costs	7.2	2,228,152	2,228,501
Accounts receivable		2,609,264	3,367,105
Goodwill	7.4	152,639	193,098
Deferred tax assets	7.5	844,921	881,765
Other assets	7.13	261,435	269,000
Accrued interest and rent		2,785	7,290
Assets classified as held for sale		2,906,123	–
		41,386,356	39,789,207

Figures in EUR thousand		2006	2005
Liabilities	**Notes**	**31.12.**	**31.12.**
Loss and loss adjustment expense reserve	7.2	17,596,325	20,210,041
Benefit reserves	7.2	6,109,154	5,779,169
Unearned premium reserve	7.2	1,581,034	1,977,570
Provisions for contingent commissions	7.2	200,769	190,551
Funds held		1,419,444	1,135,479
Contract deposits		3,526,781	2,442,952
Reinsurance payable		1,215,833	1,139,843
Provisions for pensions	7.7	64,559	57,626
Taxes	7.5	190,580	135,678
Provision for deferred taxes	7.5	1,756,897	1,670,876
Other liabilities	7.13	248,854	362,352
Long-term debt and subordinated capital	7.8	1,428,893	1,545,531
Liabilities related to assets classified as held for sale		2,540,847	–
Total liabilities		37,879,970	36,647,668
Shareholders' equity			
Common shares	7.9	120,597	120,597
Nominal value 120,597 Authorised capital 60,299	7.9		
Additional paid-in capital		724,562	724,562
Common shares and additional paid-in capital		845,159	845,159
Cumulative other comprehensive income			
Unrealised gains and losses on investments		144,199	225,391
Cumulative foreign currency translation adjustment		(71,518)	64,934
Other changes in cumulative other comprehensive income	7.10	(1,526)	(1,582)
Total other comprehensive income		71,155	288,743
Retained earnings		1,981,521	1,467,132
Shareholders' equity before minorities		2,897,835	2,601,034
Minority interests		608,551	540,505
Total shareholders' equity		3,506,386	3,141,539
		41,386,356	39,789,207

CONSOLIDATED STATEMENT OF INCOME
for the 2006 financial year

Figures in EUR thousand		2006	2005
	Notes	1.1.–31.12.	1.1.–31.12.
Gross written premium		9,289,323	9,317,351
Ceded written premium		2,199,359	1,937,372
Change in gross unearned premium		134,713	68,293
Change in ceded unearned premium		(132,587)	46,640
Net premium earned		7,092,090	7,494,912
Ordinary investment income	7.1	784,774	654,602
Profit/loss from investments in associated companies	7.1	6,360	3,863
Income/expense on funds withheld and contract deposits	7.1	221,908	351,616
Realised gains on investments	7.1	305,054	269,397
Realised losses on investments	7.1	87,656	107,212
Unrealised gains and losses on investments	7.1	19,157	14,471
Total depreciation, impairments and appreciation of investments	7.1	18,971	21,463
Other investment expenses	7.1	49,470	49,443
Net investment income		1,181,156	1,115,831
Other technical income	7.14	3,281	9,338
Total revenues		8,276,527	8,620,081
Claims and claims expenses	7.2	4,973,072	5,950,761
Change in benefit reserves	7.2	192,761	257,954
Commission and brokerage, change in deferred acquisition costs	7.2	1,932,565	1,876,720
Other acquisition costs	7.2	15,443	18,424
Other technical expenses	7.2	33,988	53,920
Administrative expenses		194,406	215,150
Total technical expenses		7,342,235	8,372,929
Other income and expenses	7.15	(114,358)	(155,544)
Operating profit/loss (EBIT)		819,934	91,608
Interest on hybrid capital		77,782	74,216
Net income before taxes		742,152	17,392
Taxes	7.5	225,077	(43,437)
Net income from continuing operations		517,075	60,829
Net income from discontinued operation		85,694	20,592
Net income		602,769	81,421
thereof			
Minority interest in profit and loss		88,379	32,090
Group net income		514,390	49,331
Earnings per share			
Earnings per share in EUR	7.12	4.27	0.41
from continuing operations in EUR		3.56	0.24
from discontinued operation in EUR		0.71	0.17

CONSOLIDATED STATEMENT
of changes in shareholders' equity 2006

Figures in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)			Retained earnings	Minority interests	Share-holders' equity
			Currency translation	Unrealised gains/losses	Other			
Balance as at 1.1.2005	120,597	724,562	(41,409)	190,389	(1,597)	1,532,611	531,328	3,056,481
Capital increases/additions							5,092	5,092
Capital repayments							(1,536)	(1,536)
Effects pursuant to IAS 8							(15,948)	(15,948)
Income and expense directly recognised in equity			144,522	16,826	(37)	5,787	10,682	177,780
Tax effects on income and expense directly recognised in equity			(38,179)	18,176	52	–	(1,604)	(21,555)
Dividends paid						(120,597)	(19,599)	(140,196)
Net income						49,331	32,090	81,421
Balance as at 31.12.2005	120,597	724,562	64,934	225,391	(1,582)	1,467,132	540,505	3,141,539
Balance as at 1.1.2006	120,597	724,562	64,934	225,391	(1,582)	1,467,132	540,505	3,141,539
Capital increases/additions							10,637	10,637
Capital repayments							(502)	(502)
Income and expense directly recognised in equity			(149,322)	(119,080)	74	(1)	(25,829)	(294,158)
Tax effects on income and expense directly recognised in equity			12,870	37,888	(18)	–	7,559	58,299
Dividends paid							(12,198)	(12,198)
Net income						514,390	88,379	602,769
Balance as at 31.12.2006	120,597	724,562	(71,518)	144,199	(1,526)	1,981,521	608,551	3,506,386

CONSOLIDATED CASH FLOW STATEMENT 2006

Figures in EUR thousand	2006	2005
	1.1.–31.12.	1.1.–31.12.
I. Cash flow from operating activities		
Net income	602,769	81,421
Appreciation/depreciation	133,700	44,715
Net realised gains and losses on investments	(217,398)	(162,185)
Amortisation of investments	246	7,876
Changes in funds held	(540,277)	1,612,331
Net changes in contract deposits	842,039	619,238
Changes in prepaid reinsurance premium (net)	(2,140)	21,080
Changes in tax assets/provisions for taxes	220,691	(106,159)
Changes in benefit reserves (net)	91,892	262,787
Changes in claims reserves (net)	176,397	17,681
Changes in deferred acquisition costs	(82,290)	(141,672)
Changes in other technical provisions	37,114	(11,968)
Changes in clearing balances	629,512	(628,048)
Changes in other assets and liabilities (net)	(320,991)	(62,696)
Cash flow from operating activities	1,571,264	1,554,401
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	51,655	42,047
Purchases	(14,689)	(18,751)
Fixed-income securities – loans and receivables		
Maturities, sales	16,308	1,109,454
Purchases	(224,686)	(1,186,908)
Fixed-income securities – available for sale		
Maturities, sales	5,305,872	8,411,475
Purchases	(6,624,987)	(10,084,051)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	16,701	33,686
Purchases	(55,189)	(14,357)
Equity securities – available for sale		
Sales	1,400,121	1,045,210
Purchases	(1,580,582)	(910,126)
Equity securities – at fair value through profit or loss		
Purchases	(10,135)	–

Figures in EUR thousand	2006	2005
	1.1.–31.12.	1.1.–31.12.
Other trading securities		
Sales	1,209	40,177
Purchases	–	(47,950)
Other invested assets		
Sales	58,454	55,692
Purchases	(111,119)	(92,122)
Affiliated companies and participating interests		
Sales	8,239	12,532
Purchases	(12,344)	(405)
Real estate		
Sales	194,262	12,205
Purchases	(2,910)	(460)
Short-term investments		
Changes	(6,151)	(166,847)
Other changes (net)	(24,413)	(39,463)
Cash flow from investing activities	(1,614,384)	(1,798,962)
III. Cash flow from financing activities		
Contribution from capital measures	10,135	3,556
Dividends paid	(10,486)	(140,196)
Proceeds from long-term debts	17,543	337,326
Repayment of long-term debts	(59,062)	(9,203)
Cash flow from financing activities	(41,870)	191,483
IV. Exchange rate differences on cash	(28,395)	37,188
Change in cash and cash equivalents (I.+II.+III.+IV.)	(113,385)	(15,890)
Cash and cash equivalents at the beginning of the period	465,161	481,051
Change in cash and cash equivalents according to cash flow statement	(113,385)	(15,890)
Cash and cash equivalents at the end of the period	351,776	465,161
Income taxes	(70,207)	(43,737)
Interest paid	(144,292)	(133,751)

SEGMENTAL REPORT
as at 31 December 2006

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

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

Segmentation of assets

Figures in EUR thousand	Property/casualty reinsurance		Life/health reinsurance	
	2006	2005	2006	2005
	31.12.	31.12.	31.12.	31.12.
Assets				
Held to maturity	1,190,502	324,208	63,606	22,349
Loans and receivables	596,593	476,725	63,302	40,219
Available for sale	9,784,224	10,065,983	2,259,864	1,713,446
At fair value through profit or loss	101,500	52,564	36,116	34,338
Trading	15,069	15,345	6,791	6,974
Other invested assets	748,053	881,565	59,883	49,695
Short-term investments	303,623	336,110	153,880	166,824
Cash	148,790	277,828	79,536	47,342
Total investments and cash under own management	12,888,354	12,430,328	2,722,978	2,081,187
Funds held by ceding companies	303,848	206,646	7,624,487	6,497,292
Contract deposits	–	–	561,342	278,028
Total investments	13,192,202	12,636,974	10,908,807	8,856,507
Reinsurance recoverables on unpaid claims	816,053	2,178,090	113,328	107,100
Reinsurance recoverables on benefit reserves	–	–	447,537	94,089
Prepaid reinsurance premium	56,917	131,957	9,591	950
Reinsurance recoverables on other reserves	1,536	(1,087)	6,286	5,353
Deferred acquisition costs	233,968	262,885	1,922,919	1,860,294
Accounts receivable	1,252,268	1,370,080	540,738	732,734
Other assets in the segment	2,430,211	2,234,829	211,189	167,942
Assets classified as held for sale	548,570	–	–	–
Total	18,531,725	18,813,728	14,160,395	11,824,969

Financial reinsurance		Specialty insurance		Consolidation		Total	
2006	2005	2006	2005	2006	2005	2006	2005
31.12.	31.12.	31.12.	31.12.	31.12.	31.12.	31.12.	31.12.
134,256	81,375	40,715	–	172,978	30,785	1,602,057	458,717
118,741	96,376	–	–	136,957	132,662	915,593	745,982
961,505	1,136,026	991,162	1,912,719	651,466	768,293	14,648,221	15,596,467
12,572	1,209	–	–	26,482	–	176,670	88,111
508	515	–	–	–	–	22,368	22,834
15	63	3	706	–	–	807,954	932,029
46,143	161,173	215,137	105,509	2,504	142	721,287	769,758
25,426	12,655	95,695	118,256	2,329	9,080	351,776	465,161
1,299,166	1,489,392	1,342,712	2,137,190	992,716	940,962	19,245,926	19,079,059
794,914	1,455,396	26,493	12,086	(19,008)	(2,138)	8,730,734	8,169,282
84	–	–	–	–	–	561,426	278,028
2,094,164	2,944,788	1,369,205	2,149,276	973,708	938,824	28,538,086	27,526,369
133,394	141,950	2,446,979	2,738,741	(461,258)	(426,855)	3,048,496	4,739,026
–	–	–	–	–	–	447,537	94,089
913	383	292,005	390,253	(20,330)	(60,015)	339,096	463,528
–	–	–	15,170	–	–	7,822	19,436
51,661	6,358	19,604	98,964	–	–	2,228,152	2,228,501
242,969	305,422	647,856	1,006,901	(74,567)	(48,032)	2,609,264	3,367,105
44,122	50,527	146,132	165,874	(1,569,874)	(1,268,019)	1,261,780	1,351,153
–	–	2,357,553	–	–	–	2,906,123	–
2,567,223	3,449,428	7,279,334	6,565,179	(1,152,321)	(864,097)	41,386,356	39,789,207

SEGMENTAL REPORT
as at 31 December 2006

Segmentation of technical and other liabilities

Figures in EUR thousand	Property/casualty reinsurance		Life/health reinsurance	
	2006	2005	2006	2005
	31.12.	31.12.	31.12.	31.12.
Liabilities				
Loss and loss adjustment expense reserve	11,733,397	12,513,061	1,327,846	1,284,403
Benefit reserves	–	–	6,109,154	5,779,169
Unearned premium reserve	1,036,526	1,181,376	40,880	21,057
Provisions for contingent commissions	120,636	119,164	41,070	36,439
Funds held under reinsurance contracts	162,599	472,497	982,037	297,910
Contract deposits	–	–	3,379,187	2,287,462
Reinsurance payable	528,630	415,907	204,110	261,138
Long-term liabilities	56,857	107,432	–	–
Other liabilities in the segment	1,534,258	1,508,227	1,229,294	1,150,229
Liabilities related to assets classified as held for sale	442,509	–	–	–
Total	15,615,412	16,317,664	13,313,578	11,117,807

Financial reinsurance		Specialty insurance		Consolidation		Total	
2006	2005	2006	2005	2006	2005	2006	2005
31.12.	31.12.	31.12.	31.12.	31.12.	31.12.	31.12.	31.12.
1,879,247	2,789,737	3,117,103	4,051,892	(461,268)	(429,052)	17,596,325	20,210,041
–	–	–	–	–	–	6,109,154	5,779,169
146,934	68,613	377,024	769,691	(20,330)	(63,167)	1,581,034	1,977,570
36,229	34,948	2,834	–	–	–	200,769	190,551
47,460	25,707	246,356	339,365	(19,008)	–	1,419,444	1,135,479
147,594	155,490	–	–	–	–	3,526,781	2,442,952
139,254	108,495	419,151	400,915	(75,312)	(46,612)	1,215,833	1,139,843
–	–	–	67,602	1,372,036	1,370,497	1,428,893	1,545,531
141,022	220,240	1,040,753	887,386	(1,684,437)	(1,539,550)	2,260,890	2,226,532
–	–	2,036,004	–	62,334	–	2,540,847	–
2,537,740	3,403,230	7,239,225	6,516,851	(825,985)	(707,884)	37,879,970	36,647,688

SEGMENTAL REPORT
as at 31 December 2006

Segmental statement of income

Figures in EUR thousand	Property/casualty reinsurance		Life/health reinsurance	
	2006	2005	2006	2005
	1.1.–31.12.	1.1.–31.12.	1.1.–31.12.	1.1.–31.12.
Gross written premium	4,619,659	4,639,328	2,793,626	2,425,133
thereof				
From insurance business with other segments	46,173	110,797	–	18,369
From insurance business with external third parties and from discontinued operation	4,573,486	4,528,531	2,793,626	2,406,764
Net premium earned	3,913,831	3,922,880	2,373,369	2,257,613
Net investment income	693,114	544,812	305,396	275,262
Claims and claims expenses	2,915,138	3,507,477	1,495,273	1,415,209
Change in benefit reserves	–	–	192,761	257,954
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	833,215	826,936	823,935	684,142
Administrative expenses	101,617	88,933	49,959	59,315
Other income and expenses	(86,998)	(72,623)	22,684	(23,128)
Operating profit/loss (EBIT)	669,977	(28,277)	139,521	93,127
Interest on hybrid capital	–	–	–	–
Net income before taxes	669,977	(28,277)	139,521	93,127
Taxes	213,267	(47,565)	28,266	24,101
Net income from continuing operations	456,710	19,288	111,255	69,026
Net income from discontinued operation	3,024	(4,209)	–	–
Net income	459,734	15,079	111,255	69,026
thereof				
Minority interest in profit or loss	77,514	10,738	8,620	9,421
Group net income	382,220	4,341	102,635	59,605

Financial reinsurance		Specialty insurance		Consolidation		Total	
2006	2005	2006	2005	2006	2005	2006	2005
1.1.–31.12.	1.1.–31.12.	1.1.–31.12.	1.1.–31.12.	1.1.–31.12.	1.1.–31.12.	1.1.–31.12.	1.1.–31.12.
878,546	924,140	1,047,730	1,459,309	(50,238)	(130,559)	9,289,323	9,317,351
4,065	1,393	–	–	(50,238)	(130,559)	–	–
874,481	922,747	1,047,730	1,459,309	–	–	9,289,323	9,317,351
698,343	833,808	108,562	496,530	(2,015)	(15,919)	7,092,090	7,494,912
104,616	234,674	33,996	46,013	44,034	15,070	1,181,156	1,115,831
464,501	683,166	98,643	359,451	(483)	(14,542)	4,973,072	5,950,761
–	–	–	–	–	–	192,761	257,954
256,264	310,136	72,870	130,055	(7,569)	(11,543)	1,978,715	1,939,726
12,157	5,657	35,374	63,352	(4,701)	(2,107)	194,406	215,150
2,180	7,291	(7,419)	(39,364)	(44,805)	(27,720)	(114,358)	(155,544)
72,217	76,814	(71,748)	(49,679)	9,967	(377)	819,934	91,608
–	–	–	–	77,782	74,216	77,782	74,216
72,217	76,814	(71,748)	(49,679)	(67,815)	(74,593)	742,152	17,392
13,081	15,464	(24,775)	(22,445)	(4,762)	(12,992)	225,077	(43,437)
59,136	61,350	(46,973)	(27,234)	(63,053)	(61,601)	517,075	60,829
–	–	88,202	24,801	(5,532)	–	85,694	20,592
59,136	61,350	41,229	(2,433)	(68,585)	(61,601)	602,769	81,421
3,868	11,931	–	–	(1,623)	–	88,379	32,090
55,268	49,419	41,229	(2,433)	(66,962)	(61,601)	514,390	49,331

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

Investments[1]

Figures in EUR thousand	2006	2005
	31.12.	31.12.
Total investments excluding cash		
Germany	5,873,843	5,138,837
United Kingdom	1,028,814	1,003,165
France	1,044,337	989,583
Other	2,836,679	2,093,018
Europe	10,783,673	9,224,603
USA	6,208,046	7,677,451
Other	536,015	571,724
North America	6,744,061	8,249,175
Asia	281,290	239,891
Australia	551,309	410,876
Australasia	832,599	650,767
Africa	291,548	245,946
Other	242,269	243,407
Total	18,894,150	18,613,898

Gross written premium[1]

Figures in EUR thousand	2006	2005
	1.1.–31.12.	1.1.–31.12.
Gross written premium		
Germany	1,356,733	1,297,181
United Kingdom	1,401,468	1,602,793
France	434,581	351,008
Other	1,188,114	936,382
Europe	4,380,896	4,187,364
USA	3,058,830	3,582,072
Other	389,630	374,399
North America	3,448,460	3,956,471
Asia	550,500	384,678
Australia	403,868	374,992
Australasia	954,368	759,670
Africa	273,309	239,469
Other	232,290	174,377
Total	9,289,323	9,317,351

[1] After elimination of internal transactions within the Group across segments

NOTES
Contents

NOTES

1. Company information

The parent company Hannover Rückversicherung AG ("Hannover Re") and its subsidiaries (collectively referred to as the "Hannover Re Group") transact all lines of property/casualty, life/health and financial reinsurance as well as specialty insurance. The Group maintains business relations with more than 5,000 insurance companies in about 150 countries. With gross premium of approximately EUR 9 billion, Hannover Re is one of the largest reinsurance groups in the world. The company's global network consists of more than 100 subsidiaries, affiliates, branches and representative offices in 20 countries. The Group's German business is conducted exclusively by the subsidiary E+S Rück. We employ over 800 staff in Hannover and roughly 2,000 worldwide. The parent company is a joint-stock corporation, the registered office of which is located at Karl-Wiechert-Allee 50, 30625 Hannover, Germany.

Hannover Rückversicherung AG is a subsidiary of Talanx AG, which in turn is wholly owned by HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI).

2. Accounting principles

Hannover Re is obliged to prepare a consolidated financial statement and group management report in accordance with § 290 German Commercial Code (HGB). Furthermore, HDI is required by §§ 341 i et seq. German Commercial Code (HGB) to prepare consolidated annual accounts that include the annual financial statements of Hannover Re and its subsidiaries. Under § 291 Para. 3 No. 1 German Commercial Code (HGB), the consolidated annual accounts of the parent company do not release Hannover Re from its obligation to compile a consolidated financial statement.

Pursuant to EU Regulation (EC) No. 1606/2002, the present consolidated financial statement and group management report of Hannover Re have been drawn up in accordance with the International Financial Reporting Standards (IFRS) that are to be used within the European Union. We have also made allowance for the supplementary regulations applicable pursuant to § 315a Para. 1 German Commercial Code (HGB) and the supplementary provisions of the parent company's Articles of Association as amended on 12 May 2006.

The consolidated financial statement reflects all IFRS in force as at 31 December 2006 as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), application of which was mandatory for the 2006 financial year.

Since 2002 the standards adopted by the International Accounting Standards Board (IASB) have been referred to as "International Financial Reporting Standards (IFRS)"; the standards dating from earlier years still bear the name "International Accounting Standards (IAS)". Standards are cited in our Notes accordingly; in cases where the Notes do not make explicit reference to a particular standard, the term IFRS is used.

In addition, the German Accounting Standards (DRS) adopted by the German Accounting Standards Committee (DRSC) have been observed insofar as they do not conflict with currently applicable IFRS.

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

The annual financial statements included in the consolidated financial statement were for the most part drawn up as at 31 December. Pursuant to IAS 27.27 there is no requirement to compile interim accounts for Group companies with diverging reporting dates because their closing dates are no earlier than three months prior to the closing date for the consolidated financial statement.

The annual financial statements of all companies were initially drawn up in compliance with the provisions of the respective national laws and then transformed to IFRS in accordance with standard Group accounting and measurement rules.

The consolidated financial statement was drawn up in euros (EUR), the amounts shown have been rounded to EUR thousands and – provided this does not detract from transparency – to EUR millions. Figures indicated in brackets refer to the previous year.

The present consolidated financial statement was examined by the Supervisory Board, adopted at the meeting of the Supervisory Board held on 13 March 2007 and hence released for publication.

New accounting principles

For financial years beginning on or after 1 January 2006 IAS 19 "Employee Benefits" allows the option of recognising actuarial gains and losses from post-employment benefits outside profit or loss. Hannover Re does not intend to take advantage of this option, but will instead continue to apply the previously prescribed corridor method for determining the actuarial gains and losses to be recognised in income.

Under amendments to IAS 21 "The Effects of Changes in Foreign Exchange Rates" translation adjustments resulting from long-term receivables and loans provided between group entities are to be recognised outside profit or loss in a separate component of shareholders' equity. The amendment is applicable to financial years beginning on or after 1 January 2006. This change has no implications for the accounting of intragroup loans within Hannover Re.

In August 2005 IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts" were amended with respect to the accounting of financial guarantee contracts and credit (re-)insurance contracts. Commencing 1 January 2006 credit reinsurance may be accounted in accordance with IAS 39. Hannover Re is not availing itself of this option, but instead continues to include its credit reinsurance business in the technical account.

IFRIC 8 "Scope of IFRS 2" clarifies the scope of IFRS 2 "Share-based Payment", which is also applicable to transactions where an entity receives goods or services in consideration for share-based payment. IFRIC 8 explains that IFRS 2 applies even if the entity cannot specifically identify some or all of the goods or services received. IFRIC 8 is mandatory for financial years beginning on or after 1 May 2006. The Interpretation had no implications for the consolidated financial statement. For further details we would refer the reader to Section 8.3 "Share-based payment."

Standards or changes in standards that have not yet entered into force

The IASB has issued the following standards, interpretations and amendments to existing standards with possible implications for the consolidated financial statement of Hannover Re, application of which is not yet mandatory for the year under review and which are not being applied early by Hannover Re:

As a consequence of the amendment of IAS 1 "Presentation of Financial Statements", disclosures are to be provided in the Notes that enable readers to understand the entity's objectives, policies and processes for managing capital and expand on the information contained in the statement of changes in shareholders' equity. The amended standard is mandatory for financial years beginning on or after 1 January 2007. First-time adoption will result in extended disclosures in the Notes.

In August 2005 the IASB published IFRS 7 "Financial Instruments: Disclosures", which combines the disclosures on financial instruments previously contained in IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and IAS 32 "Financial Instruments: Disclosure and Presentation". In this connection certain disclosure requirements were modified or extended. IFRS 7 is mandatory for financial years beginning on or after 1 January 2007. Hannover Re is currently investigating the implications of the standard for the consolidated financial statement.

3. Accounting policies

3.1 Change in accounting policies

Directly held minority shares in partnerships whose members have a right to redeem their interests are classified as debt (financial liabilities) by IAS 32. Such shares must be measured at the fair value of the redemption amount as at the balance sheet date.

The adjustment was made retrospectively in accordance with IAS 8. In the year under review we therefore recognised directly held minority shares in partnerships for the first time under other liabilities. This did not give rise to a revaluation effect for Hannover Re, since as before shares in partnerships were carried – as an approximation of fair value – at the latest available "net asset value" as at the balance sheet date. Direct minority interests in the profit or loss of partnerships are recognised under other income and expenses. Directly held minority shares of EUR 20.2 million were reclassified as at the balance sheet date, of which EUR 15.9 million was attributable to cumulative effects from previous years. In the current year the corresponding minority interests in profit and loss of EUR 0.4 million were charged to earnings.

3.2 Summary of major accounting policies

Reinsurance contracts: in March 2004 the IASB published IFRS 4 "Insurance Contracts". The first standard governing the accounting of insurance contracts, it divides the "Insurance Contracts" project into two phases. IFRS 4 represents the outcome of Phase I and serves as a transitional arrangement until the IASB defines the measurement of insurance contracts after completion of Phase II. Underwriting business is to be subdivided into insurance or so-called "investment contracts". Contracts with a significant insurance risk are considered to be insurance contracts, while contracts without significant insurance risk are to be classified as investment contracts. The standard is also applicable to reinsurance contracts. IFRS 4 contains fundamental rules governing specific circumstances, such as the separation of embedded derivatives and unbundling of deposit components. In conformity with these basic rules of IFRS 4 and the IFRS Framework, Hannover Re is availing itself of the option of retaining the previously used accounting policies for underwriting items (US GAAP).

Financial assets: as a basic principle we recognise the purchase and sale of directly held financial assets as at the settlement date.

Financial assets held to maturity are comprised of non-derivative assets that entail fixed or determinable payments on a defined due date and are acquired with the intent and ability to be held until maturity. They are measured at amortised cost. Payment of the corresponding premiums or discounts is spread across the duration of the instruments in the statement of income using the effective interest rate method. Depreciation is taken in the event of permanent impairment.

Loans and receivables are non-derivative financial instruments that entail fixed or determinable payments on a defined due date and are not listed on an active market or sold at short notice. They are carried at amortised cost; premiums or discounts are deducted or added within the statement of income using the effective interest rate method until the amount repayable becomes due. Depreciation is taken only to the extent that repayment of a loan is no longer to be expected.

Financial assets at fair value through profit or loss consist of securities held for trading and those classified as measured at fair value through profit or loss since acquisition. In addition, all derivative financial instruments not acquired for hedging purposes are recognised here. Also reported here are all structured securities that would have needed to have been broken down had they been recognised as available for sale – a breakdown which Hannover Re did not make. Trading securities are carried at their fair value on the balance sheet date. If stock market prices are not available for use as fair values, the carrying values are determined – especially in the case of derivatives – using generally acknowledged measurement methods. All unrealised gains or losses from this valuation are recognised in net investment income. Securities held for trading encompass all fixed-income and variable-yield securities that we acquired for trading purposes and with the aim of generating short-term gains. Realised and unrealised gains or losses on financial assets carried at fair value through profit or loss are recognised directly in the statement of income in the period in which they occur.

Financial assets classified as available for sale are carried at fair value; accrued interest is recognised in this context. Unrealised gains and losses arising out of changes in the fair value of securities held as available for sale are recognised – with the exception of currency valuation differences on monetary items – in shareholder's equity after deduction of deferred taxes. All financial instruments that do not satisfy the criteria for classification as held to maturity, loans and receivables, at fair value through profit or loss, or trading are allocated to the category of available for sale.

The fair value of fixed-income and variable-yield securities is determined primarily by means of prices fixed on publicly quoting markets or exchanges on the basis of "bid" prices. If such financial assets are not quoted on public markets, the fair value is calculated on the basis of the acknowledged effective interest rate method or estimated using other financial assets with similar credit rating, duration and return characteristics. Under the effective interest rate method the current market interest rate levels in the relevant fixed-interest-rate periods are always taken as a basis. The fair value of equities and equity-like financial assets is also calculated primarily on the basis of prices fixed on publicly quoting markets and exchanges.

Permanent impairments on all fixed-income and variable-yield securities are recognised directly in the statement of income. In addition, IAS 39.61 (rev. 2003) states that in the case of securities with the character of equity a significant or prolonged decrease in fair value below acquisition cost constitutes objective evidence of impairment. Hannover Re considers securities to be impaired under IAS 39 if their fair value falls significantly, i.e. by at least 20%, or for a prolonged period, i.e. at least nine months, below acquisition cost. In accordance with IAS 39.69 the reversal of impairment losses on equities to the statement of income once impairment has been taken is prohibited, as is adjustment of the cost basis. Impairment is tested in each reporting period using the criteria defined by Hannover Re. If a security is considered to be impaired on the basis of these criteria, IAS 39.68 requires that a value adjustment be recognised in the amount of the fair value less historical cost and less prior value adjustments, meaning that depreciation is taken on the fair value as at the closing date – if available, on the publicly quoted stock exchange price.

Netting of financial instruments: financial assets and liabilities were only netted and recognised in the appropriate net amount where expressly permitted in law (reciprocity; similarity and maturity), in other words if the intention is to offset such items on a net basis and this offsetting can be effected simultaneously.

Other invested assets are for the most part recognised at nominal value. Insofar as such financial assets are not listed on public markets (e.g. participating interests in private equity firms), they are carried at the latest available "net asset value" as an approximation of the fair value.

Investments in associated companies are valued at equity on the basis of the proportionate shareholders' equity attributable to the Group. Under IAS 28.23, which requires the application of the equity method based on the investor's share of the results of operations of the investee, the goodwill apportionable to the associated companies must be recognised together with the investments in associated companies. The year-end result of an associated company relating to the Group's share is included in the net investment income and shown separately. As a general rule, the shareholders' equity and year-end result are taken from the associated company's latest available annual financial statement.

Real estate used by third parties (investment property) is valued at cost less scheduled depreciation and impairment. Straight-line depreciation is taken over the expected useful life – at most 50 years. Under the impairment test the market value of real estate for third-party use (recoverable amount) is determined using acknowledged valuation methods, compared with the carrying value and unscheduled depreciation is taken where necessary. Maintenance costs and repairs are expensed. Value-enhancing expenditures are capitalised if they extend the useful life.

Cash is carried at face value.

Funds held are receivables due to reinsurers from their clients in the amount of their contractually withheld cash deposits; they are recognised at acquisition cost (nominal amount). Appropriate allowance is made for credit risks.

Accounts receivable: the accounts receivable under reinsurance business and the other receivables are carried at nominal value; value adjustments are made where necessary on the basis of a case-by-case analysis.

Deferred acquisition costs principally consist of commissions and other variable costs directly connected with the acquisition or renewal of existing reinsurance contracts. These acquisition costs are capitalised and amortised over the expected period of the underlying reinsurance contracts. Deferred acquisition costs are regularly tested for impairment.

Reinsurance recoverables on technical reserves: shares of our retrocessionaires in the technical reserves are calculated according to the contractual conditions on the basis of the gross technical reserves. Appropriate allowance is made for credit risks.

Intangible assets: in accordance with IFRS 3 "Business Combinations" scheduled depreciation is not taken on goodwill; instead, unscheduled depreciation is taken where necessary after an annual impairment test. For the purposes of the impairment test, goodwill is to be allocated pursuant to IAS 36 "Impairment of Assets" to so-called "cash generating units" (CGUs). Each CGU to which goodwill is allocated should represent the lowest level on which goodwill is monitored for internal management purposes and may not be larger than a primary or secondary segment. Following allocation of the goodwill it is necessary to determine for each CGU the recoverable amount, defined as the higher of the value in use and the fair value less costs to sell. The recoverable amount is to be compared with the book value of the CGU including goodwill. When the latter exceeds the recoverable amount, an impairment expense is to be recognised. The other intangible assets largely consist of purchased and self-developed software. This is recognised at acquisition cost less scheduled depreciation. The other intangible assets also contain – within the scope of corporate acquisitions – the expected present value of future profits (PVFP) at the time of acquisition of already existing life reinsurance portfolios; amortisation is taken according to the periods of the underlying acquired contracts. Intangible assets are regularly tested for impairment and unscheduled depreciation is taken where necessary.

Deferred tax assets: IAS 12 requires that assets-side deferred taxes be established if assets had to be recognised in a lower amount or liabilities in a higher amount in the consolidated balance sheet than in the tax balance sheet and if these differences will be cancelled out again for tax purposes in the future (so-called temporary differences). Deferred tax assets are also to be recognised on tax loss carry-forwards. Insofar as unrealised losses on securities are carried directly in shareholders' equity (cf. explanatory notes on financial assets held as available for sale), the resulting deferred tax assets are also recognised outside the statement of income. Valuation allowances are made for deferred tax assets as soon as realisation of the receivable no longer appears likely.

Other assets are accounted for at amortised cost. Own-use real estate is measured in the same way as investment property.

Technical reserves: the technical reserves are shown for gross account in the balance sheet, i.e. before deduction of the share attributable to our reinsurers; cf. here the remarks concerning the corresponding assets. The reinsurers' portion is calculated and accounted for on the basis of the individual reinsurance contracts.

Loss and loss adjustment expense reserves are constituted for payment obligations from reinsurance losses that have occurred but have not yet been settled. They are subdivided into reserves for reinsurance losses reported by the balance sheet date and reserves for reinsurance losses that have already been incurred but not yet reported (IBNR) by the balance sheet date. The loss and loss adjustment expense reserves are based on estimates that may diverge from the actual amounts payable. In reinsurance business a considerable period of time may elapse between the occurrence of an insured loss, notification by the insurer and pro-rata payment of the loss by the reinsurer. For this reason the best estimate of the future settlement amount is carried. With the aid of actuarial methods, the estimate makes allowance for past experience and assumptions relating to the future development. With the exception of a few reserves, future payment obligations are not discounted.

Benefit reserves are comprised of the underwriting reserves for guaranteed claims of ceding companies in life and health reinsurance. Benefit reserves are determined using actuarial methods on the basis of the present value of future payments to cedants less the present value of premium still payable by cedants. The calculation includes assumptions relating to mortality, disability, lapse rates and the future interest rate development. The actuarial bases used in this context allow an adequate safety margin for the risks of change, error and random fluctuation. They correspond to those used in the premium calculation and are adjusted if the original safety margins no longer appear to be sufficient.

Unearned premium is premium that has already been collected but is allocated to future risk periods. In reinsurance business flat rates are sometimes used if the data required for calculation pro rata temporis is not available.

Deferred tax liabilities: in accordance with IAS 12 deferred tax liabilities must be accounted for if assets are to be recognised in a higher amount or liabilities in a lower amount in the consolidated balance sheet than in the tax balance sheet and if these differences will be cancelled out again in the future for tax purposes (so-called temporary differences).

Long-term liabilities principally consist of subordinated debts that can only be satisfied after the claims of other creditors in the event of liquidation or bankruptcy. They are measured at amortised cost. Liabilities to holders of minority shares in partnerships arising out of long-term capital commitments are measured at the fair value of the redemption amount as at the balance sheet date.

Shareholders' equity: the items "common shares" and "additional paid-in capital" are comprised of the amounts paid in by the parent company's shareholders on its shares. In addition to the statutory reserves of the parent company and the allocations from net income, the retained earnings consist of reinvested profits generated by the Hannover Re Group companies in previous periods. What is more, in the event of a retrospective change of accounting policies, the adjustment for previous periods is recognised in the opening balance sheet value of the retained earnings and comparable items of the earliest reported period. Unrealised gains and losses from the fair value measurement of financial instruments held as available for sale are carried in cumulative other comprehensive income under unrealised price gains/losses from investments. Translation differences resulting from the currency translation of separate financial statements of foreign subsidiaries are recognised under gains and losses from currency translation.

Minority interests are shares in the equity of affiliated companies not held by companies belonging to the Group. IAS 1 "Presentation of Financial Statements" requires that minority interests be recognised separately within Group shareholders' equity. The minority interest in profit or loss is shown separately as profit appropriation following the net income ("thereof" note). This item refers mainly to minority interests in E+S Rück AG and its subsidiaries.

3.3 Major discretionary decisions and estimates

In the consolidated financial statement it is to some extent necessary to make estimates and assumptions which affect the assets and liabilities shown in the balance sheet, the information on contingent claims and liabilities as at the balance sheet date and the disclosure of income and expenses during the reporting period. Key facts and circumstances subject to such assumptions and estimates include, for example, the recoverability of contingent reinsurance liabilities, the recoverability of investments in associated companies, the valuation of derivative financial instruments as well as assets and liabilities relating to employee benefits. The actual amounts may diverge from the estimated amounts.

In order to measure the "ultimate liability" the expected ultimate loss ratios are calculated in non-life business with the aid of actuarial methods such as the "chain ladder" method. The development until completion of the run-off is projected on the basis of statistical triangles from the original notifications of ceding companies. In this context it is generally assumed that the future rate of inflation of the loss run-off will be analogous to the average rate of the past inflation contained in the data. The more recent underwriting years in actuarial projections are of course subject to greater uncertainty, although this can be considerably reduced with the aid of a variety of additional information on improvements in the rates and conditions of the business written and on loss trends. The amounts arrived at as the difference between the ultimate losses and the reported losses are set aside as the IBNR reserve for losses that have been incurred but are not yet known or have still to be reported.

By analysing a broad range of observable information it is possible to classify losses as major individual loss events. Measurement of the obligations existing in this connection is carried out using a separate process, which is based largely on contract-specific estimates.

For further details, for example concerning the modelling of natural catastrophe scenarios and the assumptions relating to asbestos and pollution risks, the reader is referred to our comments in Section 6 "Management of technical and financial risks". We would further refer to our explanatory remarks on the technical reserves in Section 3.2 "Summary of major accounting policies" and Section 7.2 "Technical assets and liabilities."

In life business too the calculation of reserves and assets is crucially dependent on actuarial projections of the covered business. So-called model points are defined according to the type of business covered. The main distinguishing criteria are the age, sex and (non-)smoker status of the insured, tariff, policy period, period of premium payment and amount of insurance. The portfolio development is simulated for each model point, in which regard the key input parameters are either predefined by the tariff (e.g. allowance for costs, amount of premium, actuarial interest rate) or need to be estimated (e.g. mortality or disability rates, lapse rates). These assumptions are heavily dependent on country-specific parameters and on the sales channel, quality of the cedant's underwriting and claims handling, type of reinsurance and other framework conditions of the reinsurance treaty. The superimposition of numerous model points gives rise to a projection, which incorporates inter alia assumptions concerning the portfolio composition and the commencement of covered policies within the year. Such assumptions are estimated at the inception of a reinsurance treaty and subsequently adjusted to the actual production.

The projections, which cover various model scenarios ("conservative assumptions" versus "best estimate"), constitute the starting point for numerous areas of application encompassing quotation, the determination of carrying values and embedded values as well as contract-specific analyses, e.g. regarding the appropriateness of the recognised reinsurance liabilities ("liability adequacy test"). In this context we would refer the reader to our comments on technical assets and reserves in Section 3.2 "Summary of major accounting policies" and on the "liability adequacy test" in Section 7.2 "Technical assets and liabilities."

In determining the carrying values for certain financial assets it is sometimes necessary to make assumptions in order to calculate fair values. In this regard we would refer the reader to our remarks in Section 3.2 "Summary of major accounting policies" concerning financial assets at fair value through profit or loss and securities held as available for sale. Assumptions concerning the appropriate applicability criteria are necessary when determining the need for impairments on non-monetary financial assets held as available for sale. In this regard we would again refer the reader to our explanatory remarks in Section 3.2 "Summary of major accounting policies."

4. Consolidated companies and consolidation principles

Hannover Rückversicherung AG is the parent company of the Group. The consolidated financial statement includes eleven German and eighteen foreign companies, as well as three foreign subgroups. Four German and three foreign associated companies were consolidated using the equity method.

In conformity with Item 7.1.4 of the recommendations of the German Corporate Governance Code as amended on 12 June 2006, the following table also lists major participations in unconsolidated third companies.

The figures for the capital and capital reserves as well as the result for the last financial year are taken from the local financial statements drawn up by the companies.

Companies included in the consolidated financial statement

Name and registered office of the company (Figures in currency units of 1,000)	Participation in %		Capital and reserves	Result for the last financial year
Affiliated companies resident in Germany				
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany	100.0	EUR	2,504,843	184,343
Zweite Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany	100.0	EUR	380,000	4
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover/Germany[1]	94.3	EUR	82,678	1,966
HAPEP II Holding GmbH, Hannover/Germany[1]	94.3	EUR	52,758	2,463
GbR Hannover Rückversicherung AG/ E+S Rückversicherung AG Grundstücksgesellschaft, Hannover/Germany	77.9	EUR	60,655	968
Hannover Euro Private Equity Partners III GmbH & Co. KG, Hannover/Germany[1]	63.8	EUR	36,131	769
HEPEP III Holding GmbH, Hannover/Germany[1]	63.8	EUR	14,013	2,787
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Hannover/Germany[1]	57.3	EUR	8,942	(64)
E+S Rückversicherung AG, Hannover/Germany	55.8	EUR	490,681	70,400
Hannover Euro Private Equity Partners II GmbH & Co. KG, Hannover/Germany[1]	54.9	EUR	32,296	3,328
HEPEP II Holding GmbH, Hannover/Germany[1]	54.9	EUR	23,002	1,118
Affiliated companies resident abroad				
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland[2]	100.0	EUR	164,125	11,023

Name and registered office of the company (Figures in currency units of 1,000)	Participation in %	Capital and reserves		Result for the last financial year
Hannover Finance (Luxembourg) S.A., Luxembourg/Luxembourg	100.0	EUR	82,934	(35,908)
Hannover Finance (UK) Limited, Virginia Water/United Kingdom	100.0	GBP	116,089	(10)
Hannover Life Reassurance Company of America, Orlando/USA	100.0	USD	111,396	2,380
Hannover Life Reassurance (Ireland) Ltd., Dublin/Ireland [2)]	100.0	EUR	245,894	63,772
Hannover Life Reassurance (UK) Ltd., Virginia Water/United Kingdom	100.0	GBP	37,939	5,888
Hannover Re Advanced Solutions Ltd., Dublin/Ireland [3)]	100.0	EUR	31	–
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda [2)]	100.0	EUR	952,260	130,529
Hannover Reinsurance (Dublin) Ltd., Dublin/Ireland [2)]	100.0	EUR	199,803	27,141
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland [2)]	100.0	EUR	525,351	64,438
Hannover ReTakaful B.S.C. (c), Manama/Kingdom of Bahrain	100.0	BHD	20,000	–
Hannover Services (UK) Ltd., Virginia Water/United Kingdom	100.0	GBP	796	74
International Insurance Company of Hannover Ltd., Bracknell/United Kingdom	100.0	GBP	79,009	(425)
Hannover Finance, Inc., Wilmington/USA [2) 4)]	100.0	USD	679,170	(72,573)
Hannover Finance, Inc. compiles its own subgroup financial statement, including the following major companies in which it holds the following shares:				
Praetorian Financial Group, Inc., Wilmington/USA [2) 4)]	100.0	USD	503,054	6,649
Clarendon Insurance Group, Inc., Wilmington/USA [2) 4)]	100.0	USD	380,827	(79,140)
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa [2)]	100.0	ZAR	147,230	24,275
Hannover Reinsurance Group Africa (Pty) Ltd. compiles its own subgroup financial statement, including the following major companies in which it holds the following shares:				
Hannover Life Reassurance Africa Ltd., Johannesburg/South Africa [2)]	100.0	ZAR	108,177	7,032
Hannover Reinsurance Africa Ltd., Johannesburg/South Africa [2)]	100.0	ZAR	556,779	87,332
Hannover Re Real Estate Holdings, Inc., Orlando/USA [5)]	94.0	USD	232,259	28,027
Hannover Re Real Estate Holdings, Inc. holds a subgroup including the following major companies in which it holds the following shares:				
Summit at Southpoint Corporation, Jacksonville/USA [5)]	94.0	USD	12,999	5,707

Name and registered office of the company (Figures in currency units of 1,000)	Participation in %		Capital and reserves	Result for the last financial year
5115 Sedge Corporation, Chicago/USA [5]	94.0	USD	1,889	179
Penates A, Ltd., Tortola/British Virgin Islands [5]	88.1	USD	89,912	6,014
Kaith Re, Ltd., Hamilton/Bermuda	88.0	USD	719	(280)
WRH Offshore High Yield Partners, L.P., Wilmington/USA [5]	86.7	USD	53,087	4,027
Hannover Life Re of Australasia Ltd., Sydney, Australia	77.9	AUD	165,095	23,715
Associated companies resident in Germany				
Oval Office Grundstücks GmbH, Hannover/Germany	50.0	EUR	59,305	1,305
DSP Deutsche-Senior-Partner AG, Bonn/Germany	49.0	EUR	297	1,279
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany [6]	31.2	EUR	65,613	4,885
HANNOVER Finanz GmbH Beteiligungen und Kapitalanlagen, Hannover/Germany [6]	25.0	EUR	73,967	4,147
Associated companies resident abroad				
ITAS Assicurazioni S.p.A., Trient/Italia [2]	43.7	EUR	57,821	2,546
ITAS Vita S.p.A., Trient/Italia [2]	34.9	EUR	64,886	1,764
WPG CDA IV Liquidation Trust, Grand Cayman/Cayman Islands [7] [11] [12]	26.8	USD	444	(461)
Participations in Germany				
Internationale Schule Hannover Region, Hannover/Germany [8]	11.1	EUR	1,005	190
Participations abroad				
Mediterranean Re, PLC, Dublin/Ireland [6]	33.3	USD	3,925	20
Inter Ocean Holdings Ltd., Hamilton/Bermuda [9] [10]	9.1	USD	71,501	(1,410)

[1] *Financial year as at 30 September 2006*
[2] *Provisional (unaudited) figures*
[3] *Inactive company*
[4] *IFRS figures*
[5] *US GAAP figures*
[6] *Financial year as at 31 December 2005*
[7] *Company is in liquidation*
[8] *Financial year as at 31 July 2006*
[9] *Consolidated figures*
[10] *Financial year as at 31 October 2005*
[11] *Figures as at 31 August 2006*
[12] *Formerly: WPG Corporate Development Associates IV (Overseas) L.L.C.*

Capital consolidation

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

Minority interests in shareholders' equity are reported separately within Group shareholders' equity in accordance with IAS 1 "Presentation of Financial Statements". The minority interest in profit or loss, which forms part of net income and is shown separately after net income as a "thereof" note, amounted to EUR 88.4 million (EUR 32.1 million) as at 31 December 2006.

Minority shares in partnerships are reported under long-term liabilities in accordance with the applicable version of IAS 32.

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

Debt consolidation

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

Consolidation of expenses and profit

The effects of business transactions within the Group were eliminated.

Consolidation of special purpose entities

Securitisation of reinsurance risks

The securitisation of reinsurance risks is largely structured through the use of special purpose entities. The existence of a consolidation requirement in respect of such entities is to be examined in accordance with SIC–12 "Consolidation – Special Purpose Entities". In cases where IFRS do not currently contain any specific standards, Hannover Re's analysis – in application of IAS 8.12 – also falls back on the relevant standards of US GAAP.

Within the scope of the portfolio-linked securitisation of certain reinsurance risks under transactions concluded in the years 1993 to 1999, Hannover Re retroceded business on a proportional basis to an insurance enterprise in the form of a special purpose entity that finances the business via the international capital markets. The company has been undergoing winding up since February 2003, a process that was completed in the year under review.

Since November 2000 Hannover Re has held voting equity interests in a special purpose entity for the securitisation of reinsurance risks in France and Monaco. The securitisation ended as per the contractual agreement on 18 November 2005. The bonds issued as security were repaid in full to investors. The special purpose entity is expected to be wound up in the first quarter of 2007.

Since 20 September 2002 Hannover Re has held the equity of a special purpose entity for the purchase and handling of so-called "life settlements" through its Irish subsidiary Hannover Life Reassurance (Ireland) Ltd. The equity participation was terminated in June 2006. The special purpose entity is closed for the acceptance of new business and is currently in the process of winding up. Hannover Re does not exercise a controlling influence in any of its business relations with the company.

Under a transaction designated "K5" Hannover Re again used the capital market to securitise reinsurance risks. The transaction had a volume of EUR 314.1 million as at the balance sheet date, which was further increased in January 2007. Please see Section 9.7 "Events after the balance sheet date" for further details. The securitisations were placed predominantly with institutional investors from North America. The portfolio assembled for the securitisation consists of non-proportional reinsurance treaties in the property, catastrophe, aviation and marine lines, including offshore business. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, was used for the transaction. In accordance with SIC–12 the interest in Kaith Re Ltd. has been consolidated since 1 January 2006.

Investments

Within the scope of asset management activities Hannover Re has participated in numerous special purpose entities since 1988, which for their part transact certain types of equity and debt capital investments. On the basis of our analysis of our relations with these entities we concluded that the Group does not exercise a controlling influence in any of these transactions and a consolidation requirement therefore does not exist.

Since May 1994 Hannover Re has participated in a number of special purpose entities for the securitisation of catastrophe risks by taking up certain capital market securities known as "disaster bonds" (or "CAT bonds"). Since Hannover Re does not exercise a controlling influence in any of these transactions either there is no consolidation requirement.

In the third quarter, with the aim of transferring peak exposures deriving from natural disasters to the capital market, Hannover Re issued a catastrophe ("CAT") bond that can be traded on a secondary market – the first time it has used such a tool. The CAT bond with a volume of USD 150 million was placed with institutional investors from Europe and North America by Eurus Ltd., a special purpose entity domiciled in the Cayman Islands. Hannover Re does not exercise a controlling influence over the special purpose entity. In accordance with IAS 39.9 the contract constitutes a derivative, the fair value of which as at 31 December 2006 amounted to EUR 0.1 million and which we carried under other invested assets as at the balance sheet date.

5. Major acquisitions, new formations and other corporate changes

5.1 Acquisitions and new formations

Effective 1 January 2006 Kaith Re Ltd., a Bermuda-based special purpose entity for the securitisation of reinsurance risks, was registered under the Segregated Accounts Act 2000. Since that date Hannover Re has held the majority interest of 88% in the company. The special purpose entity was also consolidated for the first time as at that date.

Hannover Euro Private Equity Partners IV GmbH & Co. KG was consolidated for the first time in the first quarter of 2006. Hannover Re and E+S Rück each hold shares of 36.8% in the company's capital. The company commenced business operations on 1 January 2006. Its purpose is to build, hold and manage an investment portfolio.

Within the subgroup Hannover Finance, Inc., Wilmington, Praetorian Insurance Company, Itasca (formerly Insurance Corporation of Hannover, Itasca), acquired the Wilmington-based Alea North America Specialty Insurance Company effective 29 September 2006 and renamed it Praetorian Specialty Insurance Company. The company has licences to write insurance business in 38 US states, including New York, California and Texas. Revaluation of the assets and liabilities within the scope of the acquisition gave rise to a reduction of EUR 0.5 million relative to the original book values. This resulted from the adjustment of the fair value of assets. The cost of purchase was EUR 26.3 million. Appropriate allowance was made for transaction costs. The transaction gave rise to goodwill of EUR 3.2 million in the third quarter, reflecting the Praetorian Group's improved access to the US market. The transaction as a whole is to be allocated to discontinued operations. We would refer the reader to our explanatory remarks in Section 5.2 "Disposals and discontinued operations" and Section 7.4 "Goodwill; present value of future profits on acquired life reinsurance portfolios."

Effective 3 October 2006 Hannover Re established Hannover ReTakaful B.S.C. (c) domiciled in Manama, Bahrain. Hannover Rück Beteiligung Verwaltungs-GmbH and Hannover Re hold 95% and 5% respectively of the company's shares. Hannover ReTakaful B.S.C. (c) writes worldwide reinsurance in accordance with Islamic law (known as retakaful business) and has received the appropriate licence from the Central Bank of Bahrain (CBB) – formerly Bahrain Monetary Agency. Business operations commenced on 1 January 2007.

5.2 Disposals and discontinued operations

Effective 13 July 2006 Hannover USA Real Estate Corporation, a company belonging to the subgroup Hannover Re Real Estate Holdings, Inc., Orlando, sold its 65% interest in the special purpose vehicle 1201 F Street LLC, Wilmington, the object of which is to hold and manage real estate in Washington, D.C. held as a financial investment. Following transfer of the remaining assets of Hannover USA Real Estate Corporation to Hannover Re Real Estate Holdings the company was wound up in December 2006. In addition, the real estate held by the special purpose entity Summit at Southpoint Corporation, Jacksonville, was sold effective 22 December 2006. The gain on disposal from the two transactions amounting to altogether EUR 34.4 million before tax was recognised under realised gains on investments within our property and casualty reinsurance business group.

On 13 December 2006 Hannover Re reached agreement on the sale of its American subgroup Praetorian Financial Group, Inc., New York (PFG), to an Australian insurance group. Hannover Re holds all shares of PFG indirectly via the intermediate holding company Hannover Finance, Inc., Wilmington (HFI), which is also included in full in the consolidated financial statement and constitutes a subgroup in which other companies still owned by Hannover Re are consolidated together with PFG. The buyer is to acquire all shares of PFG at a purchase price of USD 800.0 million before final price determination. As at the balance sheet date the transaction still required the approval of the competent authorities. Completion of the transaction and hence the associated deconsolidation from Hannover Re is expected in the second quarter of 2007.

Pursuant to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", a component of Hannover Re is deemed to be a discontinued operation if it has been sold or is classified as held for sale as at the balance sheet date and represents a separate major line of business, whose activities and cash flows can be clearly distinguished from continuing activities both operationally and for accounting purposes. The assets of a discontinued operation classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. PFG was classified as a discontinued operation as at the balance sheet date.

In compliance with IFRS 5 we recognise the profit or loss of PFG in both the Group and segmental statement of income for all presented periods after tax in a separate line and disclose the assets and liabilities of the discontinued operation in the 2006 financial year in corresponding balance sheet items that are distinct from continuing operations. In order to avoid distorting effects on the profit and losses of separately disclosed operations, transactions of a long-term nature between the two groups of operations that are continued beyond the disposal date are recognised on an unconsolidated basis.

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

Major assets and liabilities of the discontinued operation

Figures in EUR thousand	2006
Assets	
Total investments	1,143,301
Reinsurance recoverables on unpaid claims	784,064
Prepaid reinsurance premium	308,709
Deferred acquisition costs	91,904
Accounts receivable	524,299
Other assets	53,846
Assets held for sale	2,906,123
Liabilities	
Loss and loss adjustment expense reserves	1,216,960
Unearned premium reserves	683,141
Funds held under reinsurance contracts	414,462
Reinsurance payable	116,236
Other liabilities	110,048
Liabilities related to assets held for sale	2,540,847

Major items in the statement of income of the discontinued operation

Figures in EUR thousand	2006	2005
Gross written premium	2,322,541	725,631
Ceded written premium	1,174,499	344,831
Net change in gross unearned premium	(236,500)	(136,883)
Net premium earned	911,542	243,917
Net investment income	30,331	7,833
Net underwriting result	112,470	27,243
Other income and expenses	(4,675)	(4,485)
Operating profit/loss (EBIT)	138,126	30,591
Interest on hybrid capital	(5,051)	–
Net income before taxes	133,075	30,591
Taxes	47,381	9,999
Net income	85,694	20,592

Statement of cash flows from the discontinued operation

Figures in EUR thousand	2006	2005
Cash flow from operating activities	190,488	(59,793)
Cash flow from investing activities	(364,778)	67,458
Cash flow from financing activities	147,182	64,118
Change in cash and cash equivalents	(27,108)	71,783

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

6. Management of technical and financial risks

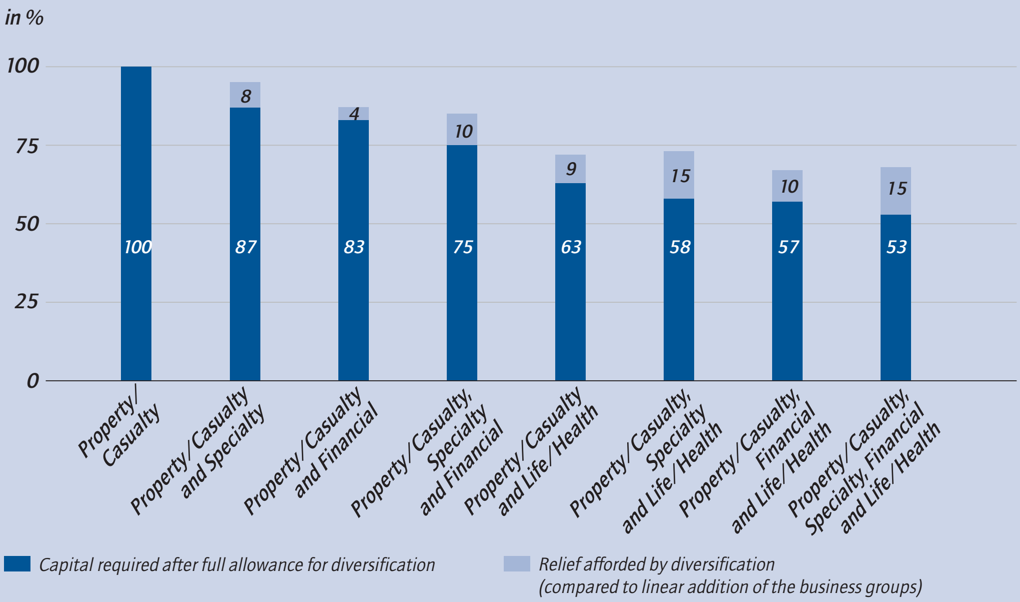
6.1 General risk management

Claims trends around the world as well as developments in relevant legal fields and applicable accounting standards are constantly monitored as part of the management of global risks. Analyses of claims trends paid special attention to losses associated with asbestos, pollution damage, electromagnetic fields and pharmaceutical risks. At the present time we are keeping a particularly close eye on developments in supervisory law (notably with respect to structured products), compliance requirements and tax law.

Hannover Re uses an integrated, internal risk model that is subject to constant refinement. The internal risk model enables us to assess the implications of risks (e.g. capital market risks such as interest rate changes or underwriting risks such as natural catastrophe exposures) for our business segments and lines and hence calculate their profit/loss probability distributions. In addition, with the aid of this integrated approach we are able to gear our general risk/return management to probability distributions for our Group's key balance sheet variables and performance indicators (e.g. shareholders' equity and underwriting result).

Risk spreading across lines of business is referred to as diversification. It reduces the required equity resources and hence enhances the efficiency of the employed capital. We determine the diversification effect using our internal risk model. Depending upon the capital requirement of our business segments and lines and their contribution to diversification, we define the cost of capital to be generated for each business unit.

Diversification effects halve the required capital



Relative to the net premium earned our capital requirement is reduced by 47%.

Not only do we need to take account of all conceivable scenarios, we also have to make a special assessment of certain (extreme or stress) scenarios for risk management purposes. We regularly determine the effects of selected stress scenarios on key balance sheet variables and performance indicators and evaluate them in relation to the planned figures.

Market scenarios

Figures in EUR million	Effect on forecast shareholders' equity	
	2007	2006
Rise in the overall interest rate curve: from 200 basis points for the three-month interest rate to 100 basis points for the 10-year interest rate (with a linear interpolation between the two)	(387)	(465)
Parallel downward shift in the interest rate curve by 100 basis points	337	396
Decline of 35% in global equity markets	(478)	(411)

Stress test for natural catastrophes after retrocessions

Figures in EUR million	Effect on forecast net income	
	2007	2006
100-year loss California earthquake	(240)	(270)
100-year loss European windstorm	(264)	(281)
100-year loss Florida windstorm	(344)	(382)

Bad debt risks are of relevance to our company because the business that we accept is not always fully retained, but instead portions are retroceded as necessary. Our retrocession partners are therefore carefully selected in light of credit considerations. Our large proportion of broker business gives rise to potential default risks (e.g. loss of the premium paid by the cedant to the broker or double payment of claims). This risk potential is therefore actively tracked and minimised with the aid of a number of measures. All broker relationships are reviewed once a year with an eye to criteria such as the existence of professional indemnity insurance, payment performance and proper contract implementation. The bad debt risk can be summarised as follows:

- 95.8% of our retrocessionaires have an investment grade rating (AAA to BBB), and 91.0% thereof are rated "A" or better.
- 34.7% of our recoverables from reinsurance business are secured by deposits or letters of credit. What is more, for the majority of our retrocessionaires we also function as reinsurer, meaning that in principle recoverables can potentially be set off against our own liabilities.
- Since 2002 we have reduced the level of recoverables by altogether 50.7%.
- In terms of the Hannover Re Group's major companies, less than 8.3% of our accounts receivable from reinsurance business were older than 90 days as at the balance sheet date.
- The average default rate over the past three years was 0.6%.

Recoverables from reinsurers

Figures in EUR billion	2002	2003	2004	2005	2006
Recoverables	6.2	4.4	4.2	4.7	3.0

Split of recoverables from reinsurers by external rating classes

Figures in %	AAA	AA	A	BBB	<BBB	No rating
Recoverables	10.6	36.7	43,7	4,8	0,6	3,6

The retention, i.e. the portion of assumed risks that we do not retrocede, developed as follows in recent years:

Retention as a percentage of gross written premium

in %	2006	2005	2004	2003	2002
Hannover Re Group	76.3	79.2	77.6	71.9	65.3
Property and casualty reinsurance	84.9	85.9	83.0	72.2	62.7
Life and health reinsurance	85.4	92.8	90.2	85.1	86.9
Financial reinsurance	89.8	90.6	93.3	94.3	95.2
Specialty insurance	(0.6)	22.5	40.6	46.4	37.8

6.2 Technical risks

Technical risks can be essentially divided into risks of random fluctuation, error and change.

Risks of random fluctuation refer to possible divergences in the collective actual amount of claims from the estimated empirical value as a consequence of random fluctuations in the volume or number of claims.

Risks of error derive from divergences in the collective actual amount of claims from the estimated empirical value due to an inaccurate estimation of the probability distribution of the total loss.

Risks of change describe possible divergences in the collective actual amount of claims from the estimated empirical value as a consequence of the fact that the probability distribution of the total loss unexpectedly experiences a significant change – for example due to economic or legal deviations from the estimation parameters – after the estimation is made.

The most significant technical risks are managed as follows:

The Hannover Re Group uses simulation models to assess the risks associated with natural hazards. These models were adjusted in the wake of the events of 2004 and 2005 and now include the latest expert insights of leading climatologists into possible changes in the frequency and intensity of natural disasters caused by climate changes. In addition, the natural hazards experts of the Hannover Re Group continuously analyse the findings of scientific research into possible changes in the risk situation. The simulation models and know-how of our natural hazards experts provide the basis for determining the maximum exposures that the Group can accept for such risks as well as for calculating our own reinsurance needs. What is more, within various business segments we establish extra safety loadings that are added to the output of our simulation models in order to adjust the basis of our calculations to adequately reflect the risks. Contrary to the increase in the frequency and intensity of natural disasters forecast by experts, this year's loss experience was comparatively favourable. The most significant events for Hannover Re in the year under review were a tornado in March in the Midwest of the United States, cyclone "Larry" in Australia and the catastrophic floods in India. Our burden of losses from these events amounted to EUR 22.3 million for gross account and EUR 19.1 million net.

In the context of regularly performed accumulation controls, the aggregate amounts of the expected exposures from one or more treaties for a specific combination of countries and hazard zones and a specific probability (e.g. 1% probability = 100-year return period) are calculated. These controls have been enhanced with the introduction of realistic extreme loss scenarios.

The combined ratio is tracked over time in order to monitor the risk of losses exceeding premiums in property and casualty reinsurance.

Combined and catastrophe loss ratio over the past ten years

Figures in %	2006	2005	2004	2003[1]	2002[1]	2001[1]	2000[1]	1999[1]	1998[1]	1997[2]
Combined ratio	98.4	112.8	97.2	96.0	96.3	116.5	107.8	111.1	108.1	99.5
Thereof catastrophe losses[3]	2.7	26.3	8.3	1.5	5.2	23.0	3.7	11.4	3.5	1.5

1) Based on figures reported in accordance with US GAAP
2) Based on figures reported in accordance with the German Commercial Code (HGB)
3) Natural catastrophes and other major losses > EUR 5 million gross for the share of the Hannover Re Group as a percentage of net premium earned

The loss reserves in non-life business are determined using actuarial methods, primarily based on information provided by our cedants. Additional reserves are established where necessary on the basis of our own loss assessments. The so-called IBNR (incurred but not reported) reserve is constituted for claims that have probably already occurred but have not yet been reported to us (especially in the liability lines). Broken down into risk categories and regions, the total IBNR reserve established by the Hannover Re Group in the year under review amounted to EUR 2,786.9 million. Our own calculations of the reserves are also regularly reviewed and quality-controlled by external actuaries and auditors. The correct measurement of loss reserves for asbestos- and pollution-related claims is a highly complex matter. Decades may elapse between causation of the loss and reporting of the claim. Hannover Re's exposure to asbestos-related claims and pollution damage is, however, comparatively slight. The relative level of these reserves is measured using the so-called "survival ratio". This ratio expresses how many years the reserves would cover if the average level of paid claims over the past three years were to continue. As at the end of the year under review our survival ratio stood at 26.1.

Run-off triangles are another risk management tool. Such triangles show how the reserve has changed over time as a consequence of paid claims and the recalculation of the reserves that are to be established as at each balance sheet date. Adequacy is monitored using actuarial methods (cf. here our explanatory remarks on technical reserves in Section 7.2 "Technical assets and liabilities").

Reserves for asbestos-related claims and pollution damage

	2006			2005		
	Individual loss reserves in EUR million	IBNR reserves in EUR million	Survival ratio in years	Individual loss reserves in EUR million	IBNR reserves in EUR million	Survival ratio in years
Asbestos-related claims/ pollution damage	23.2	122.9	26.1	21.9	133.6	26.0

The reserves in life business are calculated in accordance with actuarial principles using secure biometric actuarial bases and with the aid of portfolio information provided by our clients. Local supervisory authorities ensure that the reserves established by ceding companies satisfy all requirements with respect to the calculation methods used and assumptions made (e.g. use of mortality and disability tables, assumptions regarding the lapse rate etc.).

Due to the prefinancing of our clients' new business acquisition costs the lapse risk and credit risk are also of major importance. In many instances the interest rate guarantee risk is only of minimal risk relevance owing to contractual exclusions and the use of conservative assumptions.

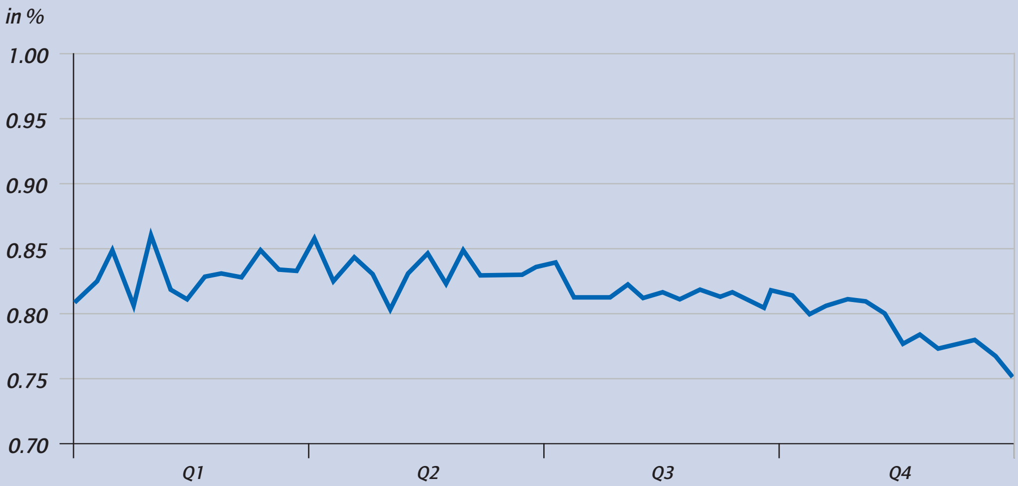
Our asset/liability management is subject to constant enhancement with a view to minimising the interest rate risk.

A key tool of our value-oriented controlling and risk management in the area of life and health reinsurance is systematic tracking of the European Embedded Value (EEV). Together with the results for the first quarter of 2006 Hannover Re for the first time reported the EEV for the 2005 financial year. The EEV replaces the calculation of the value in force of the net portfolio and constitutes an actuarial evaluation of the life and health (re)insurance portfolio. The EEV amounted to EUR 1.3 billion in 2005, an increase of 8.2% compared to 2004. The operating embedded value earnings totalled EUR 112.5 million, while the value of new business stood at EUR 84.7 million. The EEV for 2006 will be presented together with the report on the first quarter of 2007.

6.3 Investment risks

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

Value at Risk[1)] in the Hannover Re Group



[1)] VaR upper limit according to Hannover Re's investment guidelines: 2.5%

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

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

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

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

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

Weighting of major asset classes[1]

Asset classes	Parameter as per investment guidelines	Position as at 31.12.2006
Bonds (direct holdings and investment funds)	At least 50.0%	82.0%
Listed equities (direct holdings and investment funds)	At most 17.5%	8.2%
Real estate	At most 5.0%	0.1%

[1] *Calculated on a fair value basis.*

Rating structure of our fixed-income securities

	Government bonds		Securities issued by semi-governmental entities		Corporate bonds		Asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	90.3	3,613.2	55.2	2,264.1	7.5	383.0	74.2	1,849.0
AA	2.1	83.6	38.0	1,560.6	24.3	1,253.1	21.0	523.1
A	6.0	238.6	5.7	233.8	51.5	2,654.0	1.5	37.5
BBB	1.6	65.6	0.9	36.9	9.6	496,3	0.3	7.5
< BBB	–	–	0.2	8.0	7.1	364,2	3.0	74.2
Total	100.0	4,001.0	100.0	4,103.4	100.0	5,150.6	100.0	2,491.3

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

Portfolio	Scenario	Portfolio change based on fair value in EUR million
Equity securities	Share prices +10%	158.6
	Share prices +20%	317.2
	Share prices (10%)	(158.6)
	Share prices (20%)	(317.2)
	Fair value as at 31.12.2006	1,586.1
Fixed-income securities	Yield increase +100 basis points	(712.1)
	Yield increase +200 basis points	(1,344.8)
	Yield increase (100) basis points	676.3
	Yield increase (200) basis points	1,593.4
	Fair value as at 31.12.2006	15,728.1

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.

For detailed remarks on our risk management system please see the risk report contained in the management report.

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

7.1 Investments including income and expenses

Investments are measured in accordance with IAS 39 "Financial Instruments: Recognition and Measurement."

Hannover Re classifies investments according to the following categories: held-to-maturity, loans and receivables, financial assets at fair value through profit or loss and available-for-sale. The allocation and measurement of investments are determined by the investment intent.

The investments also encompass investments in associated companies, investment property, other invested assets, short-term investments, cash and funds held/contract deposits.

For further explanation please see Section 3.2 "Summary of major accounting policies."

Maturities of the fixed-income and variable-yield securities

Figures in EUR thousand	2006		2005	
	Cost or amortised cost	Fair value	Cost or amortised cost	Fair value
	31.12.	31.12.	31.12.	31.12.
Held to maturity				
due in one year	66,775	66,892	57,293	57,769
due after one through two years	27,742	27,295	49,301	51,086
due after two through three years	–	–	23,118	23,176
due after three through four years	21,615	21,749	–	–
due after four through five years	203,263	204,026	10,538	10,986
due after five through ten years	1,271,484	1,281,502	316,565	342,977
due after ten years	11,178	11,357	1,902	1,902
Total	1,602,057	1,612,821	458,717	487,896
Loans and receivables				
due in one year	27,992	28,147	37,417	37,579
due after one through two years	24,774	25,347	19,015	19,709
due after two through three years	62,218	60,628	24,609	26,934
due after three through four years	123,217	119,212	63,631	62,955
due after four through five years	91,335	87,326	127,626	126,003
due after five through ten years	554,829	534,798	436,778	435,410
due after ten years	31,228	31,213	36,906	36,766
Total	915,593	886,671	745,982	745,356
Available for sale				
due in one year	1,381,230	1,380,347	1,543,185	1,529,823
due after one through two years	1,700,790	1,692,481	1,419,412	1,397,314
due after two through three years	1,678,241	1,637,918	2,037,995	2,028,214
due after three through four years	1,566,342	1,562,701	1,638,228	1,617,552
due after four through five years	1,187,735	1,176,674	1,557,596	1,568,347
due after five through ten years	4,543,454	4,472,663	5,175,331	5,208,951
due after ten years	1,123,275	1,139,366	983,662	1,032,975
Total	13,181,067	13,062,150	14,355,409	14,383,176
Financial assets at fair value through profit or loss				
due in one year	102,378	102,482	51,319	51,319
due after one through two years	895	1,224	4,310	4,489
due after two through three years	–	–	828	939
due after three through four years	–	–	–	–
due after four through five years	–	–	–	–
due after five through ten years	31,840	31,928	–	–
due after ten years	27,411	30,829	31,722	31,364
Total	162,524	166,463	88,179	88,111

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

Variable-rate bonds (so-called "floaters") are shown under the maturities due in one year and constitute our interest-related, within-the-year reinvestment risk.

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

Figures in EUR thousand	2006				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	52,922	–	1,355	813	52,380
US treasury notes	358,281	4,455	–	2,942	365,678
Other foreign government debt securities	6,648	84	–	25	6,757
Debt securities issued by semi-governmental entities	455,039	8,305	1,709	9,402	471,037
Corporate securities	446,116	7,290	3,150	11,536	461,792
Asset-backed securities	252,169	90	3,246	6,164	255,177
Total	1,571,175	20,224	9,460	30,882	1,612,821

Figures in EUR thousand	2005				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Other foreign government debt securities	20,948	117	–	–	21,065
Debt securities issued by semi-governmental entities	117,078	12,092	–	3,585	132,755
Corporate securities	263,719	16,125	153	8,574	288,265
Asset-backed securities	42,786	998	–	2,027	45,811
Total	444,531	29,332	153	14,186	487,896

In the second quarter fixed-income securities with a fair value of EUR 1.4 billion were reclassified from "available for sale" to "held to maturity". Taking account of cash flow projections, these securities will be permanently available to the company. The ability to hold these instruments to maturity enables us to reduce balance sheet volatility.

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

Figures in EUR thousand	2006				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	19,979	–	468	168	19,679
Debt securities issued by semi-governmental entities	220,901	191	9,471	2,755	214,376
Corporate securities	368,929	989	11,325	5,435	364,028
Asset-backed securities	293,129	1,173	10,011	4,297	288,588
Total	902,938	2,353	31,275	12,655	886,671

Figures in EUR thousand	2005				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	226,610	749	2,124	6,206	231,441
Corporate securities	304,674	2,546	2,131	8,540	313,629
Asset-backed securities	197,423	1,528	1,194	2,529	200,286
Total	728,707	4,823	5,449	17,275	745,356

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

Figures in EUR thousand	2006				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	980,946	1,747	12,241	15,982	986,434
US treasury notes	1,899,898	3,215	25,662	22,933	1,900,384
Other foreign government debt securities	289,217	608	1,780	2,068	290,113
Debt securities of semi-governmental entities	3,360,131	11,949	47,231	50,403	3,375,252
Corporate securities	3,801,556	27,667	64,041	72,280	3,837,462
Asset-backed securities	1,864,670	12,471	27,381	25,539	1,875,299
From investment funds	784,131	17,234	15,472	11,313	797,206
	12,980,549	74,891	193,808	200,518	13,062,150
Equity securities					
Shares	428,788	76,980	2,491	–	503,277
From investment funds	944,959	138,076	241	–	1,082,794
	1,373,747	215,056	2,732	–	1,586,071
Short-term investments	720,482	–	–	805	721,287
Total	15,074,778	289,947	196,540	201,323	15,369,508

Figures in EUR thousand	2005				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,147,438	9,131	4,086	19,358	1,171,841
US treasury notes	3,087,349	8,171	35,992	32,381	3,091,909
Other foreign government debt securities	323,305	3,554	1,425	3,735	329,169
Debt securities of semi-governmental entities	3,471,957	37,331	39,336	40,520	3,510,472
Corporate securities	3,959,214	64,958	40,542	67,096	4,050,726
Asset-backed securities	1,495,295	16,600	13,658	19,014	1,517,251
From investment funds	678,483	23,061	–	10,264	711,808
	14,163,041	162,806	135,039	192,368	14,383,176
Equity securities					
Shares	192,338	46,572	999	–	237,911
From investment funds	820,565	154,815	–	–	975,380
	1,012,903	201,387	999	–	1,213,291
Short-term investments	769,160	–	–	598	769,758
Total	15,945,104	364,193	136,038	192,966	16,366,225

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

Figures in EUR thousand	2006		
	Fair value before accrued interest	Accrued interest	Fair value
Financial assets at fair value through profit or loss			
Debt securities of semi-governmental entities	9,488	231	9,719
Corporate securities	150,611	1,683	152,294
Asset-backed securities	4,431	19	4,450
	164,530	1,933	166,463
Equity securities			
From investment funds	10,207	–	10,207
Total	174,737	1,933	176,670

Figures in EUR thousand	2005		
	Fair value before accrued interest	Accrued interest	Fair value
Financial assets at fair value through profit or loss			
Debt securities of semi-governmental entities	8,799	183	8,982
Corporate securities	74,473	497	74,970
Asset-backed securities	4,140	19	4,159
Total	87,412	699	88,111

Fair value of the trading portfolio

As at 31 December 2006 Hannover Re's trading portfolio was comprised exclusively of technical derivatives in an amount of EUR 22.4 million (EUR 22.8 million) that were separated from the underlying transaction and measured at fair value.

Investment income

Figures in EUR thousand	2006	2005
Real estate	15,334	23,512
Dividends	40,215	35,390
Interest income on investments	702,483	579,491
Other income	26,742	16,209
Ordinary investment income	784,774	654,602
Profit or loss on shares in associated companies	6,360	3,863
Interest income on funds withheld and contract deposits	289,909	370,638
Interest expense on funds withheld and contract deposits	68,001	19,022
Realised gains on investments	305,054	269,397
Realised losses on investments	87,656	107,212
Unrealised gains and losses	19,157	14,471
Impairments/depreciation on real estate	4,569	5,986
Impairments on equity securities	7,776	7,696
Impairments on fixed-income securities	–	420
Impairments on participating interests and other financial assets	6,626	7,361
Other investment expenses	49,470	49,443
Total investment income	1,181,156	1,115,831

Interest income on investments

Figures in EUR thousand	2006	2005
Fixed-income securities – held to maturity	76,138	27,790
Fixed-income securities – loans and receivables	29,607	28,033
Fixed-income securities – available for sale	545,450	489,380
Financial assets – at fair value through profit or loss	5,351	4,311
Other	45,937	29,977
Total	702,483	579,491

Valuation of the available-for-sale portfolio affecting shareholders' equity

Figures in EUR thousand	2006	2005
Changes in the other comprehensive income from fair value measurement and transactions	**Other comprehensive income from investments**	
Allocation to gains/losses from the fair-value measurement of the available-for-sale portfolio	(84,444)	92,326
Transfer of gains/losses from the fair-value measurement of the available-for-sale portfolio to the result for the period	(29,662)	(72,814)
Total	(114,106)	19,512

Rating structure of fixed-income securities

Figures in EUR thousand	2006								
	AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity	752,170	350,784	430,610	68,493	–	–	–	–	1,602,057
Fixed-income securities – loans and receivables	301,546	311,219	253,887	43,617	161	5,163	–	–	915,593
Fixed-income securities – available-for-sale	7,045,032	2,730,169	2,473,254	445,955	32,075	284,744	10,117	40,804	13,062,150
Fixed-income securities – at fair value through profit or loss	1,170	28,177	27,543	48,124	24,680	36,061	708	–	166,463
Total fixed-income securities	8,099,918	3,420,349	3,185,294	606,189	56,916	325,968	10,825	40,804	15,746,263
Derivatives	–	(5,820)	(27)	–	–	–	–	–	(5,847)
Total fixed-income securities incl. derivatives	8,099,918	3,414,529	3,185,267	606,189	56,916	325,968	10,825	40,804	15,740,416

Figures in EUR thousand	2005								
	AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity	23,386	140,887	199,423	94,976	45	–	–	–	458,717
Fixed-income securities – loans and receivables	224,208	270,657	185,906	38,604	168	26,439	–	–	745,982
Fixed-income securities – available-for-sale	8,435,903	2,456,396	2,401,855	666,605	46,082	274,791	8,403	93,141	14,383,176
Fixed-income securities – at fair value through profit or loss	906	47,689	8,145	19,328	3,555	6,753	–	1,735	88,111
Total fixed-income securities	8,684,403	2,915,629	2,795,329	819,513	49,850	307,983	8,403	94,876	15,675,986
Derivatives	–	(3,851)	(23,503)	–	–	–	–	–	(27,354)
Total fixed-income securities incl. derivatives	8,684,403	2,911,778	2,771,826	819,513	49,850	307,983	8,403	94,876	15,648,632

Investments were held in the following currencies

Figures in EUR thousand	2006								
	AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
Fixed-income securities – held to maturity	18,238	30,851	880,977	42,857	–	605,025	24,109	–	1,602,057
Fixed-income securities – loans and receivables	–	–	813,482	7,620	–	66,078	–	28,413	915,593
Fixed-income securities – available-for-sale	636,706	325,650	4,485,611	1,118,848	43,268	6,086,480	116,042	249,545	13,062,150
Fixed-income securities – at fair value through profit or loss	–	–	44,717	–	–	121,746	–	–	166,463
Equity securities – available-for-sale	19,728	2,760	1,410,630	6,871	–	122,763	21,490	1,829	1,586,071
Equity securities – at fair value through profit or loss	–	–	10,207	–	–	–	–	–	10,207
Equity securities – trading	–	–	16,089	–	–	6,279	–	–	22,368
Other invested assets	–	–	333,773	3,453	419	465,792	3,775	742	807,954
Short-term investments, cash	31,899	20,107	197,081	87,275	21,854	513,718	92,982	108,147	1,073,063
Total investments and cash	706,571	379,368	8,192,567	1,266,924	65,541	7,987,881	258,398	388,676	19,245,926

Figures in EUR thousand	2005								
	AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
Fixed-income securities – held to maturity	–	–	414,042	–	–	1,902	42,773	–	458,717
Fixed-income securities – loans and receivables	–	–	634,588	7,447	–	76,368	–	27,579	745,982
Fixed-income securities – available-for-sale	675,469	376,014	4,082,874	1,070,078	70,160	7,742,241	108,968	257,372	14,383,176
Fixed-income securities – at fair value through profit or loss	–	–	13,141	–	–	74,970	–	–	88,111
Equity securities – available-for-sale	–	2,768	1,068,347	7,080	–	121,102	13,994	–	1,213,291
Equity securities – trading	–	–	16,075	–	–	6,759	–	–	22,834
Other invested assets	19	–	424,615	3,236	419	494,694	8,406	640	932,029
Short-term investments, cash	38,113	18,527	158,713	74,212	12,618	723,921	118,309	90,506	1,234,919
Total investments and cash	713,601	397,309	6,812,395	1,162,053	83,197	9,241,957	292,450	376,097	19,079,059

Derivative financial instruments

Derivatives are financial instruments, the fair value of which is derived from an underlying instrument such as equities, bonds, indices or currencies. We use derivative financial instruments to a limited extent to hedge parts of our portfolio against interest rate and market price risks, optimise returns or realise intentions to buy/sell. In this context we take special care to limit the risks, select first-class counterparties and rigorously monitor the standards defined by investment guidelines.

The fair values of the derivative financial instruments were determined on the basis of the market information available at the balance sheet date and using the effective interest rate method. If the underlying transaction and the derivative are not carried as one unit, the derivative is recognised in the trading portfolio item on the balance sheet or under the other liabilities.

As at 31 December 2006 the portfolio contained 538 short call option contracts on the S&P 500 index. The underlying volume of these contracts amounted to EUR 57.1 million (EUR 58.2 million) and accounted for 48% (50%) of our holding of USD equities. The fair value of this position totalled EUR 3.2 million (EUR 1.2 million) as at 31 December 2006 and was recognised under the other liabilities. The change in the fair value of these contracts in 2006 amounted to EUR 0.1 million (EUR 0.6 million) and was recognised under unrealised gains in the net investment income. In total, gains of EUR 1.2 million and losses of EUR 4.1 million were realised from option contracts taken out in 2006 on the S&P 500 index.

A small number of treaties in life and health reinsurance meet criteria which require the application of the prescriptions in IFRS 4.7 to 4.9 governing embedded derivatives. These standards require that certain derivatives embedded in reinsurance contracts be separated from the underlying insurance contract ("host contract"), reported separately at fair value in accordance with IAS 39 and recognised under investments. Fluctuations in the fair value of the derivative components are to be recognised in income in subsequent periods.

Within the scope of the accounting of "modified coinsurance" and "coinsurance funds withheld" reinsurance treaties, under which securities deposits are held by the ceding companies and payments rendered on the basis of the income from certain securities of the ceding company, the interest-rate risk elements are clearly and closely related to the underlying reinsurance arrangements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio.

Hannover Re calculates the fair value of the embedded derivatives using the market information available on the valuation date on the basis of a "credit spread" method. Under this method the derivative is valued at zero on the date when the contract is concluded and its value then fluctuates over time according to changes in the credit spread of the securities. The pre-tax improvement in the investment income amounted to altogether EUR 0.2 million (-EUR 2.3 million) as at the balance sheet date.

The derivative components of another group of contracts were measured on the basis of stochastic considerations. The valuation had no effect on investment income (EUR 4.0 million) as at the balance sheet date.

The application of the standards had no significant impact on the consolidated financial statement in the year under review. The fair values of the embedded derivates were recognised in the investments as at the balance sheet date and on this extent increased the investment income by altogether EUR 0.2 million (EUR 1.7 million).

Associated companies

Investments in associated companies

Figures in EUR thousand	2006	2005
Net book value at 31 December of the previous year	170,414	182,082
Currency translation at 1 January	(1,132)	285
Balance at 1 January of the year under review	169,282	182,367
Additions	948	423
Disposals	4,464	8,471
Amortisation	–	809
Adjustment recognised in income	3,962	(3,637)
Adjustment recognised outside income	(3,214)	575
Currency translation at 31 December	132	(34)
Net book value at 31 December of the year under review	166,646	170,414

The investments in associated companies include goodwill in the amount of EUR 21.6 million (EUR 21.6 million).

For further details of our major participating interests please see Section 4 "Consolidated companies and consolidation principles."

Real estate

Real estate is divided into real estate for own use and third-party use (investment property). Only the real estate in the portfolio which is used to generate income is shown under the investments. Real estate is valued at cost of acquisition less scheduled depreciation with useful lives of at most 50 years. Own-use real estate is recognised under other assets.

Income and expenses from rental agreements are included in the investment income.

Development of investment property

Figures in EUR thousand	2006	2005
Gross book value at 31 December of the previous year	290,507	289,905
Currency translation at 1 January	(9,902)	12,779
Net book value at 1 January of the year under review	280,605	302,684
Change in consolidated group	(83,015)	–
Additions	2,911	460
Disposals	162,058	10,039
Reclassification	(12)	(2,623)
Currency translation at 31 December	3,784	25
Gross book value at 31 December of the year under review	42,215	290,507
Cumulative depreciation at 31 December of the previous year	92,385	84,150
Currency translation at 1 January	(1,929)	2,091
Net book value at 1 January of the year under review	90,456	86,241
Change in consolidated group	(16,687)	–
Depreciation		
scheduled	3,961	5,986
unscheduled	608	–
Reclassification	54,785	–
Currency translation at 31 December	683	158
Cumulative depreciation at 31 December of the year under review	24,236	92,385
Net book value at 31 December of the previous year	198,122	205,755
Net book value at 1 January of the year under review	190,149	216,443
Net book value at 31 December of the year under review	17,979	198,122

The disposals relate primarily to the sale of eight developed sites by Hannover Re and E+S Rück, which produced a total net gain on disposal of EUR 1.8 million.

The fair value of investment property amounted to EUR 22.4 million (EUR 240.0 million) as at the balance sheet date. The market value of the real estate was determined using the discounted cash flow method.

Short-term investments

This item comprises investments with an original life of up to one year.

7.2 Technical assets and liabilities

Technical assets

The retrocessionaires' portions of the technical provisions are based on the contractual agreements of the underlying reinsurance treaties. For further details please refer to our remarks on the technical provisions.

SFAS 60 "Accounting and Reporting by Insurance Enterprises" requires that acquisition costs be capitalised as assets and amortised via the statement of income in proportion to the earned premium.

In the case of reinsurance treaties for unit-linked life insurance policies classified as "universal life-type contracts" pursuant to SFAS 97, the capitalised acquisition costs are amortised on the basis of the estimated gross profit margins from the reinsurance treaties, making allowance for the period of the insurance contracts. A discount rate based on the interest for medium-term government bonds was applied to such contracts. In the case of annuity policies with a single premium payment, these values refer to the expected policy period or period of annuity payment.

In life business, the deferred acquisition costs under life and annuity policies with regular premium payments are determined in light of the period of the contracts, the expected surrenders, the lapse expectancies and the anticipated interest income.

In non-life business, acquisition costs directly connected with the acquisition or renewal of contracts are deferred for the unearned portion of the premium.

Development of deferred acquisition costs

Figures in EUR thousand	2006	2005
Net book value at 31 December of the previous year	2,228,501	1,994,273
Currency translation at 1 January	(58,124)	86,552
Balance at 1 January of the year under review	2,170,377	2,080,825
thereof from discontinued operation	31,214	–
Additions	691,918	564,417
Amortisations	610,498	418,166
Portfolio entries/exits	869	(4,579)
Currency translation at 31 December	6,700	6,004
Net book value at 31 December of the year under review	2,228,152	2,228,501

For further explanatory remarks please see Section 3.2 "Summary of major accounting policies."

Technical reserves

In order to show the net technical provisions remaining in the retention the following table compares the gross provisions with the corresponding retrocessionaires' shares shown as assets.

Technical provisions

Figures in EUR thousand	2006			2005		
	Gross	Retro	Net	Gross	Retro	Net
Loss and loss adjustment expense reserve	17,596,325	3,048,496	14,547,829	20,210,041	4,739,026	15,471,015
Benefit reserves	6,109,154	447,537	5,661,617	5,779,169	94,089	5,685,080
Unearned premium reserve	1,581,034	339,096	1,241,938	1,977,570	463,528	1,514,042
Other technical provisions	200,769	7,822	192,947	190,551	19,436	171,115
Total	25,487,282	3,842,951	21,644,331	28,157,331	5,316,079	22,841,252

The loss and loss adjustment expense reserves are in principle calculated on the basis of the information supplied by ceding companies. Additional IBNR reserves are established for losses that have been incurred but not as yet reported. The total amount of the reserves corresponds to the "principle of best estimate" under US GAAP. This estimate is based on past experience and estimations of the future development.

In one subsegment of financial reinsurance technical provisions were discounted at interest rates of between 6.5% and 8.2%. The interest rates are determined by the contractual agreements. The period from inception to expiry of such contracts is at least four years. The discounted amount totals EUR 20.2 million (EUR 44.2 million). As at year-end 2006 the discounted provisions amounted to EUR 105.3 million (EUR 283.3 million).

The development of the loss and loss adjustment expense reserve is shown in the following table. Commencing with the gross reserve, the change in the reserve after deduction of the reinsurers' portions is shown in the year under review and the previous year.

Loss and loss adjustment expense reserve

Figures in EUR thousand	2006			2005		
	Gross	Retro	Net	Gross	Retro	Net
Net book value at 31 December of the previous year	20,210,041	4,739,026	15,471,015	18,247,706	4,163,138	14,084,568
Currency translation at 1 January	(1,359,842)	(355,453)	(1,004,389)	1,759,020	450,146	1,308,874
Reserve at 1 January of the year under review	18,850,199	4,383,573	14,466,626	20,006,726	4,613,284	15,393,442
thereof from discontinued operation	544,894	152,950	391,944	–	–	–
Incurred claims and claims expenses (net)						
Year under review	3,398,535	285,350	3,113,185	6,984,173	2,426,467	4,557,706
Previous years	2,417,523	504,136	1,913,387	1,944,331	392,416	1,551,915
	5,816,058	789,486	5,026,572	8,928,504	2,818,883	6,109,621
less:						
Claims and claims expenses paid (net)						
Year under review	(2,171,200)	(254,203)	(1,916,997)	(4,666,914)	(1,317,949)	(3,348,965)
Previous years	(4,637,998)	(1,760,121)	(2,877,877)	(4,111,368)	(1,377,976)	(2,733,392)
	(6,809,198)	(2,014,324)	(4,794,874)	(8,778,282)	(2,695,925)	(6,082,357)
Specific value adjustment for retrocessions	–	53,500	(53,500)	–	–	–
Portfolio entries/exits	3,717	5,520	(1,803)	(9,011)	572	(9,583)
Reclassification	272,901	–	272,901	–	–	–
Currency translation at 31 December	7,542	37,191	(29,649)	62,104	2,212	59,892
Net book value at 31 December of the year under review	17,596,325	3,048,496	14,547,829	20,210,041	4,739,026	15,471,015

The net book value of the retro shares in the loss reserves of EUR 3,048.5 million includes specific value adjustments of EUR 53.5 million in the current financial year. The total amount of these reserves is EUR 14,766.9 million. The following remarks refer to this figure.

The table below shows the net loss reserve (loss and loss adjustment expense reserve) for property and casualty reinsurance in the years 1996 to 2006 as well as the run-off of the reserve.

To some extent the loss and loss adjustment expense reserves are inevitably based upon estimations that entail an element of uncertainty. The difference between original and current estimates is reflected in the net run-off result. In addition, owing to the fact that the period of some reinsurance treaties is not the calendar year or because they are concluded on an underwriting-year basis, it is frequently impossible in reinsurance business to make an exact allocation of claims expenditures to the current financial year and the previous year. Consequently, the development of earlier years – and especially the immediately preceding year – may be distorted. In our assessment, therefore, informative analyses can only be performed after the elapse of at least two years.

The development of the euro relative to major foreign currencies is also a significant influencing factor in this context. In particular, the decline of the US dollar against the euro compared to the previous year by 11.4% led to an appreciable reduction in the loss and loss adjustment expense reserve on a euro basis.

The run-off triangles show the run-off of the reserve established as at each balance sheet date, this reserve comprising the provisions constituted in each case for the current and preceding occurrence years. The run-off of the reserve for individual occurrence years is not shown in this regard, but rather the run-off of the reserve constituted annually in the balance sheet as at the balance sheet date.

Net loss reserve and its run-off

Figures in EUR million	1996 [1] 31.12.	1997 [1] 31.12.	1998 [2] 31.12.	1999 31.12.	2000 31.12.	2001 31.12.	2002 31.12.	2003 31.12.	2004 31.12.	2005 31.12.	2006 31.12.
Loss and loss adjustment expense reserve (from balance sheet)	4,304.7	4,849.4	5,002.1	5,696.3	6,162.3	6,867.8	5,846.1	6,584.9	7,337.5	9,908.1	10,402.6
Cumulative payments for the year in question and previous years											
One year later	822.1	796.9	1,114.9	1,287.2	1,690.4	1,986.7	1,106.2	1,292.5	1,328.3	1,459.8	
Two years later	1,259.0	1,423.4	1,759.0	2,029.8	2,659.3	2,863.0	1,946.6	2,232.8	2,169.6		
Three years later	1,652.0	1,808.5	2,209.0	2,592.6	3,310.2	3,455.3	2,605.9	2,750.3			
Four years later	1,905.4	2,105.2	2,575.8	3,051.4	3,651.9	3,945.2	2,945.7				
Five years later	2,102.5	2,327.8	2,905.7	3,293.8	3,999.1	4,159.2					
Six years later	2,261.5	2,586.6	3,076.5	3,563.9	4,251.1						
Seven years later	2,468.4	2,707.8	3,281.7	3,726.7							
Eight years later	2,554.5	2,833.3	3,388.5								
Nine years later	2,620.7	2,908.0									
Ten years later	2,678.7										
Loss and loss adjustment expense reserve (net) for the year in question and previous years plus payments made to date on the original reserve											
End of year	4,304.7	4,849 .4	5,002.1	5,696.3	6,162.3	6,867.8	5,846.1	6,584.9	7,337.5	9,908.1	10,402.6
One year later	4,339.1	4,484.9	5,322.2	5,885.0	6,265.1	6,819.3	5,667.7	6,320.4	7,783.7	9,136.7	
Two years later	4,005.9	4,590.9	5,217.8	5,482.1	6,017.5	5,795.6	5,446.8	6,660.3	7,249.1		
Three years later	4,016.0	4,435.9	4,841.0	5,125.7	5,206.6	5,812.6	5,678.2	6,356.7			
Four years later	3,883.9	4,153.7	4,630.3	4,427.8	5,199.8	6,065.4	5,371.0				
Five years later	3,666.3	3,949.5	4,001.5	4,396.1	5,486.6	5,843.4					
Six years later	3,489.2	3,362.4	3,911.8	4,599.2	5,295.3						
Seven years later	3,003.0	3,308.2	4,117.6	4,470.0							
Eight years later	2,960.3	3,459.2	4,007.1								
Nine years later	3,073.1	3,376.7									
Ten years later	2,987.7										
Net run-off result of the loss reserve	1,317.0	1,472.7	995.1	1,226.3	867.0	1,024.4	475.1	228.2	88.3	771.4	
of which currency exchange rate differences	65.5	(227.1)	(33.1)	(513.0)	(745.9)	(1,011.0)	(567.0)	51.2	342.6	(417.8)	
Net run-off result excluding currency exchange rate differences	1,382.4	1,245.7	962.0	713.3	121.1	13.4	(91.9)	279.5	430.9	353.6	
As percentage of original loss reserve	32.1	25.7	19.2	12.5	2.0	0.2	(1.6)	4.2	5.9	3.6	

[1] Figures based on German accounting principles
[2] Since 1998 US GAAP data source

Duration of the technical reserves

IFRS 4.38 in conjunction with 4.39(d) requires information which helps to clarify the amount and timing of cash flows expected from reinsurance contracts. In the following tables we have shown the future maturities of the technical reserves and broken them down by the expected remaining durations. As part of our duration analysis we have directly deducted the deposits put up as security for these reserves, since the cash inflows and outflows from these deposits are to be allocated directly to the ceding companies. For further explanation of the recognition and measurement of the reserves please see Section 3.2 "Summary of major accounting policies."

Maturities of the technical reserves

Figures in EUR thousand	2006					
	Loss and loss adjustment expense reserves			Benefit reserves		
	Gross	Retro	Net	Gross	Retro	Net
Due in one year	4,428,967	909,811	3,519,156	99,817	3,293	96,524
Due after one through five years	6,541,158	1,247,510	5,293,648	202,936	4,748	198,188
Due after five through ten years	2,145,340	333,473	1,811,867	300,334	5,638	294,696
Due after ten through twenty years	1,815,824	297,507	1,518,317	591,278	21,976	569,302
Due after twenty years	1,498,840	87,770	1,411,070	411,547	4,312	407,235
	16,430,129	2,876,071	13,554,058	1,605,912	39,967	1,565,945
Deposits	1,166,196	225,925	940,271	4,503,242	407,570	4,095,672
Total	17,596,325	3,101,996	14,494,329	6,109,154	447,537	5,661,617

Figures in EUR thousand	2005					
	Loss and loss adjustment expense reserves			Benefit reserves		
	Gross	Retro	Net	Gross	Retro	Net
Due in one year	5,017,891	1,346,838	3,671,053	106,051	1,337	104,714
Due after one through five years	7,581,910	1,937,418	5,644,492	138,284	15,273	123,011
Due after five through ten years	2,378,619	518,146	1,860,473	299,281	10,513	288,768
Due after ten through twenty years	2,250,775	430,554	1,820,221	400,427	17,692	382,735
Due after twenty years	1,384,244	106,831	1,277,413	401,487	5,992	395,495
	18,613,439	4,339,787	14,273,652	1,345,530	50,807	1,294,723
Deposits	1,596,602	399,239	1,197,363	4,433,639	43,282	4,390,357
Total	20,210,041	4,739,026	15,471,015	5,779,169	94,089	5,685,080

The average duration of the loss and loss adjustment expense reserves was 5.9 years (5.6 years), or 6.2 years (6.1 years) after allowance for the corresponding retrocession shares. Benefit reserves had an average duration of 13.3 years (13.7 years) – or 13.4 years (13.8 years) on a net basis.

The average duration of the reserves is determined using actuarial projections of the expected future payments. A payment pattern is calculated for each homogenous category of our portfolio – making allowance for the business sector, geographical considerations, treaty type and the type of re-insurance – and applied to the outstanding liabilities for each underwriting year and run-off status.

The payment patterns are determined with the aid of actuarial estimation methods and adjusted to reflect changes in payment behaviour and outside influences. The calculations can also be distorted by major losses, and these are therefore considered separately using reference samples or similar losses. The payment patterns used can be compared year for year by contrasting the projected payments with the actual amounts realised.

Liabilities in liability and motor reinsurance traditionally have long durations, sometimes in excess of 20 years, while liabilities in property business are settled within the first 10 years.

Benefit reserves are established for life, annuity and health reinsurance contracts. Based on the duration of these contracts, long-term reserves are constituted for life and annuity policies and pre-dominantly short-term reserves are set aside for health and personal accident business.

The benefit reserves are calculated on the basis of the following parameters:

1.interest income;
2.lapse rates;
3.mortality and morbidity rates.

The values for the first two components differ according to the country concerned, product type, investment year etc. The mortality and morbidity rates used are chosen on the basis of national tables and the insurance industry standard. Empirical values for the reinsured portfolio, where available, are also taken into consideration. In this context insights into the gender, age and smoker structure are incorporated into the calculations, and allowance is also made for factors such as product type, sales channel and the frequency of premium payment by policyholders.

At the inception of every reinsurance contract, assumptions are made and locked in regarding the aforementioned components 1 to 3 for the purpose of calculating the benefit reserves. At the same time, safety/fluctuation loadings are built into each of these components. In order to ensure at all times that the originally chosen assumptions continue to be adequate throughout the contract, checks are made on a regular – normally annual – basis in order to determine whether these assumptions need to be adjusted ("unlocked").

Benefit reserves are established in accordance with the principles set out in SFAS 60. The provisions are based on the Group companies' information regarding mortality, interest and lapse rates.

Development of the benefit reserves

Figures in EUR thousand	2006			2005		
	Gross	Retro	Net	Gross	Retro	Net
Net book value at 31 December of the previous year	5,779,169	94,089	5,685,080	5,277,529	101,634	5,175,895
Currency translation at 1 January	(116,245)	(2,968)	(113,277)	252,272	3,812	248,460
Reserve at 1 January of the year under review	5,662,924	91,121	5,571,803	5,529,801	105,446	5,424,355
Allocations	337,899	145,138	192,761	271,057	13,103	257,954
Portfolio entries/exits	110,771	211,641	(100,870)	(19,044)	(23,877)	4,833
Currency translation at 31 December	(2,440)	(363)	(2,077)	(2,645)	(583)	(2,062)
Net book value at 31 December of the year under review	6,109,154	447,537	5,661,617	5,779,169	94,089	5,685,080

The unearned premium reserve derives from the deferral of ceded reinsurance premium. The unearned premium is determined by the period during which the risk is carried and established in accordance with the information supplied by ceding companies. In cases where no information was received, the unearned premium was estimated using suitable methods. Premium paid for periods subsequent to the date of the balance sheet was deferred from recognition within the statement of income.

Development of unearned premium reserve

Figures in EUR thousand	2006			2005		
	Gross	Retro	Net	Gross	Retro	Net
Net book value at 31 December of the previous year	1,977,570	463,528	1,514,042	1,825,914	489,085	1,336,829
Currency translation at 1 January	(149,095)	(36,570)	(112,525)	204,812	60,371	144,441
Reserve at 1 January of the year under review	1,828,475	426,958	1,401,517	2,030,726	549,456	1,481,270
thereof from discontinued operation	120,691	(39,084)	159,775	–	–	–
Changes in consolidated group	(134,713)	(132,587)	(2,126)	(53,556)	-75,505	21,949
Portfolio entries/exits	(34)	(20)	(14)	(869)	–	(869)
Currency translation at 31 December	7,997	5,661	2,336	1,269	(10,423)	11,692
Net book value at 31 December of the year under review	1,581,034	339,096	1,241,938	1,977,570	463,528	1,514,042

The adequacy of the technical liabilities arising out of our reinsurance treaties is reviewed as at each balance sheet date. As part of the adequacy test for technical liabilities the anticipated future contractual payment obligations are compared with the anticipated future income. Hannover Re adopts the "loss recognition" method set out under US GAAP. Should the result of the test indicate that the anticipated future income will not be sufficient to fund future payments, the entire shortfall is recognised in income by first writing off capitalised acquisition costs corresponding to the shortfall. Any remaining difference is constituted as an additional provision.

7.3 Contracts without sufficient technical risk

IFRS 4 requires that insurance contracts be differentiated from contracts without sufficient technical risk.

We have identified insurance contracts which do not satisfy the requirements of SFAS 113 "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts". These involve reinsurance treaties under which the risk transfer between the ceding company and the reinsurer is of merely subordinate importance. These contracts were recognised using the so-called "deposit accounting" method and hence eliminated from the technical account. The profit components were netted under other income/expenses. The payment flows resulting from these contracts were reported in the cash flow statement under financing activities. The balances were shown as contract deposits, the fair values of which corresponded approximately to their book values.

The contract deposits increased by EUR 1,083.8 million in the year under review from EUR 2,443.0 million to EUR 3,526.8 million. The rise was due principally to growth in new business in the area of non-traditional life reinsurance.

7.4 Goodwill; present value of future profits on acquired life reinsurance portfolios

In accordance with IFRS 3 "Business Combinations" scheduled amortisation was not taken on goodwill. Goodwill was subject to an impairment test.

Development of goodwill

Figures in EUR thousand	2006	2005
Net book value at 31 December of the previous year	193,098	173,315
Currency translation at 1 January	(17,470)	20,295
Net book value at 1 January of the year under review	175,628	193,610
Additions	3,614	–
Impairments	20,073	485
Disposals allocated to discontinued operation	7,639	–
Currency translation at 31 December	1,109	(27)
Net book value at 31 December of the year under review	152,639	193,098

Goodwill

This item principally includes the goodwill from the acquisition of the Clarendon Insurance Group, Inc. in 1999. For further information on the method used to test impairment the reader is referred to our explanatory remarks in Section 3.2 "Summary of major accounting policies."

The additions of EUR 3.2 million were for the most part attributable to the acquisition of Alea North America Specialty Insurance Company that took place within the subgroup Praetorian Financial Group. The transaction is to be allocated to discontinued operations. In this regard please see our remarks in Section 5.1 "Acquisitions and new formations."

In the context of the planned sale of Praetorian Financial Group by Hannover Finance, Inc. and the associated classification as a discontinued operation, IFRS 5 requires an impairment test for the goodwill existing at the time of such classification. On this basis, an impairment of EUR 19.9 million was taken on the goodwill recognised for Hannover Finance, Inc.

Development of the present value of future profits (PVFP) on acquired life reinsurance portfolios

Figures in EUR thousand	2006	2005
Net book value at 31 December of the previous year	7,472	9,767
Currency translation at 1 January	19	158
Net book value at 1 January of the year under review	7,491	9,925
Impairments	2,407	2,434
Currency translation at 31 December	18	(19)
Net book value at 31 December of the year under review	5,102	7,472

The PVFP, the period of amortisation of which varies between 5.5 and 15 years, is recognised under other assets. For further information please refer to our explanatory notes on intangible assets in Section 3.2 "Summary of major accounting policies."

7.5 Taxes and deferred taxes

Deferred tax assets and liabilities are booked in accordance with IAS 12 for tax reductions and additional tax charges expected in subsequent financial years, insofar as they result from different valuations of individual balance sheet items. In principle, such valuation differences may arise between the national tax balance sheet and the national commercial balance sheet, the uniform consolidated balance sheet and the national commercial balance sheet as well as from tax loss carry-forwards and tax credits. Deferred taxes are based on the current tax rates. In the event of a change in the tax rates on which the calculation of the deferred taxes is based, appropriate allowance is made in the year in which the change in the tax rate is stipulated in law with sufficient certainty. Deferred taxes at the Group level are booked using the Group tax rate of 40%.

Breakdown of actual and deferred income taxes:

Income tax

Figures in EUR thousand	2006	2005
Actual tax for the year under review	96,700	45,689
Actual tax for other periods	33,640	10,830
Deferred taxes due to temporary differences	71,550	(30,890)
Deferred taxes from loss carry-forwards	23,187	(69,916)
Other	–	850
Recognised tax expenditure	225,077	(43,437)

Domestic/foreign breakdown of recognised tax expenditure/income

Figures in EUR thousand	2006	2005
Current taxes		
Germany	57,359	11,125
Outside Germany	72,982	46,246
Deferred taxes		
Germany	123,566	(72,510)
Outside Germany	(28,830)	(28,298)
Total	225,077	(43,437)

The following table presents a breakdown of the deferred tax assets and liabilities into the balance sheet items from which they are derived.

Deferred tax assets and deferred tax liabilities of all Group companies

Figures in EUR thousand	2006	2005
Deferred tax assets		
Tax loss carry-forwards	110,794	142,384
Loss and loss adjustment expense reserves	423,090	488,036
Benefit reserves	106,441	77,578
Other provisions	96,842	63,966
Accounts receivable	53,528	75,470
Contract deposits	–	3
Valuation differences relating to investments	20,957	10,691
Funds held	20,547	10,829
Other valuation differences	12,722	12,808
Total	844,921	881,765
Deferred tax liabilities		
Loss and loss adjustment expense reserves	3,642	9,839
Benefit reserves	40,883	30,996
Other technical/non-technical provisions	7,458	3,955
Equalisation reserve	990,062	894,980
Contract deposits	18,801	8,235
Deferred acquisition costs	501,101	495,517
Accounts receivable/reinsurance payable	104,364	90,142
Valuation differences relating to investments	77,759	118,491
Other valuation differences	12,827	18,721
Total	1,756,897	1,670,876
Deferred tax liabilities	911,976	789,111

Please refer to Section 3.2 "Summary of major accounting policies" regarding the recognition and measurement of deferred tax assets and liabilities.

The following table presents a reconciliation of the expected expense for income taxes with the actual provision for income taxes reported in the statement of income. The pre-tax result is multiplied by the Group tax rate in order to calculate the Group's expected expense for income taxes. The Group tax rate used is rounded to take account of the corporate income tax rate including the German reunification charge levied on corporate income tax as well as trade earnings tax.

Reconciliation of the expected expense for income taxes with the actual expense

Figures in EUR thousand	2006	2005
Profit before income taxes	742,152	17,392
Expected tax rate	40%	40%
Expected expense for income taxes	296,861	6,957
Change in deferred rates of taxation	327	(27)
Taxation differences affecting foreign subsidiaries	(31,222)	(49,561)
Non-deductible expenses	24,090	39,462
Tax-exempt income	(118,742)	(52,088)
Tax expense not attributable to the reporting period	33,240	9,990
Other	20,523	1,830
Actual expense for income taxes	225,077	(43,437)

Availability of capitalised loss carry-forwards

Unused tax loss carry-forwards of EUR 522.4 million (EUR 435.7 million) existed as at the balance sheet date. Corresponding loss carry-forwards were established on the assets side in accordance with local tax rates to the extent that their realisation is adequately secure.

In addition, tax credits of EUR 14.0 million were available and recognised in the full amount as deferred tax assets.

Availability of limited and unlimited loss carry-forwards in subsequent years

Figures in EUR thousand	1–5 years	6–10 years	> 10 years	Unlimited	Total
Loss carry-forward	9,016	81,725	6,305	13,748	110,794

Tax losses that can be carried forward without limitation in the amount of EUR 207.2 million were not capitalised since their realisation is not sufficiently certain.

7.6 Staff and expenditures on personnel

Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group was 1,988 (1,972). Of this number, 877 (857) were employed in Germany in the year under review. The majority of staff were employed at the consolidated Group companies abroad. The discontinued operation accounted for 237 members of staff.

			2006			2005
Personnel information	31.03.	30.06.	30.09.	31.12.	Average	Average
Number of employees (excluding board members)	2,008	1,953	1,987	2,002	1,988	1,972

	2006					
Nationality of employees	German	US	South Africa	UK	Other	Total
Number of employees	824	567	146	83	382	2,002

Expenditures on personnel

The expenditures on insurance business, claims expenses (claims settlement) and expenditures on the administration of investments include the following personnel expenditures:

Figures in EUR thousand	2006	2005
a) Wages and salaries		
aa) Expenditures on insurance business	88,724	98,096
ab) Expenditures on the administration of investments	8,275	8,721
	96,999	106,817
b) Social security contributions and expenditure on provisions and assistance		
ba) Social security contributions	13,186	19,853
bb) Expenditures for pension provision	14,453	13,899
bc) Expenditures for assistance	1,654	367
	29,293	34,119
Total	126,292	140,936

The table shows the personnel expenditures of the continuing operations. In the year under review additional wages and salaries of EUR 34.3 million (EUR 6.1 million) and social security contributions of EUR 7.5 million (EUR 1.4 million) were recognised in profit or loss from the discontinued operation.

7.7 Provisions for pensions and other post-employment benefit obligations

Pension commitments are given in accordance with the relevant version of the pension plan as amended. The 1968 pension plan provides for retirement, disability, widows' and orphans' benefits. The pension entitlement is dependent on length of service; entitlements under the statutory pension insurance scheme are taken into account. The pension plan was closed to new participants with effect from 31 January 1981.

On 1 April 1993 (1 June 1993 in the case of managerial staff) the 1993 pension plan came into effect. This pension plan provides for retirement, disability and surviving dependants' benefits. The scheme is based upon annual determination of the pension contributions, which at 1% up to the assessment limit in the statutory pension insurance scheme and 2.5% above the assessment limit of the pensionable employment income are calculated in a range of 0.7% to 1% and 1.75% to 2.5% respectively depending upon the company's performance. The pension plan closed as at 31 March 1999.

From 1997 onwards it has been possible to obtain pension commitments through deferred compensation. Following the merger with Gerling-Konzern Lebensversicherungs-AG, Cologne, the employee-funded commitments included in the provisions for accrued pension rights are protected by an insurance contract with HDI Gerling Lebensversicherung AG, Hamburg, at unchanged conditions.

As at 1 July 2000 the 2000 pension plan came into force for the entire Group. Under this plan, new employees included in the group of beneficiaries are granted an indirect commitment from HDI Unterstützungskasse. The pension plan provides for retirement, disability and surviving dependants' benefits.

Effective 1 December 2002 Group employees have an opportunity to accumulate additional old-age provision at unchanged conditions by way of deferred compensation through membership of HDI Gerling Pensionskasse AG. The benefits provided by HDI Pensionskasse AG are guaranteed for its members and their surviving dependants and comprise traditional pension plans with bonus increases as well as unit-linked hybrid annuities.

In addition to these pension plans, managerial staff and members of the Executive Board, in particular, enjoy individual commitments as well as commitments given under the benefits plan of the Bochumer Verband.

Provisions for pensions are established in accordance with IAS 19 "Employee Benefits" (rev. 2004) using the projected unit credit method. The pension plans are defined benefit plans. The basis of the valuation is the estimated future increase in the rate of compensation of the pension beneficiaries. The benefit entitlements are discounted by applying the capital market rate for highest-rated securities. The commitments to employees in Germany predominantly comprise benefit obligations financed by the Group companies. The pension plans are unfunded. Amounts carried as liabilities are recognised under other liabilities. The provisions for pensions in Germany and abroad were calculated on the basis of uniform standards defined by Talanx AG and subject to local economic conditions.

Provisions for pensions are established in accordance with actuarial principles and are based upon the commitments made by the Hannover Re Group for retirement, disability and widows' benefits. The amount of the commitments is determined according to length of service and salary level.

The calculation of the provisions for pensions is based upon the following assumptions:

Measurement assumptions

Figures in %	2006			2005		
	Germany	USA	Australia	Germany	USA	Australia
Discount rate	4.65	6.00	5.20	4.25	5.51	4.80
Projected long-term yield on plan assets	–	7.50	7.00	–	7.50	7.00
Rate of compensation increase	2.50	–	5.00	2.50	–	4.50
Indexation	1.25	3.00	3.50	1.75	3.00	3.00

The change in the projected benefit obligation of the pension commitments as well as their breakdown into plans that are unfunded or are wholly or partially funded was as follows:

Change in the projected benefit obligation

Figures in EUR thousand	2006	2005
Projected benefit obligation at the beginning of the year under review	85,233	63,382
Current service cost for the year under review	3,294	2,906
Interest cost	3,670	3,166
Deferred compensation	624	281
Actuarial gain/loss	(8,914)	16,002
Currency translation	(687)	1,057
Benefits paid during the year	(3,090)	(1,538)
Past service cost	71	–
Amounts allocated to discontinued operation	(2,801)	–
Plan curtailments	–	(23)
Projected benefit obligation at the end of the year under review	77,400	85,233

Funding of the defined benefit obligation

Figures in EUR thousand	2006	2005
Projected benefit obligation from unfunded plans	69,287	74,058
Projected benefit obligation from wholly or partially funded plans (before deduction of fair value of plan assets)	8,113	11,175
Projected benefit obligation at the end of the year under review	77,400	85,233
Fair value of plan assets	(7,302)	(10,500)
Funded status of plan (present value of earned benefit entitlements less fund assets)	70,098	74,733

The fair value of the plan assets of US plans developed as follows:

Change in plan assets

Figures in EUR thousand	2006	2005
Fair value at the beginning of the year under review	10,500	7,204
Expected return on plan assets	690	701
Actuarial gain/loss	101	(137)
Currency translation	(602)	814
Employer contributions	318	2,038
Benefits paid during the year	(1,563)	(120)
Amounts allocated to discontinued operation	(2,142)	–
Fair value at the end of the year under review	7,302	10,500

The structure of the asset portfolio underlying the plan assets was as follows:

Portfolio structure of plan assets

as % of plan assets	2006	2005
Equities	27	68
Other	73	32
Total	100	100

The fair value of plan assets as at the balance sheet date included amounts totalling EUR 3.7 million (EUR 3.8 million) for own financial instruments.

The actual return on the plan assets amounted to EUR 0.8 million (EUR 0.9 million) in the year under review.

The following table presents a reconciliation of the funded status – calculated from the difference between the defined benefit obligations and the plan assets – with the provision for pensions recognised as at the balance sheet date:

Reconciliation of the net provision for pensions

Figures in EUR thousand	2006	2005
Defined benefit obligations at the end of the year under review	77,400	85,233
Fair value of plan assets at the end of the year under review	(7,302)	(10,500)
Funded status	70,098	74,733
Unrealised actuarial gain/loss	(6,325)	(17,800)
Other amounts	786	693
Net provisions for pensions	64,559	57,626

The recognised provision for pensions developed as follows in the year under review:

Change in the provisions for pensions

Figures in EUR thousand	2006	2005
Net provisions for pensions at 31 December of the previous year	57,626	55,265
Currency translation	(54)	192
Business combinations, divestitures and other activities	(78)	76
Expense for the year under review	8,901	5,241
Deferred compensation	239	269
Amounts paid during the year	(126)	(2,000)
Benefits paid during the year	(1,525)	(1,417)
Other	(424)	–
Net provisions for pensions at 31 December of the previous year	64,559	57,626

The components of the net periodic pension cost for benefit plans were as follows:

Net periodic pension cost

Figures in EUR thousand	2006	2005
Current service cost for the year under review	(3,294)	(2,906)
Interest cost	(3,509)	(2,982)
Expected return on plan assets	532	514
Recognised actuarial gain/loss	(2,366)	110
Past service cost	(71)	–
Effect of plan curtailments or settlements	(193)	23
Total	(8,901)	(5,241)

The net periodic pension cost was recognised in the consolidated statement of income in amounts of EUR 5.3 million (EUR 3.7 million) under administrative expenses, EUR 2.6 million (EUR 0.7 million) under other expenses and EUR 1.0 million (EUR 0.8 million) under other investment expenses.

Actuarial gains of EUR 0.4 million (EUR 0.3 million) were recognised as at the balance sheet date in other comprehensive income.

The following amounts were recognised for the current and previous reporting periods under the accounting of defined benefit plans:

Amounts recognised

Figures in EUR thousand	2006	2005
Present value of defined benefit obligation	77,400	85,233
Fair value of plan assets	7,302	10,500
Surplus/(deficit) in the plan	(70,098)	(74,733)
Experience adjustments on plan liabilities	(8,633)	458
Experience adjustments on plan assets	34	(196)

In the coming financial year Hannover Re expects payments of EUR 5.7 million under the pension plans set out above.

Defined contribution plans

In addition to the defined benefit plans, some Group companies have defined contribution plans that are based on length of service and the employee's income or level of contributions. The expense recognised for these obligations in the year under review in accordance with IAS 19.46 amounted to EUR 3.1 million (EUR 5.3 million), of which EUR 0.1 million (EUR 0.1 million) was due to obligations to members of staff in key positions.

7.8 Debt and subordinated capital

On 31 March 1999 Hannover Finance, Inc., Wilmington/USA, issued subordinated debt in the form of a floating-rate loan in the amount of USD 400.0 million with a term of 30 years. The due date of the loan is 31 March 2029. It may be redeemed by the issuer no earlier than 31 March 2009. In order to hedge against the risk of interest rate changes associated with this loan, the company purchased interest rate swaps in 1999 in the same amount which expire on 31 March 2009. In this way, the interest rate is converted from a floating rate to a fixed rate for a period ending commensurate with the first opportunity to redeem the loan. In February 2004 and May 2005 Hannover Re bought back portions of the debt in the amount of USD 370.0 million and USD 10.0 million respectively, equivalent to altogether 95% of the total volume. After repurchase of the debt the interest rate swaps were recognised as stand-alone derivatives and closed out in the second quarter of 2006. Following close-out of the swaps the bond carries a coupon of LIBOR +80 basis points until 31 March 2009, subsequently stepping up to LIBOR +180 basis points.

In order to safeguard the sustained financial strength of the Hannover Re Group, Hannover Re issued additional subordinated debt. In February 2004 subordinated debt in the amount of EUR 750 million was placed through Hannover Finance (Luxembourg) S.A., a wholly owned subsidiary of Hannover Re, on the European capital markets. The bond was placed predominantly with institutional investors. The bond was priced at a spread of 163 basis points over the 10-year mid-swap rate and has a final maturity of 20 years. It may be redeemed by Hannover Re after 10 years at the earliest and at each coupon date thereafter. If the bond is not called at the end of the tenth year, the coupon will step up to a floating-rate yield of quarterly EURIBOR + 263 basis points.

In May 2005 Hannover Re issued further subordinated debt in the amount of EUR 500.0 million through its subsidiary Hannover Finance (Luxembourg) S.A. As part of the transaction, holders of Hannover Re's EUR 350.0 million subordinated debt placed in 2001 were offered an opportunity to exchange their existing issue for holdings in the new bond, which has a term of 30 years and may be called in prior to maturity by the issuer after 10 years. Participation in the exchange was nominally EUR 211.9 million in the previous year, corresponding to EUR 240.5 million of the new bond issue. The cash component of the new bond in the amount of nominally EUR 259.5 million was placed predominantly with institutional investors in Europe. The remaining volume of the bond issued in 2001 after the exchange amounted unchanged to EUR 138.1 million.

In December 2005 the Praetorian Financial Group, Inc. – which in the year under review is classified as a discontinued operation – issued "Trust Preferred Securities" in an amount of USD 80.0 million with a term of 30 years and a yield of quarterly LIBOR + 310 basis points. The "Trust Preferred Securities" were placed with institutional investors. Redemption prior to March 2011 is possible only under special circumstances and at a price of 107.5% of the nominal amount, but they may be redeemed at any time thereafter. In the year under review the securities allocable to the discontinued operation with a fair value of EUR 62.1 million (EUR 67.6 million) were recognised under liabilities related to assets held for sale.

Other financial facilities

In order to protect against possible future major losses, Hannover Re took out a new credit line of EUR 500 million in 2004 in the form of a syndicated loan. The facility has a term of five years and is due in August 2009.

In addition, facilities exist with various financial institutions in the form of letters of credit, including two syndicated guaranteed credit facilities each in the amount of USD 2.0 billion from 2005 and 2006. 50% of the first of these lines matures in December 2009 and the other 50% in December 2011, while the second line matures in December 2012. For further explanation please see Section 9.2 "Contingent liabilities."

Debt and subordinated capital

Figures in EUR thousand	2006			
	Other long-term liabilities	Fair value measurement	Accrued interest and rent	Fair value
Debt and subordinated capital				
Debt	56,788	–	273	57,061
Subordinated loans	1,372,036	23,192	58,126	1,453,354
Other long-term liabilities	69	–	–	69
Total	1,428,893	23,192	58,399	1,510,484

Figures in EUR thousand	2005			
	Other long-term liabilities	Fair value measurement	Accrued interest and rent	Fair value
Debt and subordinated capital				
Debt	107,394	–	446	107,840
Subordinated loans	1,370,497	131,667	62,316	1,564,480
Other subordinated capital	67,602	–	–	67,602
Other long-term liabilities	38	–	–	38
Total	1,545,531	131,667	62,762	1,739,960

The aggregated fair value of the extended subordinated loans is based on quoted, active market prices. If such price information is not available, fair value was determined on the basis of the recognised effective interest rate method or estimated using other financial assets with similar rating, duration and return characteristics. Under the effective interest rate method the current market interest rate levels in the relevant fixed-interest-rate periods are always taken as a basis.

7.9 Shareholders' equity and minority interests

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

The shareholders' equity (share capital of the parent company) amounts to EUR 120,597,134.00. It is divided into 120,597,134 voting and dividend-bearing registered no-par shares. The shares are paid in in full. Each share carries an equal voting right and an equal dividend entitlement.

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

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

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

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

7.10 Other comprehensive income

Cumulative other comprehensive income remained nearly unchanged from the previous year at -EUR 1.5 million (-EUR 1.6 million). It resulted principally from the recognition as income of hedge-ineffective changes in the fair value of derivative financial instruments.

7.11 Treasury shares

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

7.12 Earnings per share

Basic and fully diluted earnings per share

	2006			2005		
	Result (in EUR thousand)	No. of shares	Per share (in EUR)	Result (in EUR thousand)	No. of shares	Per share (in EUR)
Group net income	514,390	–	–	49,331	–	–
Weighted average of issued shares	–	120,597,134	–	–	120,597,134	–
Earnings per share	514,390	120,597,134	4.27	49,331	120,597,134	0.41
from continuing operations	428,696	120,597,134	3.56	28,739	120,597,134	0.24
from discontinued operation	85,694	120,597,134	0.71	20,592	120,597,134	0.17

Neither in the year under review nor in the previous reporting period were there any extraordinary components of income which should have been included in the calculation.

Dividend per share

No dividends were paid in the year under review for 2005.

On the occasion of the Annual General Meeting to be held on 3 May 2007 it will be proposed that a dividend of EUR 1.60 per share, equivalent to a total amount of EUR 193.0 million, should be distributed for the 2006 financial year. The dividend proposal does not form part of this consolidated financial statement.

7.13 Other assets and liabilities

Other assets

Figures in EUR thousand	2006	2005
Own-use real estate	40,224	41,533
Other receivables	7,274	14,434
Present value of future profits on acquired life reinsurance portfolios	5,102	7,472
Fixtures, fittings and equipment	23,732	30,217
Other assets	6,285	5,712
Other intangible assets	45,030	35,836
Tax refund claims	29,906	28,663
Receivables from affiliated companies	591	1,139
Insurance for pension commitments	39,731	36,245
Other	63,560	67,749
Total	261,435	269,000

The portfolio of own-use real estate was measured at cost of purchase less scheduled straight-line depreciation over useful lives of 10 to 50 years. The fair values were calculated using the discounted cash flow method. Effective 1 January 2006 Hannover Re and E+S Rück AG each acquired 5% of the shares of GbR Hannover Rückversicherung AG/E+S Rückversicherung AG Grundstücksgesellschaft, Hannover, from the minority shareholder. The company's shares have since been wholly owned by Hannover Re. The object of the company is the acquisition, development and use of the land and building at Karl-Wiechert-Allee 50, Hannover.

Development of fixtures, fittings and equipment

Figures in EUR thousand	2006	2005
Gross book value at 31 December of the previous year	85,606	71,374
Currency translation at 1 January	(2,194)	2,167
Gross book value after currency translation	83,412	73,541
thereof from discontinued operation	3,673	–
Change in consolidated group	81	–
Additions	13,288	16,506
Disposals	9,421	4,099
Reclassification	(749)	(692)
Currency translation at 31 December	406	350
Gross book value at 31 December of the year under review	83,344	85,606
Cumulative depreciation at 31 December of the previous year	55,389	44,777
Currency translation at 1 January	(905)	738
Cumulative depreciation after currency translation	54,484	45,515
Disposals	4,490	2,400
Depreciation		
scheduled	10,930	12,205
Reclassification	(1,399)	(62)
Change in consolidated group	44	–
Currency translation at 31 December	43	131
Cumulative depreciation at 31 December of the year under review	59,612	55,389
Net book value at 31 December of the previous year	30,217	26,597
Net book value at 31 December of the year under review	23,732	30,217

With regard to the measurement of fixtures, fittings and equipment, the reader is referred to our explanatory notes on the other assets in Section 3.2 "Summary of major accounting policies."

Development of other intangible assets

Figures in EUR thousand	2006	2005
Gross book value at 31 December of the previous year	129,566	115,234
Currency translation at 1 January	(1,445)	1,722
Gross book value after currency translation	128,121	116,956
Change in consolidated group	(59)	–
Additions	13,354	12,665
Disposals	176	47
Currency translation at 31 December	2	(8)
Gross book value at 31 December of the year under review	141,242	129,566
Cumulative depreciation at 31 December of the previous year	93,730	90,558
Currency translation at 1 January	(241)	53
Cumulative depreciation after currency translation	93,489	90,611
Change in consolidated group	25	–
Disposals	176	47
Write-ups	–	4
Depreciation		
scheduled	2,927	3,170
Currency translation at 31 December	3	–
Cumulative depreciation at 31 December of the year under review	96,212	93,730
Net book value at 31 December of the previous year	35,836	24,676
Net book value at 31 December of the year under review	45,030	35,836

As at the balance sheet date the item included EUR 0.1 million (EUR 0.2 million) for self-provided software and EUR 13.8 million (EUR 15.0 million) for purchased software. Scheduled depreciation is taken over useful lives of 3 to 10 years.

The additions can be broken down into EUR 1.5 million for purchased software and EUR 10.1 million for advance payments on self-provided software.

Effective 1 July 2003 Hannover Re took out insurance for pension commitments. The commitments involve deferred annuities with regular premium payment under a group insurance policy. In accordance with IAS 19 they were carried as a separate asset at fair value as at the balance sheet date in an amount of EUR 39.7 million (EUR 36.2 million).

Other liabilities

Figures in EUR thousand	2006	2005
Liabilities from derivatives	5,847	27,354
Interest	64,831	95,903
Deferred income	25,826	48,720
Costs of the annual financial statements	2,928	2,879
Liabilities to trustees	9,483	10,563
Interest on additional tax payments	17,055	15,121
Stock appreciation rights	4,590	5,429
Liabilities due to affiliated companies	5,954	5,988
Provisions arising out of employment relationships	22,259	16,681
Direct minority interests in partnerships	20,192	15,948
Other	69,889	117,766
Total	248,854	362,352

The other liabilities in a carrying amount of EUR 19.4 million attributable to discontinued operations in the year under review were recognised under liabilities connected with assets held for sale.

The other liabilities include sundry non-technical provisions of EUR 71.5 million (EUR 57.5 million), which developed as shown in the following table.

Development of sundry non-technical provisions

Figures in EUR thousand	Balance at 31.12.2005	Currency translation at 1 January	Balance at 1 January of the year under review	From discontinued operations	Reclassification
Provisions for					
Interest pursuant to 233a Fiscal Code (AO)	15,121	–	15,121	–	–
Audits and costs of publishing the annual financial statements	2,879	(172)	2,707	–	176
Consultancy fees	1,513	(125)	1,388	–	–
Stock appreciation rights	5,429	(171)	5,258	513	–
Suppliers' invoices	9,112	(820)	8,292	–	–
Partial retirement arrangements	1,935	–	1,935	–	–
Holiday entitlements and overtime	2,378	(61)	2,317	–	20
Anniversary bonuses	1,254	–	1,254	–	–
Management bonuses	11,114	(895)	10,219	–	(25)
Other	6,716	(267)	6,449	–	4,772
Total	57,451	(2,511)	54,940	513	4,943

Changes in consolidation, acquisitions and sales	Additions	Utilisation	Release	Other changes	Currency translation at 31 December	Balance at 31.12.2006
–	1,934	–	–	–	–	17,055
2	2,861	2,508	170	(171)	31	2,928
–	1,521	1,101	350	–	24	1,482
–	2,355	2,399	168	–	57	4,590
(114)	10,042	9,606	5	–	(82)	8,527
–	2,839	–	–	–	(2)	4,772
–	2,581	2,309	–	–	(7)	2,602
–	27	–	–	–	–	1,281
(17)	13,325	9,245	758	–	105	13,604
–	7,621	2,500	1,726	–	(1)	14,615
(129)	45,106	29,668	3,177	(171)	125	71,456

7.14 Technical statement of income

Other technical income

Figures in EUR thousand	2006	2005
Other technical income (gross)	4,189	9,338
Reinsurance recoverables	908	–
Other technical income (net)	3,281	9,338

With regard to the claims and claims expenses and the change in benefit reserves the reader is referred to Section 7.2 "Technical assets and liabilities."

Commissions and brokerage, change in deferred acquisition costs

Figures in EUR thousand	2006	2005
Commissions paid (gross)	2,330,832	2,365,176
Reinsurance recoverables	343,420	383,980
Change in deferred acquisition costs (gross)	35,757	204,883
Reinsurance recoverables	(45,664)	60,369
Change in provision for contingent commissions (gross)	30,670	31,897
Reinsurance recoverables	4,096	(8,141)
Commissions and brokerage, change in deferred acquisition costs (net)	1,932,565	1,876,720

Other technical expenses

Figures in EUR thousand	2006	2005
Other technical expenses (gross)	33,675	55,639
Reinsurance recoverables	(313)	1,719
Other technical expenses (net)	33,988	53,920

7.15 Other income/expenses

Figures in EUR thousand	2006	2005
Other income		
Exchange gains	53,169	82,195
Other interest income	4,482	4,241
Income from services	556	679
Sundry income	74,532	40,404
	132,739	127,519
Exchange losses	27,831	123,309
Other interest expenses	16,974	18,074
Depreciation	12,147	8,691
Expenses for services	1,570	1,822
Expenses for the company as a whole	37,579	51,590
Separate value adjustments	89,993	22,227
Goodwill impairments	20,073	485
Sundry expenses	40,930	56,865
	247,097	283,063
Total	(114,358)	(155,544)

8. Related party disclosures

8.1 Transactions with related parties

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

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

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

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

Business assumed and ceded in Germany and abroad

Figures in EUR thousand	2006	
Related parties	Premium	Underwriting result
Business assumed		
ASPECTA Assurance International AG	21,296	2,028
ASPECTA Assurance International Luxembourg S.A.	29,434	1,237
ASPECTA Lebensversicherung AG	142,982	5,977
ASPECTA Versicherung AG	20,954	(17,136)
CiV Lebensversicherung AG	49,938	685
CiV Versicherung AG	19,763	3,050
Gerling Konzern Allgemeine Versicherungs-AG	4,998	2,227
HDI Asekuracja Towarzystwo Ubezpieczen S.A.	20,245	2,801
HDI Assicurazioni S.p.A.	17,778	6,032
HDI HANNOVER International España, Cia de Seguros y Reaseguros S.A.	21,751	3,457
HDI Hannover Versicherung AG	11,020	1,196
HDI Industrie Versicherung AG	161,706	(196,194)
HDI Privat Versicherung AG	1,294	6,554
HDI Verzekeringen N.V.	31,376	14,817
Magyar Posta Biztositó Részvénytársaság	16,491	495
Other companies	69,243	2,986
Total	640,269	(159,788)
Business ceded		
HDI Industrie Versicherung AG	(1,250)	5,421
Other companies	–	7
Total	(1,250)	5,428

The underwriting deficit booked by HDI Industrie Versicherung AG resulted from a change in the processing of reported and estimated reserve levels compared to the previous year.

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

Effective 1 January 2006 Hannover Re and E+S Rück assumed equal shares of the interest held by Hannoversche Lebensversicherung AG, Hannover, in GbR Hannover Rückversicherung AG/E+S Rückversicherung AG. Under the buyout agreement dated 9 December 2005 Hannoversche Lebensversicherung AG received compensation of EUR 10.7 million, which was paid in equal portions by Hannover Re and E+S Rück.

In accordance with the partners' meeting of Oval Office Grundstücks GmbH held on 5 May 2006, repayment of capital in the amount of EUR 3.8 million was agreed. The capital was repaid to the partners in equal portions on 31 May 2006. Hannover Re's share in the company was consequently reduced by EUR 1.9 million.

Under a real estate contract dated 28 June 2006 Hannover Re sold the land and premises at Riethorst 4, Hannover, to HDI Industrie Versicherung AG for a price of EUR 6.0 million.

As part of long-term lease arrangements companies belonging to the Hannover Re Group rented out business premises in 2006 to Ampega Investment AG, HDI Service AG, HDI Industrie Versicherung AG, HDI Privat Versicherung AG and Protection Reinsurance Intermediaries AG, all based in Hannover. IT and management services were also performed for the latter under three service contracts.

Within the contractually agreed framework AmpegaGerling Asset Management GmbH performs investment and asset management services for Hannover Re and some of its subsidiaries. Assets in special funds are managed by AmpegaGerling Investment GmbH, into which Ampega Investment AG was merged in the year under review. AmpegaGerling Immobilien Management GmbH performs services for Hannover Re within the framework of a management contract.

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

All transactions were effected at usual market conditions. We gave an account of these transactions with regard to Hannover Re and E+S Rück in the corresponding dependent company reports pursuant to § 312 Stock Corporation Act (AktG).

8.2 Remuneration and shareholdings of the management boards of the parent company

With regard to this information we would refer the reader to the remuneration report included as part of our Corporate Governance report.

The remuneration report is based on the recommendation of the German Corporate Governance Code and contains information which also forms part of the notes to the 2006 consolidated financial statement as required by IAS 24 "Related Party Disclosures". Under German commercial law, too, this information includes data specified as mandatory for the notes (§ 314 HGB) and the management report (§ 315 HGB). These details are discussed as a whole in the remuneration report. Consequently, we have not provided any further explanation in the notes or management report.

8.3 Share-based payment

With effect from 1 January 2000 the Executive Board of Hannover Re, with the consent of the Supervisory Board, introduced a virtual stock option plan that provides for the granting of stock appreciation rights to certain managerial staff. The content of the stock option plan is based solely on the Conditions for the Granting of Stock Appreciation Rights. All the members of the Group's management are eligible for the award of stock appreciation rights. 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. Recognition of transactions involving stock appreciation rights with cash settlement is governed by the requirements of IFRS 2 "Share-based Payment".

Stock appreciation rights were first granted for the 2000 financial year and are awarded separately for each subsequent financial year (allocation year), provided the performance criteria defined in the Conditions for the Granting of Stock Appreciation Rights are satisfied.

The internal performance criterion is satisfied upon achievement of the target performance defined by the Supervisory Board, which is expressed in terms of the diluted earnings per share (EPS) calculated in accordance with IAS 33 "Earnings Per Share". If the target EPS is surpassed or undershot, the provisional basic number of stock appreciation rights initially granted is increased or reduced accordingly to produce the EPS basic number. The external performance criterion is the development of the share price in the allocation year. The benchmark used in this regard is the weighted ABN Amro Rothschild Global Reinsurance Index. This index encompasses the performance of listed reinsurers worldwide. Depending upon the outperformance or underperformance of this index, the EPS basic number is increased – albeit by at most 400% of the EPS basic number – or reduced – although by no more than 50% of the EPS basic number.

The maximum period of the stock appreciation rights is 10 years, commencing at the end of the year in which they are awarded. Stock appreciation rights which are not exercised by the end of the 10-year period lapse. Stock appreciation rights may only be exercised after a waiting period and then only within four exercise periods each year. For 40% of the stock appreciation rights (first tranche of each allocation year) the waiting period is two years, for each additional 20% (tranches two to four of each allocation year) of the stock appreciation rights the waiting period is extended by one year. Each exercise period lasts for ten trading days, in each case commencing on the sixth trading day after the date of publication of the quarterly report of Hannover Rückversicherung AG.

Upon exercise of a stock appreciation right the amount paid out to the entitled party is the difference between the basic price and the current market price of the Hannover Re share at the time of exercise. In this context, the basic price corresponds to the arithmetical mean of the closing prices of the Hannover Re share on all trading days of the first full calendar month of the allocation year in question. The current market price of the Hannover Re share at the time when stock appreciation rights are exercised is determined by the arithmetical mean of the closing prices of the Hannover Re share on the last twenty trading days prior to the first day of the relevant exercise period.

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.

In the event of cancellation of the employment relationship or termination of the employment relationship as a consequence of a termination agreement or a set time limit, a holder of stock appreciation rights is entitled to exercise all such rights in the first exercise period thereafter. Stock appreciation rights not exercised in this period and those in respect of which the waiting period has not yet expired shall lapse. Retirement, disability or death of the member of management shall not be deemed to be termination of the employment relationship for the purpose of exercising stock appreciation rights.

The allocations for the years 2000 and 2002 to 2004 gave rise to the following commitments in the year under review. No allocations were made for 2001 or 2005.

Stock appreciation rights of Hannover Re

	Allocation year			
	2004	**2003**	**2002**	**2000**
Award date	24.3.2005	25.3.2004	11.4.2003	21.6.2001
Period	10 years	10 years	10 years	10 years
Waiting period	2 years	2 years	2 years	2 years
Basic price (in EUR)	27.49	24.00	23.74	25.50
Participants in year of issue	109	110	113	95
Number of rights granted	211,171	904,234	710,429	1,138,005
Fair value at 31.12.2006 (in EUR)	12.03	7.98	8.39	5.49
Maximum value (in EUR)	24.62	8,99	8.79	5.49
Number of rights existing at 31.12.2006	190,263	452,604	226,115	11,781
Provisions at 31.12.2006 (in EUR million)	1.65	2.78	1.64	0.07
Amounts paid out in the 2006 financial year (in EUR million)	–	1.85	1.00	0.64
Expense in the 2006 financial year (in EUR million)	1.17	1.25	0.62	(0.07)*

**Although the maximum amount was reached some participants did not exercise all stock appreciation rights*

In the year under review the waiting period expired for 100% of the stock appreciation rights awarded in 2000, 60% of those awarded in 2002 and 40% of those awarded in 2003. 153,879 stock appreciation rights from the 2000 allocation year, 160,824 stock appreciation rights from the 2002 allocation year and 278,257 stock appreciation rights from the 2003 allocation year were exercised. The total amount paid out stood at EUR 3.5 million.

The stock appreciation rights of Hannover Re have developed as follows since 2001:

Development of the stock appreciation rights of Hannover Re

	Allocation year			
Number of options	**2004**	**2003**	**2002**	**2000**
Granted in 2001	–	–	–	1,138,005
Exercised in 2001	–	–	–	–
Lapsed in 2001	–	–	–	–
Number of options at 31.12.2001	–	–	–	1,138,005
Granted in 2002	–	–	–	–
Exercised in 2002	–	–	–	–
Lapsed in 2002	–	–	–	40,770
Number of options at 31.12.2002	–	–	–	1,097,235
Granted in 2003	–	–	710,429	–
Exercised in 2003	–	–	–	–
Lapsed in 2003	–	–	23,765	110,400
Number of options at 31.12.2003	–	–	686,664	986,835
Granted in 2004	–	904,234	–	–
Exercised in 2004	–	–	–	80,137
Lapsed in 2004	–	59,961	59,836	57,516
Number of options at 31.12.2004	–	844,273	626,828	849,182
Granted in 2005	211,171	–	–	–
Exercised in 2005	–	–	193,572	647,081
Lapsed in 2005	6,397	59,834	23,421	25,974
Number of options at 31.12.2005	204,774	784,439	409,835	176,127
Granted in 2006	–	–	–	–
Exercised in 2006	–	278,257	160,824	153,879
Lapsed in 2006	14,511	53,578	22,896	10,467
Number of options at 31.12.2006	190,263	452,604	226,115	11,781
Exercisable at 31.12.2006	–	20,466	7,903	11,781

The existing stock appreciation rights are valued on the basis of the Black/Scholes option pricing model.

The calculations were based on the year-end closing price of the Hannover Re share of EUR 35.08 as at 29 December 2006, expected volatility of 32.50% (historical volatility on a five-year basis), an expected dividend yield of 4.42% and risk-free interest rates of 3.90% for the 2000 allocation year, 3.93% for the 2002 allocation year, 3.94% for the 2003 allocation year and 3.96% for the 2004 allocation year.

The average fair value of each stock appreciation right was EUR 5.49 for the 2000 allocation year, EUR 8.39 for the 2002 allocation year, EUR 7.98 for the 2003 allocation year and EUR 12.03 for the 2004 allocation year.

On this basis the aggregate provisions for the year under review amounted to EUR 6.1 million. The expense totalled EUR 2.3 million.

8.4 Mortgages and loans

Employees who are not members of the Executive Board or Supervisory Board were granted mortgages and mortgage loans to finance residential property. These loans are all secured by a first charge on property. Bad debt losses did not exist and are not anticipated.

9. Other notes

9.1 Lawsuits

In connection with the acquisition of Lion Insurance Company, Trenton/USA, by Hannover Finance, Inc., Wilmington/USA – a subsidiary of Hannover Re –, a legal dispute exists with the former owners of Lion Insurance Company regarding the release of a portion of the purchase price at that time which is held in trust as well as a commitment to pay further portions of the purchase price and incentive compensation under management contracts. There is also a legal dispute regarding the release of a trust account that serves as security for liabilities of the previous owners in connection with a particular business segment.

With the exception of the aforementioned proceedings, no significant court cases were pending during the year under review or as at the balance sheet date – with the exception of proceedings within the scope of ordinary insurance and reinsurance business activities.

9.2 Contingent liabilities

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

Hannover Re has placed three subordinated debts on the European capital markets through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured by subordinated guarantee both the debt issued in 2001, the volume of which now stands at EUR 138.1 million, and the debts from financial years 2004 and 2005 in amounts of EUR 750.0 million and EUR 500.0 million respectively. For further details please see Section 7.8 "Loans and long-term liabilities."

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

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

As security for technical liabilities to our US clients, we have established a master trust in the USA. As at the balance sheet date this master trust amounted to EUR 2,238.8 million (EUR 2,668.5 million). The securities held in the master trust are shown as available-for-sale investments. The substantial decline was largely attributable to movements in exchange rates.

As security for our technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount of the letters of credit as at the balance sheet date was EUR 2,684.2 million (EUR 3,154.2 million). Here too the appreciable decrease was mainly due to exchange rate fluctuations.

Outstanding capital commitments with respect to special investments exist in the amount of EUR 91.3 million (EUR 118.3 million) for E+S Rück and EUR 155.0 million (EUR 233.4 million) for Hannover Re. These involve primarily private equity funds and venture capital firms.

Within the scope of a novation agreement regarding a life insurance contract we assumed contingent reinsurance commitments with respect to due date and amount. The financing phase was terminated effective 31 December 2004 as per the agreement. The level of Hannover Re's liability as at the date of novation (31 December 2011) in relation to future balance sheet dates may change due to fluctuations in the EURIBOR and discrepancies between the actual settlements and the projections. The estimated amount of the reinsurance commitments as at the balance sheet date was EUR 33.4 million (EUR 27.7 million). The increase of EUR 5.7 million in the reinsurance commitment compared to the previous year resulted from the sharp rise in the EURIBOR in 2006.

9.3 Long-term commitments

Following the termination of the German Aviation Pool with effect from 31 December 2003, our participation consists of the run-off of the remaining contractual relationships.

Several Group companies are members of the association for the reinsurance of pharmaceutical risks and the association for the insurance of German nuclear reactors. In the event of one of the other pool members failing to meet its liabilities, an obligation exists to take over such other member's share within the framework of the quota participation.

9.4 Rents and leasing

Leased property

Summary of leasing commitments

Figures in EUR thousand	Payments to be received
2007	4,646
2008	3,997
2009	4,067
2010	3,959
2011	3,010
Subsequent years	9,466

Operating leasing contracts produced expenditures of EUR 4.4 million (EUR 6.3 million) in the year under review.

The significant decline in the total leasing commitments resulted from the cancellation of long-term lease agreements. The lease agreement concluded by the Clarendon Group in 2003 for business premises, the term of which originally ran until 29 August 2023, was cancelled effective March 2007. The presentation of Praetorian Financial Group, Inc. – which includes Praetorian Insurance Company, Itasca – as a discontinued operation gave rise to a further decrease in the total leasing commitments.

In 2006 Clarendon concluded a new lease agreement for business premises effective June 2006 for a term until June 2011.

In 2002 Hannover Reinsurance Africa Ltd. concluded a sale-and-lease-back contract for land and business premises for a period of eight years. IAS 17 requires that this be recognised as an operating lease.

Rented property

Hannover Re Real Estate Holdings rents out real estate in Florida; the period of the rental contracts ranges from three to ten years. Non-cancellable contracts will produce the income shown below in subsequent years.

Rental income

Figures in EUR thousand	Payments
2007	910
2008	910
2009	910
2010	835
2011	–
Subsequent years	–

Rental income totalled EUR 9.8 million (EUR 14.3 million) in the year under review.

The decline in future rental income from non-cancellable contracts in the years 2007 to 2009 will result from disposals of rented property in 2006 by Hannover Real Estate Holding. For further explanation please see Section 5.2 "Disposals and discontinued operations."

9.5 Currency translation

Items in the annual financial statements of Group subsidiaries were measured in the currencies of the economic environment in which the subsidiary in question primarily operates. These currencies are referred to as functional currencies. The euro is the reporting currency in which the consolidated financial statement is prepared.

Foreign currency items in the individual companies' statements of income are converted into the respective functional currency at the average rates of exchange. The individual companies' statements of income prepared in the national currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statement. The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange on the balance sheet date. In accordance with IAS 21 "The Effects of Changes in Foreign Exchanges Rates" differences from the currency translation of financial statements of foreign Group companies must be recognised in the consolidated financial statement as a separate item in shareholders' equity.

Transactions in foreign currencies reported in Group companies' individual financial statements are converted into the reporting currency at the transaction rate. In accordance with IAS 21 the recognition of exchange differences on translation is guided by the nature of the underlying balance sheet item.

Exchange differences from the translation of monetary assets and liabilities are recognised directly in the statement of income. Exceptions involve financial instruments that are defined as qualified cash flow hedges for non-monetary balance sheet items.

Currency translation differences from the translation of non-monetary assets measured at fair value via the statement of income are recognised with the latter as profit or loss from fair value measurement changes.

Exchange differences from non-monetary items – such as equity securities – classified as available for sale are initially recognised outside income in a separate item of shareholders' equity and only booked to income when such non-monetary items are settled.

Key exchange rates

1 EUR corresponds to:	2006	2005	2006	2005
	Mean rate of exchange on the balance sheet date		Average rate of exchange	
	31.12.	31.12.	31.12.	31.12.
AUD	1.6681	1.6145	1.6638	1.6356
BHD	0.4969	0.4470	0.4739	0.4707
CAD	1.5294	1.3769	1.4221	1.5099
GBP	0.6714	0.6870	0.6823	0.6850
MYR	4.6418	4.4823	4.6072	4.7224
SEK	9.0430	9.3930	9.2631	9.2767
USD	1.3181	1.1834	1.2569	1.2477
ZAR	9.2150	7.4890	8.5425	7.8687

9.6 Fee paid to the auditor

Total fees of EUR 7.3 million (EUR 7.6 million) were incurred for accountants' services throughout the Hannover Re Group worldwide in the year under review. They were principally comprised of auditing and tax consultancy fees.

Of this total amount, EUR 1.3 million (EUR 1.4 million) was attributable to the fee paid to the appointed auditor of the consolidated financial statement as defined by § 318 German Commercial Code (HGB). The amount includes a fee of EUR 1.0 million (EUR 1.0 million) for the auditing of the financial statement, EUR 0.2 million (EUR 0.2 million) for tax consultancy services and EUR 0.1 million (EUR 0.2 million) for consultancy and other services performed for the parent or subsidiary companies.

9.7 Events after the balance sheet date

In a press release dated 16 January 2007 we reported that Hannover Re had again drawn on the capital market to obtain underwriting capacity for catastrophe risks by increasing the volume of last year's "K5" securitisation to USD 394.5 million. The transaction was placed with investors in North America, Europe and Japan. The additional capital in the amount of EUR 80.4 million was provided by both new and existing investors. The latter primarily used this as an opportunity to reinvest their profits from the previous year. The envisaged term of the transaction runs until 31 December 2008.

Winter storm "Kyrill", which swept across large parts of Europe on 18 and 19 January 2007, caused insured losses in the order of EUR 4.0 to 7.0 billion. The exact scale of insured damage cannot yet be reliably estimated in view of the multitude of small- and medium-sized losses and the large number of countries affected. With this in mind Hannover Re expects a net loss burden of EUR 120.0 to 180.0 million before tax; the bulk of this expenditure is attributable to claims in Germany. The total loss amount was alleviated by the "K5" risk securitisation, the volume of which had been increased as at 1 January 2007.

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

Effective 8 January 2007 Hannover Re sold its 49% interest in DSP Deutsche Senior Partner AG, Bonn.

In November 2006 Hannover Re received a licence from the China Insurance Regulatory Commission (CIRC) to transact life reinsurance business in the People's Republic of China. On 7 February 2007 we reported that Hannover Re's permanent establishment in Shanghai, which is currently in the process of formation, is expected to commence business activities by the end of 2007.

Hannover, 12 March 2007

Executive Board

Zeller   Arrago   Dr. Becke

Gräber   Dr. König   Dr. Pickel   Wallin

We have audited the consolidated financial statements prepared by the Hannover Rückversicherung AG, Hannover, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Para 1 HGB and supplementary provisions of the articles of incorporation are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated 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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group 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 consolidated financial statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB 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 Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group'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
Independent Auditor	Independent Auditor

REPORT OF THE SUPERVISORY BOARD
of Hannover Re for the Hannover Re Group

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 Group. 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 German Stock Corporation Act, each met on two occasions. The Chairman of the Supervisory Board updated the full Supervisory Board on the Committees' major deliberations at the next meeting. Furthermore, we received quarterly written reports from the Executive Board on the course of business and the position of the Group pursuant to § 90 German Stock Corporation Act. 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, the ratings of the various Group companies and the development of 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 this annual report 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 German Commercial Code is to be explained by the Supervisory Board pursuant to § 171 Para. 2 Sentence 2 German 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 will be 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 German 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 German Stock Corporation Act.

Hannover, 13 March 2007

For the Supervisory Board

Wolf-Dieter Baumgartl
Chairman

CORPORATE GOVERNANCE
report

"Good enterprise management and supervision in the spirit of state-of-the-art Corporate Governance is enshrined in Hannover Re's business practices as a matter of course". The accuracy of this assertion – with which we began our Corporate Governance report last year – is borne out by the fact that in the year under review the company for the first time fulfilled all the recommendations of the Code without exception. As a study conducted by the Berlin Center of Corporate Governance confirmed, Hannover Re was again – as in previous years – one of the leaders among MDax-listed companies when it came to compliance with the provisions of the German Corporate Governance Code (DCGK).

Corporate Governance describes for the Executive Board and Supervisory Board of Hannover Re the legal and actual institutional framework for the management and supervision of the company in all key areas of enterprise constitution. Corporate Governance is not an end in itself, nor is it limited to rigid compliance with formal rules. Nor is it in any way seen as a necessary "going through the motions"; rather, it is conceived of as a dynamic process aimed at bringing about sustained growth in the value of the company as well as strengthening and consolidating on a lasting basis the trust placed in the enterprise by our shareholders, business partners, clients, employees and the general public. On this basis Hannover Re supports the principles of value-based and transparent enterprise management and supervision as defined in the German Corporate Governance Code (DCGK) and recognises their importance in guiding its activities.

In the year just-ended we again devoted considerable attention to our communication with the financial markets and developed an impressive range of Investor Relations activities. For further details please see the section entitled "The Hannover Re share" in this Annual Report.

It should further be emphasised that the 2006 Annual General Meeting resolved by a large majority, at the proposal of the Executive Board and the Supervisory Board, to use the scope created by the entry into force at the end of 2005 of the Act on Corporate Integrity and Modernisation of the Right of Avoidance (UMAG) in order to promote the brisk conduct of the Annual General Meeting and it resolved to amend the Articles of Association accordingly. In addition, the Supervisory Board resolved at its final meeting of the year to subject the work of the Supervisory Board to an efficiency audit at the start of 2007 based on a self-assessment questionnaire. A major goal of this project is to further enhance the already trusting cooperation between the Supervisory Board and the Executive Board. The findings of this audit will be collated by the Corporate Governance Officer in strict confidentiality and presented to the Supervisory Board in an anonymised and aggregated form at the first meeting of 2007.

As in the previous years, the company again had to adjust to numerous new statutory regulations in the area of Corporate Governance in the year just-ended. Implementation of the EU Takeover Directive alone gave rise to a host of new reporting obligations – any violation of which, even if only through negligence, can trigger significant legal consequences. The entry into force of the Transparency Directive Implementation Act at the beginning of 2007 also served to extend already existing reporting obligations. The new arrangements impose a broad range of supplementary obligations on companies, which are reflected in new organisational requirements, create a need for additional reporting and generate significant extra financial expenditure.

Remuneration report for the Executive Board and individualised disclosure of the remuneration received by Supervisory Board members pursuant to Items 4.2.5 and 5.4.7 of the German Corporate Governance Code

The information regarding these items is provided in the remuneration report.

Securities transactions pursuant to Item 6.6 of the German Corporate Governance Code

With regard to this information we would also refer the reader to the remuneration report.

Shareholdings pursuant to Item 6.6 of the German Corporate Governance Code

Information in this respect is also provided in the remuneration report.

Share-based payment pursuant to Item 7.1.3 of the German Corporate Governance Code

Information regarding this topic is provided under Item 8.3 of the notes and in the remuneration report with respect to the members of the Executive Board.

Remuneration report

The remuneration report summarises the principles used to determine the remuneration of the Executive Board of Hannover Re and explains the structure and amount of the income received by the Executive Board in the 2006 financial year on the basis of the Board members' work for Hannover Re and its affiliated companies. In addition, the amount of the remuneration paid to the Supervisory Board on the basis of its work for Hannover Re and its affiliated companies 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 to the 2006 consolidated financial statement as required by IAS 24 "Related Party Disclosures." Under German commercial law, too, this information includes data specified as mandatory for the notes (§ 314 HGB) and the management report (§ 315 HGB). These details are discussed as a whole in the remuneration report. Consequently, we have not provided any further explanation of the information discussed in the remuneration report in the Group 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 target diluted earnings per share (EPS) calculated in accordance with IAS 33 "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.

For further details of the virtual stock option plan please see the explanations provided in the notes to this Group Annual Report, Section 8.3 "Share-Based Payment."

Amount of remuneration received by the Executive Board

The total remuneration received by the Executive Board of Hannover Re on the basis of its work for Hannover Re and its affiliated companies 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	1,728.8	1,575.0
Variable bonuses for the previous year	1,460.9	1,760.2
Remuneration from Group companies netted with the bonus	134.0	105.9
Stock participation rights exercised	1,041.4	773.3
	4,365.1	4,214.4
Taxable amount from non-cash compensation	81.9	88.5
Total	4,447.0	4,302.9

In the 2006 financial year no stock appreciation rights were granted for the 2005 allocation year since the internal performance criterion was not met (previous year: EUR 0.3 million); stock appreciation rights granted in previous years were exercised in an amount of EUR 1.0 million (EUR 0.8 million).

As at 31 December 2006 the members of the Executive Board had at their disposal a total of 172,874 (300,450) granted, but not yet exercised stock appreciation rights with a fair value of EUR 1.5 million (EUR 1.8 million).

The Annual General Meeting of Hannover Re 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 1.0 million was allocated to the provision for pensions in the year under review, which stood at EUR 6.4 million as at 31 December 2006.

The remuneration paid to former members of the Executive Board and their surviving dependants, for whom eleven pension commitments existed, totalled EUR 0.9 million in the year under review. Altogether, an amount of EUR 9.8 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 Re. 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 Re 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	90.2
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	34.9
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		248.3

** 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 Re 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 Re 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.

German Corporate Governance Code

The company is in compliance with the recommendations of the Code in all respects (cf. in detail the Declaration of Conformity below).

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

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of the Hannover Re Group abroad

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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.

Acquisition cost, deferred (DAC): cost of an insurance company that arises from the acquisition or the renewal of an insurance contract (e.g. commission for the closing, costs of proposal assessment and underwriting etc.). Capitalisation results in a distribution of the cost over the duration of the contract.

Aggregate excess of loss treaty: a form of excess of loss treaty reinsurance under which the reinsurer responds when a ceding insurer incurs losses on a particular line of business during a specific period (usually 12 months) in excess of a stated amount.

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.

American Depositary Receipt (ADR): share certificates written by US banks on foreign shares deposited there. Instead of trading the foreign shares directly, US stock exchanges trade the ADRs.

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 premiums), 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.

CAPM: cf. → Capital asset pricing model

Capital asset pricing model (CAPM): the CAPM is used to explain the materialisation of prices/returns on the capital market based on investor expectations regarding the future probability distribution of returns. Under this method, the opportunity cost rate for the shareholders' equity consists of three components – a risk-averse interest rate, a market-specific risk loading and an enterprise-specific risk assessment, the beta coefficient. The cost of shareholders' equity is therefore defined as follows: risk-averse interest rate + beta * enterprise-specific risk assessment.

Cash flow statement: statement on the origin and utilisation of cash and cash equivalents during the accounting period. It shows the changes in liquid funds separated into cash flows from operating, investing and financing activities.

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.

Coinsurance Funds Withheld- (CFW) Treaty: type of coinsurance contract where the ceding company retains a portion of the original premium at least equal to the ceded reserves. Similar to a → Modco contract the interest payment to the reinsurer reflects the investment return on an underlying asset portfolio.

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

Confidence (also: probability) level: the confidence level defines the probability with which the defined amount of risk will not be exceeded.

Contribution margin accounting level 5 (DB 5): this level of contribution margin accounting constitutes the clear profit after earning the discounted claims expenditure plus all external and internal costs including the cost of capital.

Corporate Governance: serves to ensure responsible management and supervision of enterprises and is intended to foster the trust of investors, clients, employees and the general public in companies.

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

Creditworthiness: cf. → credit status

Critical illness coverages: cf. → dread disease coverages

DB 5: cf. → Contribution margin accounting level 5

Deposit accounting: an accounting method originating in US accounting principles for the recognition of short-term and multi-year insurance and reinsurance contracts with no significant underwriting risk transfer. The standard includes inter alia provisions relating to the classification of corresponding contract types as well as the recognition and measurement of a deposit asset or liability upon inception of such contracts.

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).

Discounting of loss reserves: determination of the present value of future profits through multiplication by the corresponding discount factor. In the case of the loss reserves this is necessary because of the new profit calculation methods for tax purposes applicable to German joint-stock corporations.

Diversification: orientation of business policy towards various revenue streams in order to minimise the effects of economic fluctuations and stabilise the result. Diversification is an instrument of growth policy and risk policy for a company.

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.

Due diligence: activity generally performed as part of a capital market transaction or in the case of mergers and acquisitions, covering inter alia an examination of the financial, legal and tax situation.

Earnings per share, diluted: ratio calculated by dividing the consolidated net income by the weighted average number of shares outstanding. The calculation of the diluted earnings per share is based on the number of shares including subscription rights already exercised or those that can still be exercised.

Earnings retention: non-distribution of a company's profits leading to a different treatment for tax purposes than if profits were distributed.

EEV: cf. → European embedded value

European embedded value (EEV): present value of shareholders' interests in the earnings distributable from assets allocated to the covered business after sufficient allowance for the aggregate risks in the covered business.

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

Excess return on capital allocated (xRoCA): describes the → IVC in relation to the allocated capital and shows the relative excess return generated above and beyond the weighted cost of capital.

Expense ratio: administrative expenses in relation to the (gross or net) premiums 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 Accounting Standards Board (FASB): committee in the USA whose task is to determine and improve upon the standards of accounting and reporting.

Financial Accounting Standards (FAS): cf. → Statement of Financial Accounting Standards (SFAS)

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

Goodwill: the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed.

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).

Hybrid capital: debt structure which because of its subordination bears the character of both debt and equity

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

Impairment: extraordinary amortisation taken when the present value of the estimated future cash flow of an asset is less than its book value.

International Accounting Standards (IAS): cf. → International Financial Reporting Standards (IFRS)

International Accounting Standards Board (IASB): committee in the EU whose task is to determine and improve upon the international standards of accounting and reporting.

International Financial Reporting Standards (IFRS): standards published by the International Accounting Standards Board on accounting and reporting (until 2002 they were named International Accounting Standards, IAS).

International Securities Identification Number (ISIN): ten-character universal code used to identify securities internationally. It is prefixed by a country code that specifies the country where the issuer entity is legally registered or in which it has legal domicile, e.g. DE = Germany.

Intrinsic value creation (IVC): the IVC is calculated according to the following formula: real operating value creation = adjusted operating profit (EBIT) – (capital allocated x weighted cost of capital). IVC is a tool of value-based enterprise management used to measure the accomplishment of long-term targets on the level of the Group, the individual business groups and the operating units (profit centres).

Investment grade: investment grade ratings are awarded to companies and assigned to securities that have a low risk profile. They contrast with non-investment-grade ratings, which by definition include speculative elements and therefore entail a significantly higher risk.

IVC: cf. → Intrinsic value creation

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

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

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

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

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

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

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

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

Modified Coinsurance- (Modco) Treaty: type of reinsurance treaty where the ceding company retains the assets supporting the reinsured reserves by withholding a fund, thereby creating an obligation to render payments to the reinsurer at a later date. Such payments include a proportional share of the gross premium plus a return on the assets.

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.

Other securities, available-for-sale: securities that are not classified as "trading" or "held-to-maturity"; these securities can be disposed of at any time and are reported at their market value at the balance sheet date. Changes in market value do not affect the statement of income.

Other securities, held-to-maturity: investments in debt securities intended to be held to maturity. They are measured at amortised cost.

Other securities, trading: securities that are held principally for short-term trading purposes. They are measured at their market value at the balance sheet date.

(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 premiums, the written premiums are not deferred.

Present value of future profits (PVFP): intangible asset primarily arising from the purchase of life and health insurance companies or portfolios. The present value of expected future profits from the portfolio assumed is capitalised and amortised according to schedule.

Price earnings ratio (PER): ratio of the market value of a share to the earnings per share of a publicly traded corporation.

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.

Probability level: cf. → confidence level

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

Purchase cost, amortised: the cost of acquiring an asset item including all ancillary and incidental purchasing costs; in the case of wasting assets less scheduled and/or special amortisation.

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) premiums.

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 premiums).

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.

Special Purpose Entity (SPE): legal structure with specific characteristics not bound to a certain form of organisation used to conduct defined activities or to hold assets.

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).

Statement of Financial Accounting Standards, SFAS (also: Financial Accounting Standards, FAS): standards published by the Financial Accounting Standards Board on accounting and reporting.

Spread loss treaty: treaty between an insurer and a reinsurer that covers risks of a defined portfolio over a multi-year period.

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.

Surplus relief treaty: a portfolio reinsurance contract under which an admitted reinsurer assumes (part of) a ceding company's business to relieve stress on the cedant's policyholders' surplus.

Survival ratio: reflects the ratio of loss reserves to paid losses under a specific contract or several contracts in a balance sheet year.

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 premiums

US GAAP (United States Generally Accepted Accounting Principles): internationally recognised US accounting principles. Not all the provisions which together constitute US GAAP have been codified. US GAAP comprises not only defined written statements but also, for example, standard accounting practices in specific industries.

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.

Variable Interest Entity: legal entity not bound to a certain form of organisation for which the traditional approach to consolidation based on voting rights is ineffective in identifying where control of the entity really lies, or in which the equity investors do not bear the economic risks and rewards of the entity. The definition is broader than the previously used term → special-purpose entity (SPE).

Volatility: measure of the variability of stock prices, interest rates and exchange rates. Standard practice is to measure the volatility of a stock price by calculating the standard deviations of relative price differences.

xRoCA: cf. → Excess return on capital allocated

INDEX OF KEY TERMS

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FINANCIAL CALENDAR 2007/2008

14 March 2007	**Annual Results Press Conference** Hannover Re Karl-Wiechert-Allee 50 30625 Hannover, Germany
15 March 2007	**DVFA Analysts' meeting, Frankfurt**
15 March 2007	**Analysts' meeting, London**
03 May 2007	**Annual General Meeting** Beginning 10:30 a.m. Hannover Congress Centrum Theodor-Heuss-Platz 1–3 30175 Hannover, Germany
03 May 2007	**Interim Report 1/2007**
03 August 2007	**Interim Report 2/2007**
07 November 2007	**Interim Report 3/2007**
06 May 2008	**Annual General Meeting** Beginning 10:30 a.m. Hannover Congress Centrum Theodor-Heuss-Platz 1–3 30175 Hannover, Germany