somewhat different

Interim Report 3/2006

hannover re®

KEY FIGURES
of the Hannover Re Group

Figures in EUR million	2006					2005		
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.	31.12.
Results								
Gross written premium	5 244.5	2 403.8	(4.1%)	7 648.3	+4.3%	2 505.4	7 336.1	
Net premium earned	4 045.3	1 907.5	(0.8%)	5 952.8	+6.4%	1 922.6	5 597.3	
Net underwriting result	(30.9)	(40.8)	(93.0%)	(71.6)	(89.3%)	(580.8)	(668.6)	
Net investment income	494.4	322.0	+2.5%	816.4	(1.1%)	314.3	825.4	
Operating profit/loss (EBIT)	449.8	257.1	(190.8%)	706.8		(283.0)	63.8	
Group net income	256.6	123.5	(167.0%)	380.1	+513.7%	(184.2)	61.9	
Balance sheet								
Policyholders' surplus	4 579.7			4 892.9	+6.5%			4 595.6
Total shareholders' equity	2 559.9			2 845.8	+9.4%			2 601.0
Minority interests	584.2			610.6	+9.7%			556.5
Hybrid capital	1 435.6			1 436.5	(0.1%)			1 438.1
Investments (incl. funds held by ceding companies)	27 421.7			29 211.1	+6.1%			27 526.4
Total assets	39 744.4			40 799.1	+2.5%			39 789.2
Share								
Earnings per share (diluted) in EUR	2.13	1.02		3.15		(1.53)	0.51	
Book value per share in EUR	21.23			23.60			21.62	21.57
Ratios								
Combined ratio (property and casualty reinsurance)	98.2%	97.2%		97.9%		143.6%	113.0%	
Retention	85.4%	82.2%		84.4%		75.6%	80.2%	
Return on investment	4.2%	5.5%		4.5%		5.1%	4.6%	
EBIT margin [1]	11.1%	13.5%		11.9%		(14.7%)	1.1%	
Return on equity (after tax)	19.9%	18.3%		18.6%		(27.0%)	3.1%	

[1] *Operating profit (EBIT)/net premium earned*

Wilhelm Zeller
Chairman of the
Executive Board

Dear shareholders,
Ladies and Gentlemen,

I am pleased to report that we have been able to build on our successful business development in the first half of 2006 with a very good third-quarter result. All four business groups – property/casualty, life/health and financial reinsurance as well as specialty business – again delivered positive profit contributions. Our result establishes an exceptionally robust platform for revising upwards and framing in more concrete terms our original profit target for the full 2006 financial year, namely a return on equity of at least 15 percent. We now expect the return on equity to come in significantly higher than 15 percent, with Group net income in the order of EUR 480 million or earnings per share of around EUR 4.

The market environment in *property and casualty reinsurance*, our largest and most important business group, continues to be favourable: almost all segments presented us with further attractive opportunities to write profitable business. The treaty renewal phase as at 1 July 2006 provided additional evidence of the continuing shortage of reinsurance capacities for US natural catastrophe business. Prices have consequently remained on a high level, increasing even further in some areas. Under programmes that were especially hard hit by last year's hurricanes rates increased by up to 100 percent – and even more in certain isolated cases. The enhancement of pricing models to include loadings for elements that had previously been inadequately modelled or indeed entirely neglected also fostered the favourable rate trend. Taken together, all these factors are opening up attractive profit opportunities for your company.

Yet we are not relying exclusively on advantageous market conditions. For us, risk management is of the utmost importance: we have taken steps across a broad front to ensure that extraordinary catastrophe losses such as hurricane events do not place an excessive strain on our result.We have significantly scaled back our peak exposures while maintaining an unchanged premium volume, hence considerably improving the overall risk profile of our portfolio. In addition to using traditional retrocessions we continue to transfer insurance risks to the capital market in order to optimally safeguard our portfolio: following on from our "K5" transaction at the beginning of the year we placed our first-ever conventional catastrophe (CAT) bond in July. What is more, on the organisational side we have centralised our existing risk management activities in a newly established unit and further strengthened its dedicated team of staff.

In contrast to the two previous years, the hurricane season in the current year was a moderate one that did not cause losses for our company. All in all, the burden of major losses for the first nine months – amounting to 3.1 percent of net premium – was comfortably below the multi-year average of eight percent. The profit trend in our property and casualty reinsurance business is therefore most pleasing.

Our second-most important business group, *life and health reinsurance*, continues to offer very good potential for growth and profitability; our organic growth remains strong. The demographic trend in industrialised nations, for example, is fostering demand for protection products specially tailored to the needs of senior citizens. In addition to the enhanced annuities segment our other primary concentration in Europe is on expansion in the bancassurance sector. Our very good result as at 30 September 2006 constitutes an optimal platform for achieving our ambitious goals in this business group for the full financial year.

The development of our *financial reinsurance* business in the third quarter was satisfactory. Although growth lagged behind the two previous quarters, the demand trend for structured products has been sustained. This is especially true of the Eastern European and Asian markets.

Specialty insurance, our fourth business group, is progressing according to plan: the separation of the two US subsidiaries Praetorian Financial Group and Clarendon Insurance Group is now almost complete. Praetorian, which transacts our American specialty business, is perfectly poised to profit from the largely still advantageous market conditions. What is more, the company has further strengthened its management team. The good result in the third quarter should establish the basis for consistently enhancing the value of this business group.

I am similarly satisfied with the performance of our *investments*. Our portfolio of assets under own management grew sharply thanks to the sustained strong underwriting cash flow. Net investment income consequently improved slightly on the corresponding quarter of the previous year despite lower interest on deposits.

I have, however, drawn special satisfaction from the movement of our share price in recent weeks: after a very disappointing first half-year our share moved up strongly towards the end of the third quarter, and I am confident that the considerable potential inherent in your company will continue to be reflected in the share price going forward.

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

Yours sincerely,

Wilhelm Zeller
Chairman of the Executive Board

BOARDS AND OFFICERS
of Hannover Re

Supervisory Board (Aufsichtsrat)

Wolf-Dieter Baumgartl [1) 2)] Berg	Chairman
Dr. Paul Wieandt [2)] Königstein i. T.	Deputy Chairman
Herbert K. Haas [1) 2)] Burgwedel	
Karl Heinz Midunsky Munich	
Ass. jur. Otto Müller [3)] Hannover	
Dr. Immo Querner Bonn (since 27 June 2006)	
Ass. jur. Renate Schaper-Stewart [3)] Lehrte	
Dipl.-Ing. Hans-Günter Siegerist [3)] Nienstädt	
Dr. Klaus Sturany [1)] Essen	
Bodo Uebber Stuttgart (until 12 May 2006)	

Executive Board (Vorstand)

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

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

THE HANNOVER RE SHARE

The positive momentum on German capital markets was sustained in the third quarter of 2006. The German stock index (Dax) only barely fell short of its highest point so far this year recorded in May (6,141 points), and with growth of 11.0% since the turn of the year the market trend as at 29 September was clearly favourable.

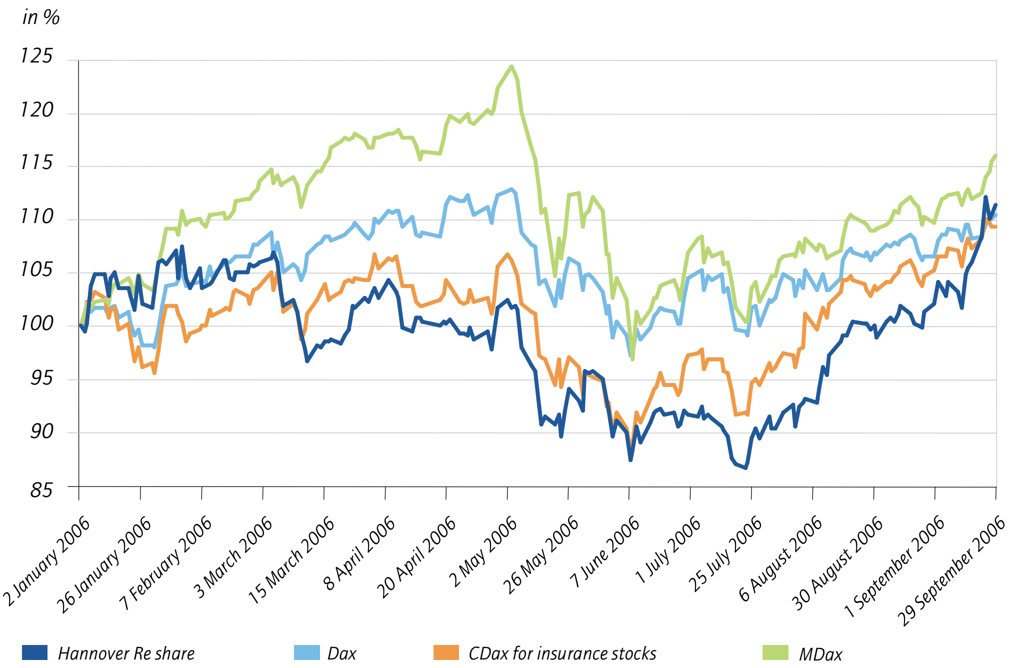
German mid-caps performed even more strongly: at the end of the third quarter the MDax (+16.9%) again led the way ahead of the CDax for Insurance Stocks (+10.0%) and the EuroStoxx50 and Dow Jones (both +9.0%).

This marked positive trend was also reflected in the Hannover Re share's development in the third quarter. On 26 September it charted a new high for 2006 of EUR 33.31, an improvement of some 29% on this year's lowest level of EUR 25.85.

As at the end of the quarter our share closed at EUR 33.17. This is equivalent to a performance of +10.8% since 30 December 2005.

The Hannover Re share surpassed our internal benchmark, the weighted "ABN Amro Rothschild Global Reinsurance Index", by 4.6 percentage points in the first three quarters of the year to date.

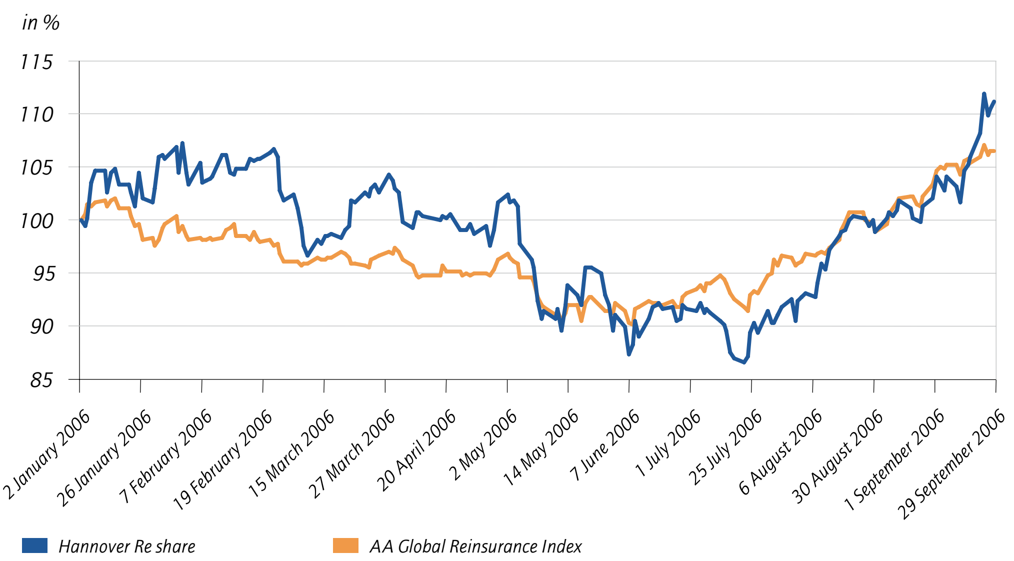
Performance of the Hannover Re share compared with standard benchmark indices



The third quarter at Hannover Re was again notable for a broad range of investor relations activities. By the end of September we had already taken part in 30 international roadshows and investor conferences and we had hosted around 30 groups of European and US investors and financial analysts at our Home Office in Hannover. The favourable perception of Hannover Re on capital markets is also reflected in analyst opinions.

As at 29 September 16 of the 35 analysts listed by Bloomberg and Reuters (equivalent to roughly 46%) recommended the Hannover Re share as a "buy". Analysts currently put the price target for the Hannover Re share at around EUR 35 on average, i.e. still about 6% higher than the closing price on 29 September 2006. Given the price of EUR 34.12 on 12 October, the price/earnings (P/E) ratio based on the consensus profit estimate for 2006 is around 9.

The Hannover Re share in comparison with the ABN Amro Rothschild Global Reinsurance Index



The ABN Amro Rothschild Global Reinsurance Index combines all listed reinsurers worldwide. Our strategic objective is to achieve an increase in the share price which on a three-year moving average surpasses the performance of this benchmark.

Share information

Figures in EUR	30.9.2006	2005	2004	2003 [1]	2002 [1]	2001 [1]
Earnings per share (diluted)	3.15	0.41	2.32	3.24	2.75	0.11
Dividend per share	–	–	1.00	0.95	0.85	–
Gross dividend	–	–	1.00	0.95	0.85	–

[1] *On a US GAAP basis*

International Securities Identification Number (ISIN):	DE 000 840 221 5
Shareholding structure:	Talanx AG: 50.2% Free float: 49.8%
Common shares as at 30 September 2006:	EUR 120,597,134.00
Number of shares as at 30 September 2006:	120,597,134 no-par-value registered shares
Market capitalisation as at 30 September 2006:	EUR 4,000.2 million

MANAGEMENT REPORT

Business development

We were highly satisfied with the course of the third quarter of 2006. All four business groups developed according to plan. Our result establishes an exceptionally robust platform for revising upwards and framing in more concrete terms our original profit target for the full 2006 financial year, namely a return on equity of at least 15%. We now expect the return on equity to come in significantly higher than 15%, with Group net income in the order of EUR 480 million or earnings per share of around EUR 4.

Gross written premium in total business amounted to EUR 7.6 billion (EUR 7.3 billion) as at 30 September 2006; this corresponds to growth of roughly 4.3% compared to the same period of the previous year. At constant exchange rates the growth would have been 3.3%. With the level of retained premium slightly higher at 84.4% (80.2%), net premium climbed 6.4% to EUR 6.0 billion (EUR 5.6 billion).

The performance of our investments was also thoroughly satisfactory overall; thanks to the sustained strong underwriting cash flow our portfolio of self-managed assets continued to grow (+4.3%), as a consequence of which ordinary income improved on the previous year to EUR 590.5 million (EUR 482.5 million) and more than made up for another decline in interest on deposits. The rise in interest rates on fixed-income securities nevertheless took a toll on our unrealised gains. With realised gains on disposals lower than in the previous year, net investment income contracted slightly by 1.1% to EUR 816.4 million (EUR 825.4 million).

The operating profit (EBIT) was boosted sharply to a very pleasing EUR 706.8 million (EUR 63.8 million). It should be borne in mind here that the result for the comparative period was adversely impacted by the extraordinary hurricane losses of the previous year. Group net income as at 30 September 2006 amounted to EUR 380.1 million (EUR 61.9 million). Earnings of EUR 3.15 (EUR 0.51) per share were generated, corresponding to a gratifying annualised return on equity of 18.6%.

Our financial strength also continues to be very solid, with shareholders' equity improving by EUR 244.8 million compared to the position at year-end to reach EUR 2.8 billion. The book value per share consequently increased by 9.4%. The policyholders' surplus, comprised of shareholders' equity, minority interests and hybrid capital, grew by 6.5% to EUR 4.9 billion (EUR 4.6 billion).

Property and casualty reinsurance

The property and casualty reinsurance market still offers a favourable business climate – an assessment reinforced by the North American renewal phase in June and July of this year. Most significantly, last year's extraordinarily severe hurricane season prompted substantial – for reinsurers positive – changes in market conditions for property insurance in the United States. In the reinsurance programmes that had been impacted by the hurricane events substantially higher rates were obtained, with some increases in excess of 100%. Key factors here were the shortage of reinsurance capacity and the updating of pricing and rating models in light of insights gained from last year's hurricanes to take account of components that had previously been disregarded or inadequately modelled.

As a consequence of revising our models, we scaled back our peak exposures – in some cases to a substantial extent. If a natural disaster comparable with hurricane "Katrina" were to occur again this year, the burden of losses for our company would be roughly half that of the previous year. Especially noteworthy is the fact that thanks to the sharp rise in rates we were able to reduce our risks in this way without suffering a decline in the premium volume generated in this segment, indeed, the volume generated was actually boosted.

The development of the casualty lines was also thoroughly gratifying, and with a few exceptions prices generally held stable across the board. All in all, market conditions in property and casualty reinsurance were thus largely commensurate with the risks and hence continued to be attractive.

Yet rates moved even more sharply on the retrocession market, through which we obtain protection covers for peak exposures. Against this back-drop risk transfers to the capital market took on even greater importance. Catastrophe (CAT) bonds with a volume of USD 3 billion were issued in 2006 alone. In addition, transactions worth USD 2.5 billion were concluded with so-called sidecars (special purpose entities for retrocessions). As part of its risk management policy Hannover Re is similarly making increasing use of transfers of insurance risks to the capital market alongside traditional retro-cessions. Following our largest-volume transaction ("K5") to date at the beginning of the year, we placed a conventional catastrophe bond in July – the first time that we have used this tool. The bond, which has a volume of USD 150 million, protects against European windstorm risks. With this transaction we have extended and better diversified our risk management through the addition of a new component.

Thanks to this excellent market positioning, Hannover Re can profit to a gratifying extent from the attractive market conditions that are opening up. A further factor here is an aspect of our treaty negotiations with clients that we refer to as "show-ing" and "signing": as an established and financially strong reinsurer we are offered and awarded virtu-ally the entire spectrum of reinsurance business. This is a clear competitive advantage, since in this way we are able to cherry-pick the business that best lives up to our exacting profitability standards.

Key figures for property and casualty reinsurance

Figures in EUR million	2006					2005	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	2 607.0	1 121.0	(8.5%)	3 728.0	+2.2%	1 225.7	3 649.7
Net premium earned	2 035.7	930.3	(5.5%)	2 966.0	+5.0%	984.5	2 825.2
Underwriting result	37.4	25.8	(106.0%)	63.2	(117.2%)	(429.5)	(368.3)
Net investment income	240.9	210.9	+33.3%	451.9	+17.2%	158.2	385.7
Operating profit/ loss (EBIT)	280.5	199.4	(174.6%)	479.8		(267.2)	(32.3)
Group net income	167.5	100.6	(162.6%)	268.1	+695.6%	(160.7)	33.7
Earnings per share in EUR	1.39	0.83	(162.6%)	2.22	+695.6%	(1.33)	0.28
Retention	83.1%	87.8%		84.5%		79.3%	84.3%
Combined ratio	98.2%	97.2%		97.9%		143.6%	113.0%

Gross written premium totalled EUR 3.7 billion (EUR 3.6 billion) as at 30 September 2006; this corresponded to an increase of 2.2%. At constant exchange rates, especially against the US dollar, growth would have been 1.5%. The level of retained premium remained virtually unchanged at 84.5% (84.3%). Net premium earned increased by 5.0% to EUR 3.0 billion (EUR 2.8 billion).

On the claims side the third quarter passed off thoroughly unremarkably. We incurred just two major losses – a property insurance claim in Russia and a flood loss in India – with a total net strain of EUR 12.1 million for our account. Overall, the net burden of major losses for the first nine months amounted to EUR 92.6 million (EUR 867.0 million). Equivalent to 3.1% of net premium in property and casualty reinsurance, this figure is well below the multi-year average of 8%. The fact that the com-bined ratio still stood at 97.9% (113.0%) reflects our continued conservative reserving policy.

The operating profit (EBIT) in property and casualty reinsurance as at 30 September 2006 amounted to EUR 479.8 million (-EUR 32.3 million), while Group net income totalled EUR 268.1 million (EUR 33.7 million). The corresponding quarter of 2005 had been heavily impacted by losses associated with hurricanes "Katrina" and "Rita". The earnings per share came in at a very pleasing EUR 2.22 (EUR 0.28).

Life and health reinsurance

In life and health reinsurance we are active in five segments: new business financing, cultivation of new markets and products – such as special senior citizens' and annuity products –, bancassurance, partnerships with large multinational clients and traditional life and health business. With this broad positioning we are able to ensure that our portfolio offers considerable promise for the future and can rely upon strong organic growth.

Life and health reinsurance progressed highly favourably in the third quarter of 2006. We vigorously enlarged our premium volume, writing new business primarily in the annuity sector on European markets – including, for example, the United Kingdom. Especially in the developed industrial nations, the demographic trend is proving to be an engine for growth in annuity and health insurance business. Although in the current interest rate environment it is not yet possible to design enhanced annuities in Germany as attractively as we would like, we see here a promising market for the future – particularly in the senior citizens' product segment. Additional growth impetus derived from various Asian markets and South Africa.

Key figures for life and health reinsurance

Figures in EUR million	2006					2005	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	1 282.6	700.2	+12.2%	1 982.7	+13.0%	624.2	1 755.4
Net premium earned	1 124.0	574.8	(4.5%)	1 698.7	+2.6%	601.6	1 655.1
Net investment income	133.3	68.7	(10.1%)	202.1	+0.6%	76.4	200.9
Operating profit (EBIT)	78.2	29.6	+21.7%	107.8	+58.3%	24.3	68.1
Group net income	51.1	19.6	+13.2%	70.8	+50.6%	17.3	47.0
Earnings per share in EUR	0.42	0.17	+13.2%	0.59	+50.6%	0.14	0.39
Retention	88.0%	82.4%		86.0%		95.2%	93.9%
EBIT margin [1]	7.0%	5.2%		6.4%		4.0%	4.1%

[1] *Operating profit (EBIT) / net premium earned*

In Europe, in addition to the enhanced annuities segment, our sights remain firmly set on the expansion of our bancassurance business. Our focus in the American market remains on the steadily growing market for seniors' products and high-value financing transactions.

Gross written premium as at 30 September 2006 rose by 13.0% to EUR 2.0 billion (EUR 1.8 billion). At constant exchange rates the growth would have amounted to 12.4%. The level of retained premium fell 7.9 percentage points to 86.0% (93.9%). This was primarily due to our "L6" transaction concluded at the start of the year. Net premium earned grew by 2.6% to EUR 1.7 billion (EUR 1.7 billion).

We were highly satisfied with the development of results as at 30 September 2006: the operating profit (EBIT) climbed 58.3% to EUR 107.8 million (EUR 68.1 million). The sharp rise was influenced by extraordinary income in the second quarter. Had it not been for this special effect EBIT would still have amounted to a highly gratifying EUR 87.8 million. Group net income improved by 50.6% to EUR 70.8 million (EUR 47.0 million), producing earnings of EUR 0.59 (EUR 0.39) per share.

Financial reinsurance

Financial reinsurance developed according to plan; premium growth was sustained into the third quarter. We were able to enlarge our business, especially in Eastern Europe and Asia. Most notably, demand for surplus relief contracts continued to strengthen. The majority of our clients for such solutions are mutual insurers or privately owned insurance companies that do not have access to the capital market.

Key figures for financial reinsurance

Figures in EUR million	2006					2005	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	711.3	212.9	+19.9%	924.3	+34.4%	177.6	687.6
Net premium earned	436.4	222.2	+16.8%	658.6	+16.6%	190.3	564.9
Net investment income	60.8	18.8	(67.7%)	79.7	(58.6%)	58.2	192.6
Operating profit (EBIT)	33.5	10.4	+19.3%	43.8	(25.4%)	8.7	58.8
Group net income	25.2	10.8	+37.5%	36.0	(22.6%)	7.9	46.6
Earnings per share in EUR	0.21	0.09	+37.5%	0.30	(22.6%)	0.07	0.39
Retention	94.8%	100.0%		96.0%		89.9%	91.5%
EBIT margin [1]	7.7%	4.7%		6.7%		4.6%	10.4%

[1] *Operating profit (EBIT)/net premium earned*

Gross written premium in financial reinsurance climbed sharply by 34.4% to EUR 924.3 million (EUR 687.6 million) as at 30 September 2006. At constant exchange rates growth would have been 32.6%. The level of retained premium increased by 4.5 percentage points to 96.0% (91.5%). Net premium earned climbed 16.6% to EUR 658.6 million (EUR 564.9 million).

The operating profit (EBIT) contracted as expected by a substantial 25.4% as at 30 September 2006 to EUR 43.8 million (EUR 58.8 million). In the previous two years we had commuted a number of large-volume contracts with pleasing profits. It continues to be the case that in phases of significant growth the relative profit booked in the early quarters is lower due to our conservative approach to revenue realisation, but this creates an earnings cushion for the future.

With an EBIT margin of close to 7% this business group nevertheless still delivers a very attractive return above the cost of capital. Group net income came in 22.6% short of the same period of the previous year at EUR 36.0 million (EUR 46.6 million). This was equivalent to earnings of EUR 0.30 (EUR 0.39) per share.

Specialty insurance

Having reorganised our specialty insurance business group in the USA into two distinct units, we are well on the way to maximising the value of this business group: the Praetorian Financial Group, Inc. bears responsibility for the specialty insurance that constitutes the strategic focus of our activities and has developed highly favourably. This is true of both the growth in premium volume and the profitability of the business written.

Since the aforementioned restructuring the Clarendon Insurance Group, Inc. has concentrated on the remaining commodity business and is responsible for the management and winding up of terminated programmes. Its goal is to further reduce the existing commodity business. On account of regulatory restrictions such as government-imposed moratoria, however, the company has not yet been able to scale back the remaining catastrophe-exposed business to the desired extent. For this reason we were compelled to retain the programme of protection cover for the residual natural catastrophe exposures – albeit now at significantly increased costs.

Key figures for specialty insurance

Figures in EUR million	2006					2005	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	868.9	438.1	(15.0%)	1 306.9	(2.2%)	515.2	1 336.1
Net premium earned	449.6	179.7	+18.2%	629.3	+11.4%	152.0	565.1
Underwriting result	12.1	(3.3)	(94.1%)	8.8	(118.3%)	(56.2)	(48.1)
Net investment income	34.1	13.6	(19.2%)	47.7	+36.4%	16.8	35.0
Operating profit/ loss (EBIT)	35.5	9.5	(122.6%)	45.0	(398.4%)	(41.9)	(15.1)
Group net income	27.9	3.3	(112.4%)	31.2	(536.7%)	(26.6)	(7.1)
Earnings per share in EUR	0.23	0.03	(112.4%)	0.26	(536.7%)	(0.22)	(0.06)
Retention	58.3%	45.5%		54.0%		34.2%	40.4%
Combined ratio	97.3%	101.9%		98.6%		137.0%	108.5%

The gross premium volume of the specialty insurance business group was distorted in the first and second quarters by consolidation effects; this was adjusted retrospectively in the third quarter. The gross premium contracted by 2.2% as at 30 September 2006 to EUR 1.3 billion (EUR 1.3 billion). At constant exchange rates premium income would have declined by 3.7%. The level of retained premium increased by 13.6 percentage points to 54.0% (40.4%). The special effect had no implications for net premium, which climbed 11.4% to EUR 629.3 million (EUR 565.1 million).

The results for the first nine months of 2006 clearly show that with our systematic orientation towards specialty business we are on the right track for achieving our goals in the specialty insurance business group. The combined ratio improved on the figure for the corresponding period of the previous year to 98.6% (108.5%). The operating profit (EBIT) increased to EUR 45.0 million (-EUR 15.1 million). Group net income grew to EUR 31.2 million (-EUR 7.1 million) as at 30 September 2006, producing earnings of EUR 0.26 (-EUR 0.06) per share.

Investments

After international stock indices – and especially European exchanges – had fared very well at the start of 2006, the third quarter all but made up for the price declines suffered in the middle of the year.

The situation on American and European bond markets was notable for yield increases and greater volatility in virtually all durations along the yield curve. In the area of fixed-income securities we therefore continue to emphasise above all high quality and liquidity with a neutral duration.

The sustained strong inflow of cash more than offset the price effects associated with the rise in yields on international bond markets, and our assets under own management consequently increased by EUR 0.8 billion compared to year-end 2005 to stand at EUR 19.9 billion.

All in all, investment income was in line with our expectations: ordinary income excluding interest on deposits climbed sharply by 22.4% to EUR 590.5 million, as against EUR 482.5 million in the corresponding period of the previous year. This was attributable principally to the growth in the average portfolio of self-managed assets (12.0%) and, inter alia, also to the stronger US dollar compared to 2005. As anticipated, the rise in interest rates in our main currency areas eroded the unrealised gains in our portfolio of fixed-income securities.

As part of our pro-active approach to portfolio management profits of EUR 191.4 million (EUR 198.7 million) were generated on the disposal of investments, as against realised losses of EUR 71.1 million (EUR 60.9 million). The write-downs taken on securities were again marginal at EUR 11.0 million (EUR 11.4 million). Due to sharply lower interest on deposits of EUR 150.4 million (EUR 252.5 million), which was not entirely offset by the rise in ordinary income, net investment income declined by a further 1.1% compared to the same period of the previous year to EUR 816.4 million (EUR 825.4 million).

Outlook for the full 2006 financial year

In view of the attractive market opportunities that are opening up to us – especially in property/casualty and life/health reinsurance – we are looking forward to a very good 2006 financial year. This forecast is, as always, subject to the proviso that the burden of major losses remains within the bounds of the multi-year average and that there are no unforeseen adverse downturns on the capital markets.

Market conditions in *property and casualty reinsurance* remain good on balance. All the treaty renewal phases completed to date have presented opportunities for us to write attractive business at prices and conditions that are commensurate with the risks. In some segments we even anticipate further rate increases due to the recalibration of simulation models to reflect the insights gained from last year's hurricanes. Yet even in lines that were spared catastrophe losses we are seeing largely stable and hence favourable rates. In those areas that are witnessing rate reductions (such as aviation lines), prices for the business that we write are still adequate.

The annual gatherings of reinsurers in Monte Carlo in September and in Baden-Baden and the United States in October underlined the fact that the reinsurance market is continuing to enjoy a period of stability, and there is therefore no reason to anticipate widespread rate cuts or deteriorations in terms and conditions in the year ahead. The modest round of treaty renewals conducted in October also reaffirmed that market conditions remain favourable.

Despite the present advantageous market climate, we are keeping a close eye on the markets of the future. In view of the enormous growth potential inherent in the worldwide Islamic insurance market, we have decided to establish a subsidiary in Bahrain for Sharia-compliant reinsurance – known as retakaful business. We received the appropriate licence from the Central Bank of Bahrain in September. Business operations will commence in mid-November in good time for the renewal season.

All in all, despite significantly scaling back our peak exposures – especially in the United States –, we expect premium growth in the range of 2% to 4% in property and casualty reinsurance. As long as the burden of major losses remains within the multi-year average of 8% of net premium, we anticipate a very healthy profit contribution.

In *life and health reinsurance* growth impetus is expected from European and various Asian markets as well as South Africa. Having received a business licence for China in November, Hannover Re should enjoy particularly promising growth prospects in this market going forward. We are looking to double-digit increases in both the premium volume and the result. Our goal of generating a three-figure operating profit (EBIT) and an EBIT margin of 5% on a sustained basis from 2006 onwards is within reach.

In *financial reinsurance* further healthy demand for structured products is to be expected. Overall premium growth should be able to reach double digits in percentage terms. Although it will be lower than in the previous year, another pleasing contribution to Group net income is likely.

Our primary focus in the *specialty insurance* business group continues to be on the profitability of our portfolio; a positive result in excess of the cost of capital is expected.

The anticipated favourable underwriting cash flow will likely lead to further growth in the total asset volume. Given a normal market environment the income from *investments* under our own management should also increase again.

In light of the development to date of our business groups and the economic climate, we are absolutely on track for a highly successful 2006 financial year. Assuming that the burden of major losses is in line with the multi-year average and that there are no unexpectedly adverse movements on capital markets, an excellent result should be attainable in the current year: we now expect to generate a return on equity significantly in excess of 15% and Group net income in the order of EUR 480 million or earnings of around EUR 4 per share in the 2006 financial year. Our goal is to pay a dividend in the range of 35% to 40% of Group net income.

CONSOLIDATED QUARTERLY ACCOUNTS

of the Hannover Re Group

CONSOLIDATED BALANCE SHEET
as at 30 September 2006

Figures in EUR thousand	2006	2005
Assets	30.9.	31.12.
Fixed-income securities – held to maturity	1 632 037	458 717
Fixed-income securities – loans and receivables	897 279	745 982
Fixed-income securities – available for sale	13 937 772	14 383 176
Fixed-income securities – at fair value through profit or loss	128 068	88 111
Equity securities – available for sale	1 311 910	1 213 291
Equity securities – at fair value through profit or loss	10 211	–
Trading	21 780	22 834
Real estate	31 373	198 122
Investments in associated companies	164 198	170 414
Other invested assets	605 853	563 493
Short-term investments	674 087	769 758
Cash	493 825	465 161
Total investments and cash under own management	19 908 393	19 079 059
Funds held	8 763 024	8 169 282
Contract deposits	539 687	278 028
Total investments	29 211 104	27 526 369
Reinsurance recoverables on unpaid claims	3 914 437	4 739 026
Reinsurance recoverables on benefit reserve	372 284	94 089
Prepaid reinsurance premium	259 615	463 528
Reinsurance recoverables on other technical reserves	5 784	19 436
Deferred acquisition costs	2 389 453	2 228 501
Accounts receivable	3 290 247	3 367 105
Goodwill	191 169	193 098
Deferred tax assets	919 271	881 765
Other assets	238 431	269 000
Accrued interest and rent	7 352	7 290
	40 799 147	39 789 207

Figures in EUR thousand	2006	2005
Liabilities	**30.9.**	**31.12.**
Loss and loss adjustment expense reserve	18 935 356	20 210 041
Benefit reserve	6 030 291	5 779 169
Unearned premium reserve	2 181 556	1 977 570
Provisions for contingent commissions	200 650	190 551
Funds held	1 736 035	1 135 479
Contract deposits	3 316 983	2 442 952
Reinsurance payable	1 039 862	1 139 843
Provisions for pensions	61 724	57 626
Taxes	225 563	135 678
Provision for deferred taxes	1 733 293	1 670 876
Other liabilities	385 619	346 404
Long-term liabilities	1 495 727	1 545 531
Total liabilities	37 342 659	36 631 720
Shareholders' equity		
Common shares	120 597	120 597
Nominal value 120 597 Authorised capital 60 299		
Additional paid-in capital	724 562	724 562
Common shares and additional paid-in capital	845 159	845 159
Cumulative other comprehensive income		
Unrealised gains and losses on investments	190 170	225 391
Cumulative foreign currency translation adjustment	(35 225)	64 934
Other changes in cumulative other comprehensive income	(1 503)	(1 582)
Total other comprehensive income	153 442	288 743
Retained earnings	1 847 239	1 467 132
Shareholders' equity before minorities	2 845 840	2 601 034
Minority interests	610 648	556 453
Total shareholders' equity	3 456 488	3 157 487
	40 799 147	39 789 207

CONSOLIDATED STATEMENT OF INCOME
for the period 1 January to 30 September 2006

Figures in EUR thousand	2006		2005	
	1.7.–30.9.	1.1.–30.9.	1.7.–30.9.	1.1.–30.9.
Gross written premium	2 403 845	7 648 312	2 505 381	7 336 116
Ceded written premium	427 481	1 194 732	610 491	1 456 064
Change in gross unearned premium	(37 021)	(305 832)	50 876	(212 244)
Change in ceded unearned premium	(31 886)	(194 961)	(23 134)	(70 551)
Net premium earned	1 907 457	5 952 787	1 922 632	5 597 257
Ordinary investment income	191 170	590 525	163 622	482 486
Profit/loss from investments in associated companies	1 049	2 241	5 326	(1 149)
Income/expense on funds withheld and contract deposits	41 891	150 444	79 411	252 455
Realised gains on investments	140 383	191 416	100 815	198 724
Realised losses on investments	32 677	71 102	23 185	60 869
Unrealised gains and losses on investments	1 075	11 282	4 810	6 745
Total depreciation, impairments and appreciation of investments	3 493	14 690	4 345	15 886
Other investment expenses	17 369	43 703	12 182	37 107
Net investment income	322 029	816 413	314 272	825 399
Other technical income	841	1 751	319	6 277
Total revenues	2 230 327	6 770 951	2 237 223	6 428 933
Claims and claims expenses	1 344 681	4 135 846	1 892 056	4 460 237
Change in benefit reserves	72 744	140 257	128 261	233 645
Commission and brokerage, change in deferred acquisition costs	457 078	1 521 322	412 312	1 348 639
Other acquisition costs	2 640	12 953	2 930	12 575
Other technical expenses	13 807	41 700	15 698	44 404
Administrative expenses	58 109	174 103	52 457	172 625
Total technical expenses	1 949 059	6 026 181	2 503 714	6 272 125
Other income and expenses	(24 178)	(37 929)	(16 488)	(93 021)
Operating profit/loss (EBIT)	257 090	706 841	(282 979)	63 787
Interest on hybrid capital	20 930	62 022	20 540	54 644
Net income before taxes	236 160	644 819	(303 519)	9 143
Taxes	84 803	191 314	(115 266)	(61 195)
Net income	151 357	453 505	(188 253)	70 338
thereof				
Minority interest in profit and loss	27 825	73 398	(4 033)	8 402
Group net income	123 532	380 107	(184 220)	61 936
Earnings per share				
Earnings per share in EUR	1.02	3.15	(1.53)	0.51

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	Shareholders' 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
Change in consolidated group								
Capital increases/ additions							4 764	4 764
Capital repayments							(1 535)	(1 535)
Changes without effect on income			89 753	52 454	106	(695)	21 545	163 163
Dividends paid						(120 597)	(19 863)	(140 460)
Net income						61 936	8 402	70 338
Balance as at 30.9.2005	120 597	724 562	48 344	242 843	(1 491)	1 473 255	544 641	3 152 751
Balance as at 1.1.2006	120 597	724 562	64 934	225 391	(1 582)	1 467 132	556 453	3 157 487
Change in consolidated group							(16 981)	(16 981)
Capital increases/ additions							17 875	17 875
Capital repayments							(4 905)	(4 905)
Changes without effect on income			(100 159)	(35 221)	79		(4 751)	(140 052)
Dividends paid							(10 441)	(10 441)
Net income						380 107	73 398	453 505
Balance as at 30.9.2006	120 597	724 562	(35 225)	190 170	(1 503)	1 847 239	610 648	3 456 488

CONSOLIDATED CASH FLOW STATEMENT

as at 30 September 2006

Figures in EUR thousand	2006	2005
	1.1.–30.9.	1.1.–30.9.
I. Cash flow from operating activities		
Net income	453 505	70 338
Appreciation/depreciation	50 045	27 585
Net realised gains and losses on investments	(120 314)	(137 855)
Amortisation of investments	(6 722)	3 943
Changes in funds held	(168 242)	457 206
Net changes in contract deposits	634 194	409 589
Changes in prepaid reinsurance premium (net)	500 763	281 855
Changes in tax assets/provisions for taxes	149 606	(118 406)
Changes in benefit reserves (net)	57 429	199 262
Changes in claims reserves (net)	268 113	525 800
Changes in deferred acquisition costs	(203 365)	(211 186)
Changes in other technical provisions	35 621	29 604
Changes in clearing balances	(128 504)	(100 967)
Changes in other assets and liabilities (net)	58 319	41 321
Cash flow from operating activities	1 580 448	1 478 089
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	39 863	26 323
Purchases	(15 160)	(18 751)
Fixed-income securities – loans and receivables		
Maturities, sales	653	486 320
Purchases	(154 708)	(758 490)
Fixed-income securities – available for sale		
Maturities, sales	4 025 083	5 388 167
Purchases	(5 534 499)	(6 957 414)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	14 677	10 189
Purchases	(53 241)	(13 347)
Equity securities – available for sale		
Sales	958 477	864 178
Purchases	(947 173)	(841 470)

Figures in EUR thousand	2006	2005
	1.1.–30.9.	1.1.–30.9.
Equity securities – at fair value through profit or loss		
Purchases	(10 000)	–
Other invested assets		
Sales	48 642	40 191
Purchases	(67 291)	(73 219)
Affiliated companies and participating interests		
Sales	8 150	13 828
Purchases	(12 389)	(838)
Real estate		
Sales	174 929	–
Purchases	(556)	(255)
Short-term investments		
Changes	53 439	104 320
Other changes (net)	(23 279)	(12 305)
Cash flow from investing activities	(1 494 383)	(1 742 573)
III. Cash flow from financing activities		
Contribution from capital measures	12 970	2 981
Dividends paid	(10 441)	(141 584)
Proceeds from long-term debts	3 953	268 871
Repayment of long-term debts	(41 848)	(8 774)
Cash flow from financing activities	(35 366)	121 494
IV. Exchange rate differences on cash	(22 035)	33 251
Change in cash and cash equivalents (I.+II.+III.+IV.)	28 664	(109 739)
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	28 664	(109 739)
Cash and cash equivalents at the end of the period	493 825	371 312
Income taxes	(26 770)	(44 456)
Interest paid	(121 586)	(138 162)

SEGMENTAL REPORT
as at 30 September 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
	30.9.	31.12.	30.9.	31.12.
Assets				
Held to maturity	1 219 663	324 208	65 587	22 349
Loans and receivables	608 635	476 725	38 983	40 219
Available for sale	9 677 989	10 065 983	2 082 061	1 713 446
At fair value through profit or loss	70 454	52 564	35 182	34 338
Trading	14 641	15 345	6 641	6 974
Other invested assets	744 177	881 565	57 229	49 695
Short-term investments	417 036	336 110	126 238	166 824
Cash	316 841	277 828	62 563	47 342
Total investments and cash under own management	13 069 436	12 430 328	2 474 484	2 081 187
Funds held by ceding companies	188 366	206 646	7 436 893	6 497 292
Contract deposits	–	–	539 687	278 028
Total investments	13 257 802	12 636 974	10 451 064	8 856 507
Reinsurance recoverables on unpaid claims	1 793 467	2 178 090	117 889	107 100
Reinsurance recoverables on benefit reserves	–	–	372 284	94 089
Prepaid reinsurance premium	109 895	131 957	7 842	950
Reinsurance recoverables on other reserves	1 685	(1 087)	4 099	5 353
Deferred acquisition costs	265 373	262 885	1 943 534	1 860 294
Accounts receivable	1 501 312	1 370 080	574 297	732 734
Other assets in the segment	2 427 361	2 234 829	193 146	167 942
Total	19 356 895	18 813 728	13 664 155	11 824 969

Financial reinsurance		Specialty insurance		Consolidation		Total	
2006	2005	2006	2005	2006	2005	2006	2005
30.9.	31.12.	30.9.	31.12.	30.9.	31.12.	30.9.	31.12.
134 641	81 375	39 905	–	172 241	30 785	1 632 037	458 717
111 323	96 376	–	–	138 338	132 662	897 279	745 982
1 109 399	1 136 026	1 826 901	1 912 719	553 332	768 293	15 249 682	15 596 467
11 407	1 209	–	–	21 236	–	138 279	88 111
498	515	–	–	–	–	21 780	22 834
15	63	3	706	–	–	801 424	932 029
40 058	161 173	86 252	105 509	4 503	142	674 087	769 758
13 242	12 655	100 453	118 256	726	9 080	493 825	465 161
1 420 583	1 489 392	2 053 514	2 137 190	890 376	940 962	19 908 393	19 079 059
1 213 992	1 455 396	17 555	12 086	(93 782)	(2 138)	8 763 024	8 169 282
–	–	–	–	–	–	539 687	278 028
2 634 575	2 944 788	2 071 069	2 149 276	796 594	938 824	29 211 104	27 526 369
141 646	141 950	2 551 203	2 738 741	(689 768)	(426 855)	3 914 437	4 739 026
–	–	–	–	–	–	372 284	94 089
407	383	265 872	390 253	(124 401)	(60 015)	259 615	463 528
–	–	–	15 170	–	–	5 784	19 436
73 206	6 358	105 431	98 964	1 909	–	2 389 453	2 228 501
191 444	305 422	1 038 020	1 006 901	(14 826)	(48 032)	3 290 247	3 367 105
46 222	50 527	180 376	165 874	(1 490 882)	(1 268 019)	1 356 223	1 351 153
3 087 500	3 449 428	6 211 971	6 565 179	(1 521 374)	(864 097)	40 799 147	39 789 207

SEGMENTAL REPORT
as at 30 September 2006

Segmentation of technical and other liabilities

Figures in EUR thousand	Property/casualty reinsurance		Life/health reinsurance	
	2006	2005	2006	2005
	30.9.	31.12.	30.9.	31.12.
Liabilities				
Loss and loss adjustment expense reserve	12 453 412	12 513 061	1 304 285	1 284 403
Benefit reserve	–	–	6 030 291	5 779 169
Unearned premium reserve	1 287 716	1 181 376	33 018	21 057
Provisions for contingent commissions	117 493	119 164	36 569	36 439
Funds held under reinsurance contracts	482 522	472 497	933 894	297 910
Contract deposits	–	–	3 175 563	2 287 462
Reinsurance payable	584 250	415 907	211 262	261 138
Long-term liabilities	59 280	107 432	–	–
Other liabilities in the segment	1 658 732	1 492 279	1 194 344	1 150 229
Total	16 643 405	16 301 716	12 919 226	11 117 807

Financial reinsurance		Specialty insurance		Consolidation		Total	
2006	2005	2006	2005	2006	2005	2006	2005
30.9.	31.12.	30.9.	31.12.	30.9.	31.12.	30.9.	31.12.
2 300 414	2 789 737	3 565 561	4 051 892	(688 316)	(429 052)	18 935 356	20 210 041
–	–	–	–	–	–	6 030 291	5 779 169
287 266	68 613	698 206	769 691	(124 650)	(63 167)	2 181 556	1 977 570
37 457	34 948	9 131	–	–	–	200 650	190 551
35 788	25 707	377 746	339 365	(93 915)	–	1 736 035	1 135 479
141 420	155 490	–	–	–	–	3 316 983	2 442 952
62 729	108 495	197 118	400 915	(15 497)	(46 612)	1 039 862	1 139 843
–	–	–	67 602	1 436 447	1 370 497	1 495 727	1 545 531
128 414	220 240	1 072 750	887 386	(1 648 041)	(1 539 550)	2 406 199	2 210 584
2 993 488	3 403 230	5 920 512	6 516 851	(1 133 972)	(707 884)	37 342 659	36 631 720

SEGMENTAL REPORT
as at 30 September 2006

Segmental statement of income

Figures in EUR thousand	Property/casualty reinsurance		Life/health reinsurance	
	2006	2005	2006	2005
	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.
Gross written premium	3 728 039	3 649 699	1 982 727	1 755 403
thereof				
From insurance business with other segments	77 208	77 255	14 226	14 069
From insurance business with external third parties	3 650 831	3 572 444	1 968 501	1 741 334
Net premium earned	2 966 001	2 825 191	1 698 713	1 655 076
Net investment income	451 860	385 692	202 061	200 868
Claims and claims expenses	2 203 279	2 555 640	1 064 912	1 008 644
Change in benefit reserves	–	–	140 257	233 645
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	622 405	567 450	571 778	497 657
Administrative expenses	77 106	70 432	37 363	42 908
Other income and expenses	(35 229)	(49 655)	21 320	(4 982)
Operating profit/loss (EBIT)	479 842	(32 294)	107 784	68 108
Interest on hybrid capital	–	–	–	–
Net income before taxes	479 842	(32 294)	107 784	68 108
Taxes	151 364	(71 218)	27 175	18 007
Net income	328 478	38 924	80 609	50 101
thereof				
Minority interest in profit and loss	60 371	5 226	9 840	3 123
Group net income	268 107	33 698	70 769	46 978

Financial reinsurance		Specialty insurance		Consolidation		Total	
2006	2005	2006	2005	2006	2005	2006	2005
1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.
924 262	687 618	1 306 929	1 336 113	(293 645)	(92 717)	7 648 312	7 336 116
202 211	1 393	–	–	(293 645)	(92 717)	–	–
722 051	686 225	1 306 929	1 336 113	–	–	7 648 312	7 336 116
658 566	564 850	629 315	565 145	192	(13 005)	5 952 787	5 597 257
79 662	192 583	47 726	34 988	35 104	11 268	816 413	825 399
472 939	486 558	395 731	423 924	(1 015)	(14 529)	4 135 846	4 460 237
–	–	–	–	–	–	140 257	233 645
214 459	205 796	167 849	131 208	(2 267)	(2 770)	1 574 224	1 399 341
6 139	4 346	56 950	58 069	(3 455)	(3 130)	174 103	172 625
(844)	(1 933)	(11 520)	(2 008)	(11 656)	(34 443)	(37 929)	(93 021)
43 847	58 800	44 991	(15 076)	30 377	(15 751)	706 841	63 787
–	–	–	–	62 022	54 644	62 022	54 644
43 847	58 800	44 991	(15 076)	(31 645)	(70 395)	644 819	9 143
4 610	12 146	13 819	(7 938)	(5 654)	(12 192)	191 314	61 195
39 237	46 654	31 172	(7 138)	(25 991)	(58 203)	453 505	70 338
3 187	53	–	–	–	–	73 398	8 402
36 050	46 601	31 172	(7 138)	(25 991)	(58 203)	380 107	61 936

Our secondary segmental reporting for the investments and gross written premium is based upon regional origin.

Investments [1)]

Figures in EUR thousand	2006	2005
	30.9.	31.12.
Total investments excluding cash		
Germany	5 624 707	5 138 837
United Kingdom	1 052 654	1 003 165
France	966 916	989 583
Other	2 556 463	2 093 018
Europe	10 200 740	9 224 603
USA	7 398 236	7 677 451
Other	618 044	571 724
North America	8 016 280	8 249 175
Asia	247 594	239 891
Australia	481 541	410 876
Australasia	729 135	650 767
Africa	230 536	245 946
Other	237 877	243 407
Total	19 414 568	18 613 898

Gross written premium [1)]

Figures in EUR thousand	2006	2005
	1.1.–30.9.	1.1.–30.9.
Gross written premium		
Germany	1 120 351	1 108 061
United Kingdom	1 012 878	1 016 856
France	348 435	261 086
Other	929 245	856 410
Europe	3 410 909	3 242 413
USA	2 845 824	2 916 693
Other	308 346	272 404
North America	3 154 170	3 189 097
Asia	412 966	315 575
Australia	300 656	284 273
Australasia	713 622	599 848
Africa	202 370	181 849
Other	167 241	122 909
Total	7 648 312	7 336 116

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

1. General reporting principles

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

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

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

2. Accounting principles including major accounting policies

The quarterly accounts of the consolidated companies included in the consolidated financial statement were drawn up as at 30 September 2006.

All standards adopted by the IASB as at 30 September 2006 with binding effect for the 2006 financial year have been observed in the consolidated financial statement.

We would also refer to the relevant information in the consolidated financial statement as at 31 December 2005.

3. Consolidated companies and consolidation principles

Consolidated companies

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, and since that date Hannover Re has held the majority interest 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.

Effective 13 July 2006 Hannover Re Real Estate Holdings, Inc., Orlando, sold its 65% interest in the special purpose vehicle 1201 F Street LLC, the object of which is to hold and manage real estate held as a financial investment in Washington, DC. The gain on disposal of EUR 27.0 million before tax was recognised under realised gains on investments within our property and casualty reinsurance business group.

Within the subgroup Hannover Finance, Inc., Wilmington, Praetorian Insurance Company, Itasca, (formerly Insurance Corporation of Hannover, Itasca) acquired Alea North America Specialty Insurance Company, Wilmington, effective 29 September 2006. At the same time this company was renamed Praetorian Specialty Insurance Company, Wilmington. The transaction gave rise to goodwill of EUR 3.2 million as at the balance sheet date.

Capital consolidation

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

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

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

The minority interest in the result is a component of net income and is shown separately as a "thereof" note following net income. As at 30 September 2006 it amounted to EUR 73.4 million (EUR 8.4 million).

Debt consolidation

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

Consolidation of expenses and profit

The effects of business transactions within the Group were eliminated.

Adjustment of comparative figures from previous periods

Due to the reorganisation of our specialty insurance business group in the USA, the gross written premium and the ceded written premium for the business group as at 30 June 2006 were each distorted by opposing amounts of EUR 203.2 million and the change in gross unearned premium and the change in ceded unearned premium were each distorted by opposing amounts of EUR 46.6 million as a consequence of consolidation effects. In accordance with IAS 8.42 we have retrospectively adjusted the corresponding comparative figures for the first and second quarters of 2006, which in this report are shown on a cumulative basis. As a result of this effect, it was also necessary to appropriately adjust the retention – calculated as the ratio of gross written premium to ceded written premium – as at 30 June 2006.

The aforementioned effect had no implications for the net premium earned, the operating profit (EBIT), Group net income or the earnings per share.

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

4.1 Investments including income and expenses

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

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

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

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

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

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

For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2005.

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
	30.9.	30.9.	31.12.	31.12.
Held to maturity				
due in one year	70 931	70 566	57 293	57 769
due after one through two years	14 963	15 010	49 301	51 086
due after two through three years	19 598	31 258	23 118	23 176
due after three through four years	22 278	10 581	–	–
due after four through five years	204 635	206 996	10 538	10 986
due after five through ten years	1 288 169	1 312 336	316 565	342 977
due after ten years	11 463	11 652	1 902	1 902
Total	1 632 037	1 658 399	458 717	487 896
Loans and receivables				
due in one year	25 744	25 735	37 417	37 579
due after one through two years	48 778	51 496	19 015	19 709
due after two through three years	72 754	72 331	24 609	26 934
due after three through four years	134 553	130 997	63 631	62 955
due after four through five years	90 559	87 446	127 626	126 003
due after five through ten years	491 849	479 716	436 778	435 410
due after ten years	33 042	32 819	36 906	36 766
Total	897 279	880 540	745 982	745 356
Available for sale				
due in one year	1 429 736	1 416 514	1 543 185	1 529 823
due after one through two years	1 963 129	1 943 084	1 419 412	1 397 314
due after two through three years	1 842 171	1 821 288	2 037 995	2 028 214
due after three through four years	1 713 016	1 688 433	1 638 228	1 617 552
due after four through five years	1 308 490	1 311 487	1 557 596	1 568 347
due after five through ten years	4 642 477	4 612 330	5 175 331	5 208 951
due after ten years	1 112 436	1 144 636	983 662	1 032 975
Total	14 011 455	13 937 772	14 355 409	14 383 176
Financial assets at fair value through profit or loss				
due in one year	73 246	73 246	51 319	51 319
due after one through two years	399	486	4 310	4 489
due after two through three years	922	1 146	828	939
due after three through four years	–	–	–	–
due after four through five years	–	–	–	–
due after five through ten years	22 585	22 550	–	–
due after ten years	28 502	30 640	31 722	31 364
Total	125 654	128 068	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.

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

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

30.9.2006					
Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	52 590	78	–	236	52 904
US treasury notes	372 232	6 422	–	5 073	383 727
Other foreign government debt securities	7 206	152	–	106	7 464
Debt securities issued by semi-governmental entities	470 219	10 616	220	7 782	488 397
Corporate securities	447 277	10 635	1 870	7 793	463 835
Asset-backed securities	256 991	623	74	4 532	262 072
Total	1 606 515	28 526	2 164	25 522	1 658 399

31.12.2005					
Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
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

30.9.2006

Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	236 019	300	7 114	5 823	235 028
Corporate securities	371 350	3 137	7 679	7 765	374 573
Asset-backed securities	270 340	1 666	7 049	5 982	270 939
Total	877 709	5 103	21 842	19 570	880 540

31.12.2005

Figures in EUR thousand	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

30.9.2006

Figures in EUR thousand	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	983 680	3 220	9 025	13 191	991 066
US treasury notes	2 567 072	8 403	28 702	21 058	2 567 831
Other foreign government debt securities	313 572	1 483	2 741	3 026	315 340
Debt securities of semi-governmental entities	3 431 211	22 626	46 478	54 601	3 461 960
Corporate securities	4 132 364	28 322	50 245	71 073	4 181 514
Asset-backed securities	1 659 139	13 297	20 417	22 052	1 674 071
Investment funds	728 262	16 615	10 041	11 154	745 990
	13 815 300	93 966	167 649	196 155	13 937 772
Equity securities					
Shares	236 504	56 147	1 908	–	290 743
Investment funds	853 251	169 636	1 720	–	1 021 167
	1 089 755	225 783	3 628	–	1 311 910
Short-term investments	673 250	–	–	837	674 087
Total	15 578 305	319 749	171 277	196 992	15 923 769

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

31.12.2005					
Figures in EUR thousand	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
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
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

30.9.2006			
Figures in EUR thousand	**Fair value before accrued interest**	**Accrued interest**	**Fair value**
Financial assets at fair value through profit or loss			
Debt securities of semi-governmental entities	9 419	161	9 580
Corporate securities	113 117	1 145	114 262
Asset-backed securities	4 207	19	4 226
	126 743	1 325	128 068
Equity securities			
Investment funds	10 211	–	10 211
Total	136 954	1 325	138 279

31.12.2005			
Figures in EUR thousand	**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
	87 412	699	88 111
Equity securities			
Investment funds	–	–	–
Total	87 412	699	88 111

Fair value of the trading portfolio

As at 30 September 2006 Hannover Re's trading portfolio was comprised largely of technical derivatives in an amount of EUR 21.8 million (31 December 2005: EUR 22.8 million) that were separated from the underlying transaction and measured at fair value.

Investment income

Figures in EUR thousand	2006	2005
	30.9.	30.9.
Real estate	15 202	15 634
Dividends	24 622	24 718
Interest income on investments	533 524	431 672
Other income	17 177	10 462
Ordinary investment income	590 525	482 486
Profit or loss on shares in associated companies	2 241	(1 149)
Interest income on funds withheld and contract deposits	182 090	273 811
Interest expense on funds withheld and contract deposits	31 646	21 356
Realised gains on investments	191 416	198 724
Realised losses on investments	71 102	60 869
Unrealised gains and losses	11 282	6 745
Impairments/depreciation on real estate	3 659	4 464
Impairments on equity securities	6 861	6 498
Impairments on fixed-income securities	–	382
Impairments on participating interests and other financial assets	4 170	4 542
Other investment expenses	43 703	37 107
Total investment income	816 413	825 399

Interest income on investments

Figures in EUR thousand	2006	2005
	30.9.	30.9.
Fixed-income securities – held to maturity	59 082	20 939
Fixed-income securities – loans and receivables	21 204	19 627
Fixed-income securities – available for sale	422 531	366 456
Financial assets – at fair value through profit or loss	3 364	3 238
Other	27 343	21 412
Total	533 524	431 672

Eurus catastrophe bond

With the aim of transferring peak exposures deriving from natural disasters to the capital market Hannover Re issued a catastrophe ("CAT") bond in the third quarter that can be traded on a secondary market. This was the first time that Hannover Re had used such a tool. The CAT bond with a volume of USD 150 million was placed with institutional investors from Europe and North America by Eurus Ltd., a special purpose entity domiciled in the Cayman Islands. Hannover Re does not exercise a controlling influence over the special purpose entity. Under IFRS this transaction does not qualify as reinsurance, but is to be recognised instead as a financial instrument. In accordance with IAS 39.9 the contract constitutes a derivative, the fair value of which as at 30 September 2006 amounted to EUR 0.9 million and which we carried under other invested assets as at the balance sheet date.

4.2 Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group was 1,984 (31 December 2005: 1,972). Of this number, 865 were employed in Germany in the year under review and 1,119 were employed at the consolidated Group companies abroad.

4.3 Shareholders' equity and minority interests

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

The shareholders' equity (share capital of the parent company) amounts to EUR 120,597,134.00. It is divided into 120,597,134 voting and dividend-bearing registered no-par-value shares with a nominal value of EUR 1.00. The shares are paid in in full.

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

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

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

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

4.4 Treasury shares

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

4.5 Earnings per share

Basic and diluted earnings per share

	2006	2005
	1.1.–30.9.	1.1.–30.9.
Group net income (in EUR thousand)	380 107	61 936
Weighted average of issued shares (number)	120 597 134	120 597 134
Earnings per share in EUR	3.15	0.51
Earnings per share in EUR (diluted)	–	–

5. Other notes

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 we would refer to the relevant information in the consolidated financial statement as at 31 December 2005.

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

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

As security for technical liabilities to our US clients, we have established a master trust in the USA. As at the balance sheet date this master trust amounted to EUR 2,480.8 million (31 December 2005: EUR 2,668.5 million). The securities held in the master trust are shown as available-for-sale investments.

As security for our technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount of the letters of credit as at the balance sheet date was EUR 2,569.7 million (31 December 2005: EUR 3,154.2 million).

Outstanding capital commitments with respect to special investments exist in the amount of EUR 98.7 million (31 December 2005: EUR 118.3 million) for E+S Rück AG and EUR 181.1 million (31 December 2005: 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. As at the balance sheet date the estimated amount of the reinsurance commitments remained unchanged at EUR 27.7 million.

6. Events after the end of the quarter

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) will write 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.

On 10 November 2006 Hannover Re received a licence from the China Insurance Regulatory Commission (CIRC) to transact life and health reinsurance in the People's Republic of China.

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