Annual REPORT 2000

◆ Gross written premiums + 24%

◆ Financial reinsurance + 71%

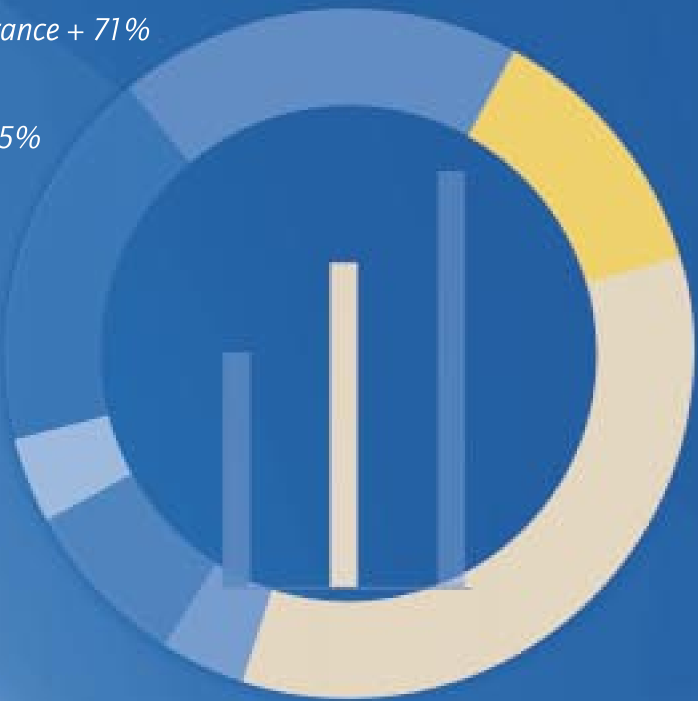
◆ Program business + 45%

◆ Property and Casualty reinsurance + 30%

◆ Return on equity after tax 26%

◆ Seventh consecutive dividend increase

◆ Consolidated net income and earnings per share + 81%



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KEY FIGURES *of the Hannover Re Group*

in EUR million	*2000*	*+/- previous year*	*1999*	*1998*
Gross written premiums	8 320.5	24.1%	6 706.3	4 504.6
Net premiums earned	5 210.2	24.6%	4 179.9	3 548.7
Net underwriting result	(449.2)	13.8%	(394.7)	(350.4)
Net investment income	868.7	4.9%	828.2	814.7
Profit or loss on ordinary activities	419.5	(3.2%)	433.4	464.2
Net income	364.9	81.0%	201.6	171.4
Investments	10 200.5	3.5%	9 855.1	8 592.2
Total stockholders' equity	1 573.4	27.3%	1 235.7	1 122.4
Net underwriting provisions	12 953.3	21.0%	10 703.1	8 759.5
Present value of future profits (life/health)	874.0	43.8%	609.0	468.0
Earnings per share (diluted) in EUR	12.38	80.5%	6.86	5.83
Dividend (incl. corporation-tax credit and bonus*) in EUR million	100.0	39.9%	71.5	53.4
Dividend (incl. corporation-tax credit and bonus*) per share in EUR	3.64	25.1%	2.91	2.18
Return on equity (after tax)	26.0%		17.1%	14.0%
Retention	63.7%		62.0%	80.3%
Loss ratio**	90.1%		83.3%	83.1%
Expense ratio**	18.7%		25.0%	26.5%
Combined loss/expense ratio**	108.8%		108.3%	109.6%

* bonus of EUR 0.25 for 2000
** excluding life and health reinsurance and on the basis of net premiums earned

CONTENTS

Dear shareholders, Ladies and Gentlemen,

For six consecutive years now I have been able to report record results in this letter – and this is again the case today. We increased our net income in 2000 by 81% to EUR 365 million. The earnings per share, which rose from EUR 6.86 to EUR 12.38, showed a corresponding rise. The return on equity after tax stood at 26% and we intend to propose to our shareholders an increase of the dividend payment for the seventh time in a row.

In 1999, the German insurance industry had reasons to complain of the disadvantages associated with the tax legislation, the reduction in the rates of corporate tax in the financial year just-ended had a highly favourable, non-recurrent effect on some companies – including our own. Yet this should not disguise the fact that our pre-tax operating result declined. Overall, however, bearing in mind its previous tax disadvantages, Germany has become more competitive and hence also in the long term more attractive as a business location.

Our gross premium income again rose sharply in the 2000 financial year by 24% to EUR 8.3 billion. Following a prolonged period of unattractive market conditions, we were able to exploit fresh opportunities for profitable growth that emerged in certain selected markets of property and casualty reinsurance. Consequently, in the year under review property and casualty reinsurance, financial reinsurance and program business made appreciable growth contributions. After factoring out a special effect from the previous year as well as the effects of US GAAP accounting rules, our fourth business segment – life and health reinsurance – again posted very successful growth.

Results in our four business segments varied widely in quality and confirmed the strategic importance of being able to draw on various sources of income. Thus, in a situation where the result of one business segment fell far short of expectations, we were once more able to show satisfactory overall bottom line results. In life and health reinsurance the investments of the previous years are now paying off. The operating profit in this segment rose by 78% to EUR 83 million, and after additionally factoring in the development of the present value of future profits the result is even more gratifying. The same is true of financial reinsurance – our most profitable segment surpassed the high operating profit of the previous year to post a result of EUR 54 million.

Although the burden of losses from natural catastrophes decreased very substantially in property and casualty reinsurance, profits were still adversely impacted by the terms and conditions of previous years, and we were therefore only able to generate a slight improvement in results. The combined ratio – an indicator of the quality of the business – improved from 111% to 108%. Program business, our fourth and newest business segment, performed disappointingly in the year under review. This segment continues to be largely dominated by the Clarendon Insurance Group based in New York. Despite systematic and highly successful growth, the inadequate terms and conditions prevailing on the US insurance markets at the beginning of 2000 were also reflected in our results. In addition, the performance of this segment was burdened by two non-recurring special circumstances, as a consequence of which the Group's program business only posted a balanced result. We have since taken all measures necessary to ensure that this segment, also, will once again generate the expected profit contributions in the coming years. Our optimism in this regard is reinforced by the fact that in the USA, terms and conditions have now improved in numerous market segments.

The financial markets gave us a bumpy ride over the past year. In the first quarter 2000, we exploited the sometimes extreme price rises – especially among technology stocks – to realise gains. The profits on disposals were therefore almost on a par with the high level of the previous year. In combination with considerably higher ordinary investment income, net investment income increased by a further 5%. In my opinion, however, it will be virtually impossible in the immediate future for insurers and reinsurers to offset inadequate technical income with profits on disposals – which are by their very nature unreliable. This trend will favour those market players who have hitherto set great store by a profit-orientated underwriting policy, and it necessitates the continued exercise of underwriting discipline – especially in property and casualty reinsurance.

With the sudden bursting of the bubble around technology stocks on the various "new markets", investors have started to "rediscover" our share as a fundamentally attractive stock. Climbing 24% in the year under review, the performance of our share finally charted a course which again ran parallel to our business results. Unfortunately, we were unable to divorce ourselves from the generally negative trend at the close of the past year and the beginning of the current one, with the result that the share's value has again declined. Based on the analysts' consensus estimate for the current year, the Hannover Re share is presently trading at a price earnings ratio of 9.8. This figure clearly reveals – also in comparison with similar listed companies – the considerable potential that is still inherent in our share.

Particularly gratifying was the feedback on our investor relations activities, which we received from financial analysts through the business journal "Capital" – namely in the form of the "Capital Investor Relations Award 2000". In a survey carried out in co-operation with the German Association for Financial Analysis and Asset Management (DVFA), financial analysts were asked to rate companies according to criteria of up-to-date nature, credibility and quality of company information. Based on this survey, the investor relations activities of Hannover Re were commended for being the best in their market segment (MDax). Not only that, in an overall rating of all the 237 companies considered we occupied third place, performing better than every Euro Stoxx 50 and Dax-listed company.

Since 1999 had already been influenced by a favourable tax effect, it has become difficult for outsiders to assess the true earnings power of our Group and ascertain whether we are really achieving our corporate objectives. This is particularly relevant in the current year, which will reflect the considerable one-off effect in the year under review. For a number of years we have openly communicated our overriding goal of increasing the earnings per share by at least 10% annually. Given the fact that the last two years both provide a distorted basis, a long-term comparison can only be based upon the last "normal" accounts, i.e. for the 1998 financial year. Our goal for 2001, therefore, must be to increase the net income by three times 10% (representing three years) on the basis of the 1998 results. At the same time, we continue to pursue our objective of generating an attractive return on equity.

I am optimistic that in future years we shall continue to achieve our ambitious strategic objectives, provided that no exceptionally large catastrophes occur or there are no extraordinary events in the capital markets.

Since the changeover to registered shares at the end of last year we have had at our disposal detailed knowledge of our shareholding structure. As a globally operating company, we consider it highly positive that more than half of our free-floating stock is held by international investors. This vindicates our strategy of addressing the broadest possible investor base with our investor relations measures. Yet there is still scope for further diversifying our shareholder base. We intend to tap into this potential in order to safeguard an appropriate market valuation of your company.

On behalf of my fellow members of the Executive Board and myself, I would like to thank you, our shareholders, for your confidence in our company. I can assure you that we shall live up to your trust; we shall do everything in our power to bring about a sustainable increase in the value of your company.

Yours sincerely,

Wilhelm Zeller
Chairman of the Executive Board

Supervisory Board (Aufsichtsrat)

Wolf-Dieter Baumgartl,
Hannover
Chairman
Chairman of the Executive Board of
HDI Haftpflichtverband der Deutschen
Industrie V.a.G.

Dr. Paul Wieandt,
Königstein
Deputy Chairman
Former Chairman of the Executive Board
of BfG Bank AG

Karola Böhme,
Barsinghausen*

Dr.-Ing. Horst Dietz,
Mannheim
Chairman of the Executive Board of ABB AG

Karl Heinz Midunsky,
Munich (from 20 July 2000)
Corporate Vice President and Treasurer
of Siemens AG

Dr. Erwin Möller,
Hannover
Member of the Executive Board of
HDI Haftpflichtverband der Deutschen
Industrie V.a.G.

Ass. jur. Otto Müller,
Hannover*

Ass. jur. Renate Schaper-Stewart,
Lehrte*

Rudolf Schwan,
Essen (until 20 July 2000)
Former Member of the Executive Board of RWE AG

Dr. Klaus Sturany,
Essen (from 20 July 2000)
Member of the Executive Board of RWE AG

Eberhard Wild,
Grünwald (until 20 July 2000)
Former Member of the Executive Board
of Bayernwerk AG

*staff represenative

Details of memberships of legally required supervisory boards and comparable control boards at other domestic and foreign business entreprises are contained in the report devoted to the parent company.

Executive Board (Vorstand)

Wilhelm Zeller,
Burgwedel
Chairman

Dr. Andreas-Peter Hecker,
Hannover
Deputy Chairman

Dr. Wolf Becke,
Hannover

Jürgen Gräber,
Ronnenberg

Herbert K. Haas,
Burgwedel

Udo Schubach,
Hannover
(until 31 December 2000)

Dr. Detlef Steiner,
Hannover

Dr. Michael Pickel,
Gehrden,
Deputy Member

EXECUTIVE BOARD *of Hannover Re*

Dr. Detlef Steiner

Property and Casualty Reinsurance in North America, European Roman-speaking countries, Latin American and Arab countries, Northern and Eastern Europe, the United Kingdom and Ireland; Program Business

Herbert K. Haas

Finance and Accounting, Capital Markets, Credit and Surety, Information Technology

Dr. Michael Pickel

Property and Casualty Reinsurance Germany, Austria, Switzerland and Italy; Claims Services, Legal Department

Wilhelm Zeller

Controlling and Information (Planning/Controlling, Investor Relations, Public Relations, Internal Auditing), Underwriting Service and Controlling, Corporate Development, Human Resources

Dr. Wolf Becke

Life and Health Reinsurance worldwide

Dr. Andreas-Peter Hecker

Non-Life Reinsurance of the HDI-Group, Retrocessions; Facility Management

Jürgen Gräber

Property and Casualty Reinsurance in English-speaking Africa, Asia and Australia, Facultative Reinsurance worldwide, Aviation, Space and Marine Business worldwide; Financial Reinsurance

Stock markets: A year with two very different faces…

The 2000 stock market year was characterised by two very different phases with at times considerable turmoil. The beginning of the year was marked by an upbeat mood on the German and most international stock exchanges. A fundamentally positive tone carried over from the previous year, the absence of significant adverse effects associated with the new millennium and favourable economic trends in the most important industrialised nations spurred the stock markets to ever greater highs. Euphoria was particularly prevalent in the segments of the new markets for technology, media and telecommunications (TMT) stocks. Virtually all the world's indices continued their high-flying run of the previous year. In the USA both the Dow Jones and the NASDAQ index for tech stocks boomed. In Germany, too, the Nemax new market index reached an all-time record high on 10 March at 9,603.46 points. The scene was similar on the Dax – primarily due to the vigorous growth of the technology and telecommunications stocks included in this index it reached its highest level of the year on almost exactly the same day. Yet, from early summer onwards the picture changed dramatically. Triggered by falling prices in the USA, a worldwide slump set in – especially among TMT stocks – and gathered further momentum as the year progressed. In Germany, a "sell-off" began on the new market – exacerbated towards the end of the year by severe financial distress among the former stock market darlings of this segment – and by year-end the Nemax had dropped 70% from its peak high. Nor was the Dax – additionally burdened in the second half of the year by interest-rate concerns in the USA – able to divorce itself from this trend. By the end of the year under review it had lost 20% of its annual high and closed 5% lower overall than at the beginning of the year. Although it appeared for a while that at least the MDax might be able to withstand the disappointment surrounding the new technology stocks, the general slowdown in economic activity – not least due to rising oil prices – added to the strain on the market. Nevertheless, the MDax still showed a gain of 14% over the year.

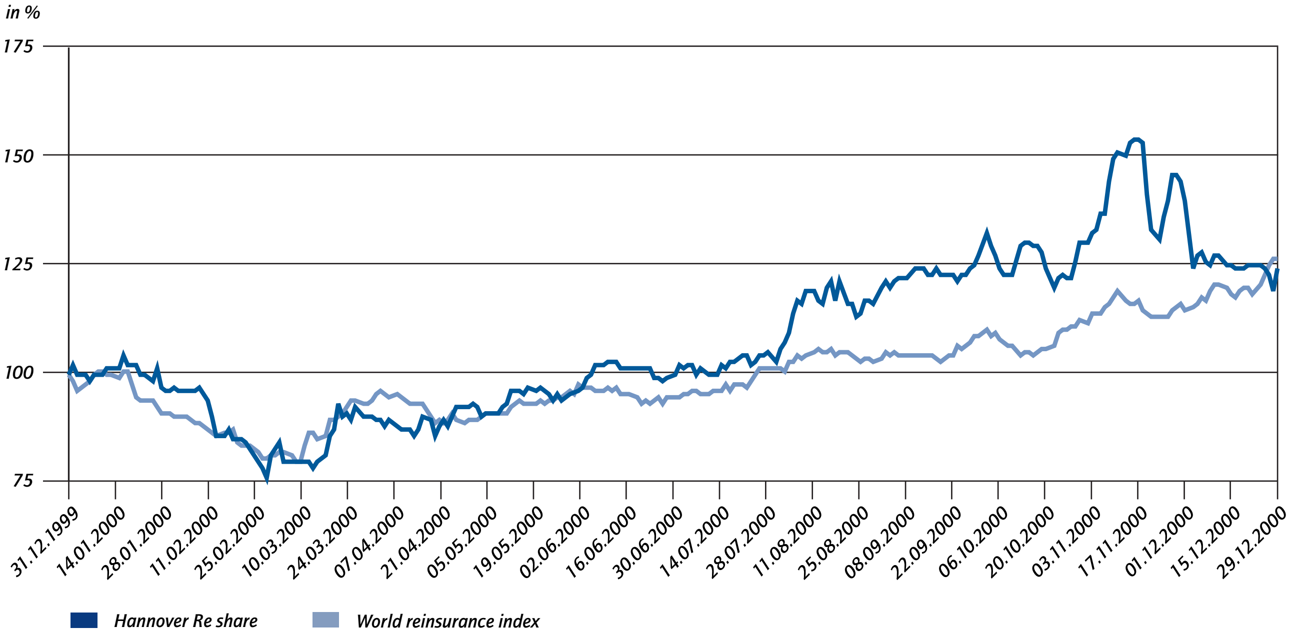
…for insurance stocks too – albeit with roles reversed

Insurance stocks began 2000 on a pleasing note. The future tax exemption announced by the Federal Government for sales of equity participations led to particularly marked price increases among listed German market leaders in the insurance and reinsurance sector. The heavy weighting of these stocks within the CDax for insurance stocks caused this index to rise sharply during the early weeks of the year. However, the euphoria surrounding TMT stocks quickly deflected investors' focus away from insurance stocks, with the result that they generally lost ground into the month of March. Yet from the second quarter onwards, the collapse of the new markets created fresh potential for the "Old Economy" stocks, especially for insurance shares. The CDax for insurance stocks climbed by year-end to 751.35 points, a figure equivalent to a gain of roughly 30%.

The Hannover Re share profited from a recovery in the "Old Economy"…

The performance of the Hannover Re share was similarly affected by the aforementioned tendencies. Due to the structure of our portfolio of equity participations, we were unable to profit decisively from the new tax rules. Nevertheless, with the rediscovery of top-quality securities from March 2000 onwards, our share posted a sharp upturn and on 15 November reached a high of EUR 118. Despite a subsequent decline in the price, we closed the year under review with a gratifying increase in value of 24%.

The Hannover Re Share in comparison with Reactions' World Reinsurance Index

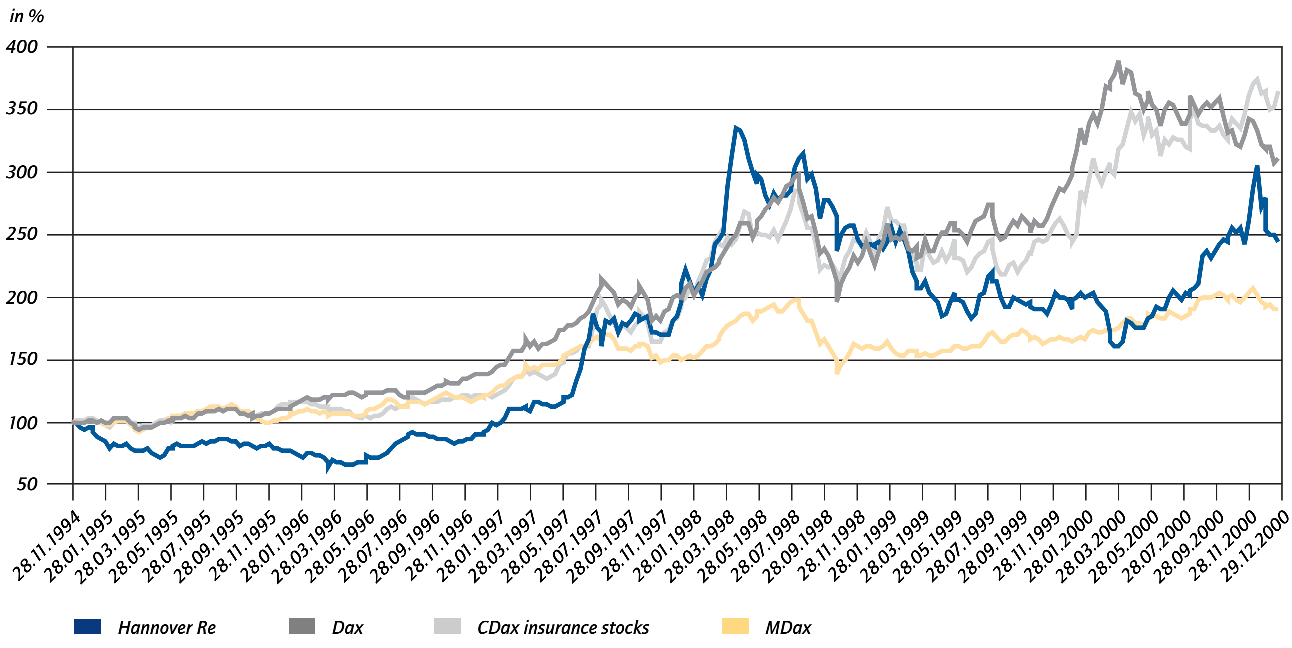


It should, however, be noted that we do not use the CDax for insurance stocks to measure the performance of our share. Bearing in mind that this index weights companies according to their market capitalisation, it is very heavily dominated by the price trends of the two largest insurers and reinsurers and hence gives a somewhat distorted view. As part of our strategy we have therefore set ourselves the goal of achieving an increase in the share price which on a 3-year moving average surpasses the performance of the unweighted world reinsurance index. This index, which is published monthly in the international insurance journal "Reactions", increased in the year under review by around 29%. The performance of our share thus ran almost parallel to worldwide reinsurance stocks.

…but continues to offer considerable potential

We are certain that the Hannover Re share continues to offer considerable potential. Although the basic tendencies on the stock markets are beyond our control, we can create the necessary conditions for tapping into this potential by constantly enhancing our most important fundamental profit and return-on-equity parameters. Our overriding task, therefore, is to increase our profit by at least 10% annually and to continue to generate an above-average return on equity. In the financial year just-ended we again succeeded in achieving these targets. The earnings per share totalled EUR 12.38, a rise of 81% compared to the previous year. The return on equity was also above the market average at 17% before tax and 26% after tax. Furthermore, it clearly surpassed our strategic target of a minimum return on equity of 750 basis points in excess of the average yield on 10-year government bonds. In order to optimally structure the return on equity and hence ensure the highest possible return on the capital invested by our shareholders, we continued to implement highly purposeful asset management. The transfer of reinsurance risks to the capital markets, a long-term subordinated loan and traditional retrocessions all served as cost-effective equity substitutes.

Share development since 1994



High level of our Investor Relations activities maintained

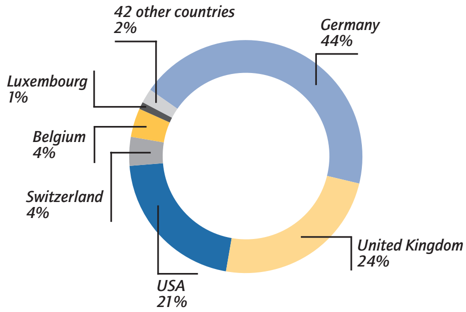
In the year under review we again set great store by maintaining and further expanding our investor relations activities, which are frequently rated as above-average. Our goal was to familiarise an even larger group of investors and analysts with the Hannover Re share and intensify existing contacts. To this end, for example, we participated in investor fairs and share forums organised by various banks. In addition, we presented our share to institutional investors in numerous individual discussions – both at our offices in Hannover and during our visits to investors at all the world's major financial centres.

As a new component of our investor relations programme, we launched a seminar for analysts which was held for the first time in 2000. It is aimed specially at institutional financial analysts who have already gained solid knowledge of Hannover Re but wish to familiarise themselves more deeply with the principles underlying individual business segments. With this aim in mind, we invited for the first time analysts and investors to participate in a one-and-a-half-day seminar in Hannover in the summer. The topics of the 2000 event were life and health and financial reinsurance, and they were explained in detail by the responsible managerial staff at our company. The feedback we received for this seminar was positive in every respect, and seminars of this type will therefore continue to form part of our investor relations programme in the future.

In order to obtain a better insight into our shareholding structure, we unified our share structure in the year under review and subsequently effected a complete changeover to registered shares. As a first step, we therefore called the outstanding amounts on hitherto partially paid share capital in order to have those of our shares, which were unlisted at that time admitted to the German stock exchange. By means of this action we significantly increased our weighting in the MDax and CDax for insurance stocks. On 16 October 2000, all Hannover Re shares were converted to registered shares. The newly gained detailed insights into our shareholder structure provide us with an important tool for organising our investor relations activities systematically and efficiently and enhancing still further the direct contacts we maintain with our shareholders.

Early analyses of our stock ledger produced gratifying results. This is particularly true of the already relatively good diversification of our free-floating stock, although it still offers scope for a broader spread. As at December 2000 the geographical diversification of our free float was as follows:

Share of the capital stock as % of free float



If the shareholdings are broken down into corporate entities and natural persons, the lion's share is of course attributable to institutional investors. As of December 2000, around 72% of the free-floating capital stock was in the hands of institutional investors. Nevertheless, the resulting privately held proportion of 28% still constitutes a remarkable figure.

We attach great importance to the fulfilment of meaningful and internationally recognised corporate governance requirements. Several associations in Germany have now drawn up such principles, the purpose of which is to ensure responsible, value-orientated management and control of companies. We support the definition of such general principles and are guided by them. The introduction of variable remuneration based on value enhancement for our managerial staff worldwide (stock option plan), the provision of information on the shareholdings of the Executive Board and the designation of a Corporate Governance Officer – whose task is to monitor compliance with the defined principles – mean that we now satisfy around 80% of the corporate governance requirements contained in the German Association for Financial Analysis and Asset Management (DVFA – Deutsche Vereinigung für Finanzanalyse und Asset Management) scorecard.

We were particularly pleased to win the "Capital Investor Relations Award 2000". This prize, which has been awarded by the business magazine "Capital" for the past four years, assesses the information provided by a company according to criteria of up-to-date nature, credibility and quality. The survey conducted in co-operation with the DVFA commended the investor relations activities of Hannover Re for being the best in their market segment (MDax). Not only that, in an overall rating of all the 237 companies considered we occupied third place, performing better than every Euro Stoxx 50 and Dax-listed company.

The opinions of our analysts

"Hannover Re has one of the best portfolio mixes in the reinsurance industry, with the faster-growing segments of life and financial reinsurance accounting for more than 40% of total premium income… Overall, in that period, Hannover Re has transformed itself from a regional traditional non-life reinsurer into a well-diversified large global reinsurer and provider of related financial services."

Alex Orloff, ABN Amro
April 2001

"Hannover Re's clear strategic focus, excellent diversification and disciplined underwriting policy are testimony to the quality of its management."

Simon Fößmeier, Julius Bär
14 March 2001

"Hannover Re has an interesting exposure to high growth, high RoE niche businesses and is geared to a cyclical property and casualty reinsurance recovery. We believe this provides an attractive cocktail of newsflow catalysts and earnings momentum."

Brian Shea, Merrill Lynch
February 2001

"Hannover Re is not only a well-managed company; it has also communicated all the good news to the capital market."

Dr. Stephan Kalb, Crédit Agricole Indosuez Cheuvreux
February 2001

"Hannover Re's foremost attraction seems to derive from its ability, as seen in its underwriting and retrocession policy, and a talent for innovation, as witnessed by the ways it has found to use securitisation to handle insurance risks."

Frédéric Bourgeois, Natexis Capital
30 January 2001

"Unlike many other insurers, Hannover Re is not burdened with excess capital and the attractive leverage means that improved operating results will feed directly through to significant RoE enhancement."

Trevor May, Schroder Salomon Smith Barney
11 January 2001

"Aware of the risk and difficulty of competing against world leaders..., as another global player, Hannover Re has favoured the so-called "specialty" segments over "mass-market" reinsurance. The group has clearly put profitability ahead of market share."

Jean-Christian Huard, Charles Landa, Société Générale
November 2000

"We believe HDI's expressed intention to raise liquidity in Hannover Re from 25% to 50% will ease liquidity concerns that have previously deterred investors."

Stephen Dias, Demetrius Hassiotis, Goldman Sachs
16 October 2000

"With a worldwide market share of 7.5% Hannover Re is well positioned in the life and health reinsurance segment. In the light of the growth prospects and reliably calculable risks, we take a favourable view of the company's efforts to continuously expand its life reinsurance portfolio."

Ralph Lutz, Daniela Heyduck, HypoVereinsbank
October 2000

"The restructuring process changed the dependency from catastrophes to fee income. Although natural and man-made catastrophes still have a major impact on the result, the program business and block transactions generate stable fee income."

Marc Thiele, Susan Holliday, JP Morgan
September 2000

"An innovative, diversified reinsurance group; dynamic management team with commitment to developing shareholder value."

Bob Yates, William Hawkins, Fox-Pitt, Kelton
31 May 2000

"By the use of securitisation, Hannover Re is optimising its capital allocation and is also not compelled to slow down its fast pace of growth."

Lars Niggeling, Andreas Frick, Bank Vontobel AG
14 April 2000

"Hannover Re is a high-quality, aggressive reinsurance company, which has become the world's fifth-largest professional reinsurer. In the four-year period 1996-1999, the group doubled its premiums."

Robin Mitra, Robin Buckley, Credit Suisse First Boston
1 March 2000

Share information

in EUR	*2000*	*1999*	*1998*	*1997*	*1996*	*1995*
Earnings per share (diluted)	12.38	6.86	5.83	3.13**	2.75**	2.43**
Dividend per share	2.30	2.05	1.94	1.74	1.61	1.53
Corporation-tax credit	1.09*	0.86	0.24	0.24	0.19	0.05
Gross dividend	3.64*	2.91	2.18	1.98	1.80	1.58

** incl. bonus of EUR 0.25*
*** DVFA earnings per share in accordance with German accounting principles*

Security identification number:	840 221
Stock exchange ID:	Share: Bloomberg: HNR1 GY Investdata: HNR Reuters: HNRGn.DE HRGn.F ADR: HVRRY
Exchange listings:	Germany Listed on all German stock exchanges; Xetra, Frankfurt and Hannover in official trading USA American Depositary Receipts (Level 1 ADR-Program)
First listed:	30 November 1994
Majority shareholder:	HDI Haftpflichtverband der Deutschen Industrie V.a.G. (75%)
Common stock as at 31 December 2000:	EUR 75.5 million
Number of shares as at 31 December 2000:	29,530,215 no-par value registered shares
Market capitalisation as at 31 December 2000:	EUR 2,805 million
Highest share price in 2000:	EUR 118.00
Lowest share price in 2000:	EUR 58.00
Annual General Meeting:	20 July 2001 Hannover Congress Centrum Kuppelsaal Theodor-Heuss-Platz 1-3 30175 Hannover, Germany
Dividend payment:	23 July 2001

Financial calendar 2001/2002

5 June 2001	Press conference on the annual results 2000
6 June 2001	Analysts' meeting Frankfurt
6 June 2001	Analysts' meeting London
20 July 2001	Annual General Meeting 2001 Beginning 10:30 a.m.
20 July 2001	Report on the first quarter 2001
30 October 2001	Report on the second quarter 2001
31 January 2002	Report on the third quarter 2001
19 July 2002	Annual General Meeting Beginning 10:30 a.m.

We consider a long-term, strategic mind-set and way of conducting business to be a crucial factor in our Group's success. This calls for vision, on the one hand, but also necessitates concrete strategic objectives, which serve to guide our company's tactical orientation.

In order to update or redefine these necessary visions and objectives, we draw up a strategy document setting out such goals roughly every three years. This document is – very deliberately – kept concise and is not printed on "glossy paper", rather, as a normal working paper, it is intended to serve as a guideline for our day-to-day actions.

With the aim of familiarising you more closely with these guidelines for the Hannover Re Group, we have set out below our self-image and the strategic objectives (our "ten commandments") which apply to our Group as a whole.

Self-image

We strive to assert our position in the international reinsurance markets as an important, optimally diversified reinsurance group of above-average profitability in order to secure our long-term survival as an independent enterprise.

Our actions are guided by the goal of constant value enhancement for all our shareholders. It is essential for us to present our share as a solid and attractive investment.

As a "somewhat different reinsurer" we chart our own course. Its hallmarks are the power of innovation, a readiness to perform and, most notably, the quality of our services.

1. Profit target

In order to generate above-average returns on the capital invested by our shareholders, we strive to achieve, as an absolute minimum for the Hannover Re Group, an operating result on a moving 5-year average which in relation to our capital, as per US GAAP, corresponds to at least the average 10-year government bond yield plus a risk premium of 750 basis points.

In addition, our goal is to increase the earnings per share by at least 10% annually.

2. Capital requirements/costs

In order to ensure the attainment of our minimum return-on-equity target, our pricing always makes allowance for corresponding capital costs. These capital costs are determined and differentiated according to risk-based-capital considerations based on a degree of risk that tolerates the omission of the dividend payment not more than once in 25 years.

In the light of the increasing "flight to quality", the ratings which have a bearing on our industry are assuming greater importance. Consequently, our capital must ensure a sustainable Standard & Poor's rating of at least AA (equivalent to A+ from A.M. Best).

The divergence between capital requirements under risk-based-capital considerations and the actual capital stock generates excess capital. Such excess capital is exposed to risk in accordance with our profit targets.

In order to keep our capital costs as low as possible, we prefer, to the extent of the rating agencies' tolerance limits, debt over equity. In addition, we also make intensive use of capital substitutes (transfer of risks to the capital market as well as conventional retrocession).

3. Share price

With a view to minimising the costs of raising equity capital, the performance of our share assumes key importance. The development of the earnings per share and our investor relations activities are intended to ensure a share price development exceeding, on a moving 3-year average, the performance of the unweighted world reinsurance share index.

4. Allocation of resources

As a reinsurer whose roots are in the highly competitive, cyclical and volatile property and casualty treaty reinsurance sector, investments in the optimisation of the portfolio mix enjoy top priority. Within the individual strategic business segments, we identify geographical, line-of-business and product priorities which take precedence in the event of investment conflicts.

5. Growth

For the Hannover Re Group, growth means first and foremost an increase in profit, not an expansion of the (gross or net) premium income. Acquisitions are considered inasmuch as they help us to achieve our strategic priorities faster and meet our profit targets and return-on-investment requirements. Equity stakes in primary insurers are, however, not considered a sensible growth vehicle.

6. Invested assets

The general objective of our investment strategy is to generate an optimal profit contribution to the overall business result. Due to the already high degree of risk inherent in our principal business of reinsurance, however, risk limitation takes precedence over yield maximisation.

The fundamental approach to the structure of our invested assets is that equity as per US GAAP is invested on a long-term basis (preferably in equity securities), with the technical reserves being invested on a short and medium-term basis. More advanced optimisation of the structure of our invested assets is to be achieved by way of sophisticated asset liability management.

7. Organisation and infrastructure

We strive for an efficient organisation geared to our business processes with a minimum of bureaucracy.

Information management is increasingly evolving into a crucial competitive factor. Our information and communication systems must therefore optimally support our business processes and, after cost/benefit considerations, be based on state-of-the-art technological developments. Investments required to accomplish this goal are given priority.

Our accounting systems are organised in such a way that they satisfy the demands of the international capital markets as well as internal management and controlling requirements.

8. Human resources policy

For a globally active financial services organisation with a professional clientele, the skills and motivation of our staff are just as important success factors as capital resources. For this reason, we offer a working environment that is designed to appeal to performance-minded employees who identify with our corporate objectives. Our human resources development and leadership activities are geared to the constant enhancement of our staff's skills and motivation. By delegating tasks, authority and responsibility wherever possible and by setting demanding performance targets, we foster entrepreneurial thinking at all levels. In the case of members of the international management team, this principle is also reflected in performance-related remuneration components and in attractive stock options.

9. Quality

Quality enjoys a special status in our way of thinking and the way we do business. By means of specific actions and a constant process of quality improvement, we strive to become the quality leader in international reinsurance ("Clients prefer to work with us!") in order to attain competitive advantages.

10. Risk management

Our risk management system regularly monitors all global, strategic and operating risks within the Hannover Re Group. In addition to control and early warning systems for traditional underwriting risks, systems are developed and maintained for the identification and containment of all other risks which may have a bearing on the Group's survival.

Quantitative objectives

Due to extraordinary tax effects associated with the change in the rates of corporation tax in 1999 and 2000, the target figures for 2000 and 2001 are based on the 1998 results.

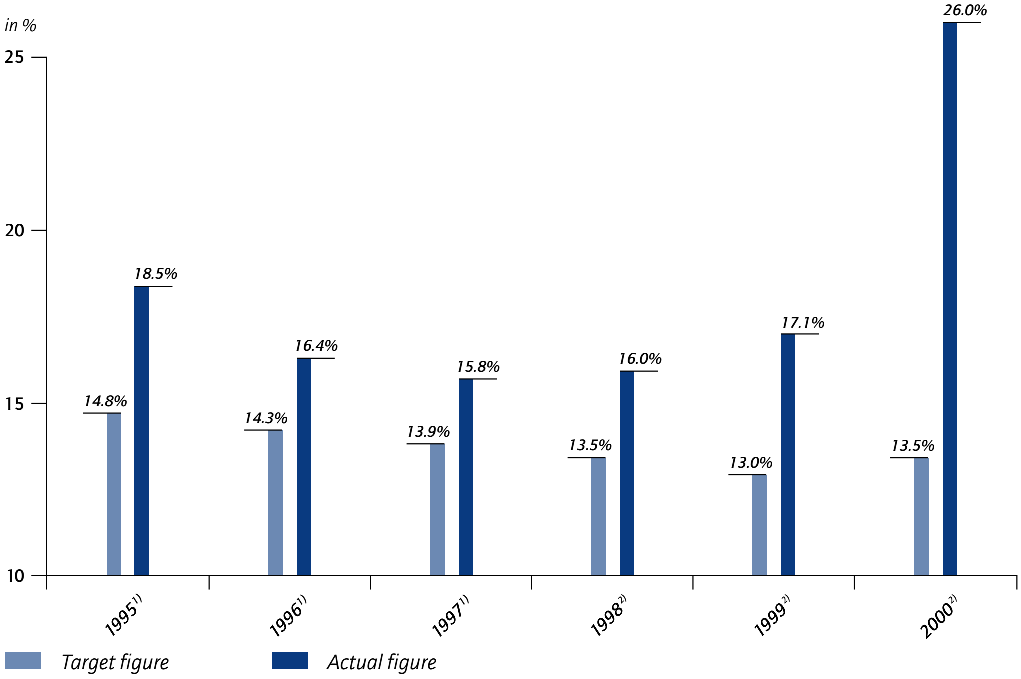
In order to ensure the achievement of our company-wide return-on-equity target, we have broken down this goal into specially defined units within our total business volume. To this end, we subdivided our total business into 40 units, each characterised by the greatest possible homogeneity from the risk perspective.

In this regard, the level of risk – primarily determined by the volatility of the technical result – is the yardstick for the capital requirement of each risk unit. The principle applied here is the greater the volatility of results, the higher the capital requirement. The capital requirement of each individual risk segment can then be specified accordingly.

By combining these insights with our return-on-equity target, it is possible to calculate a minimum profit margin that every concluded treaty must generate in order to produce a satisfactory return on equity. This enables our underwriters to examine the contribution made by every single proposed treaty to the achievement of our return-on-equity target. The accomplishment of this goal forms an important integral part of the agreements on targets drawn up with our managerial staff and hence also of our system of remuneration. In this way, we ensure at the operating level that our return-on-equity target is fulfilled for the Group as a whole.

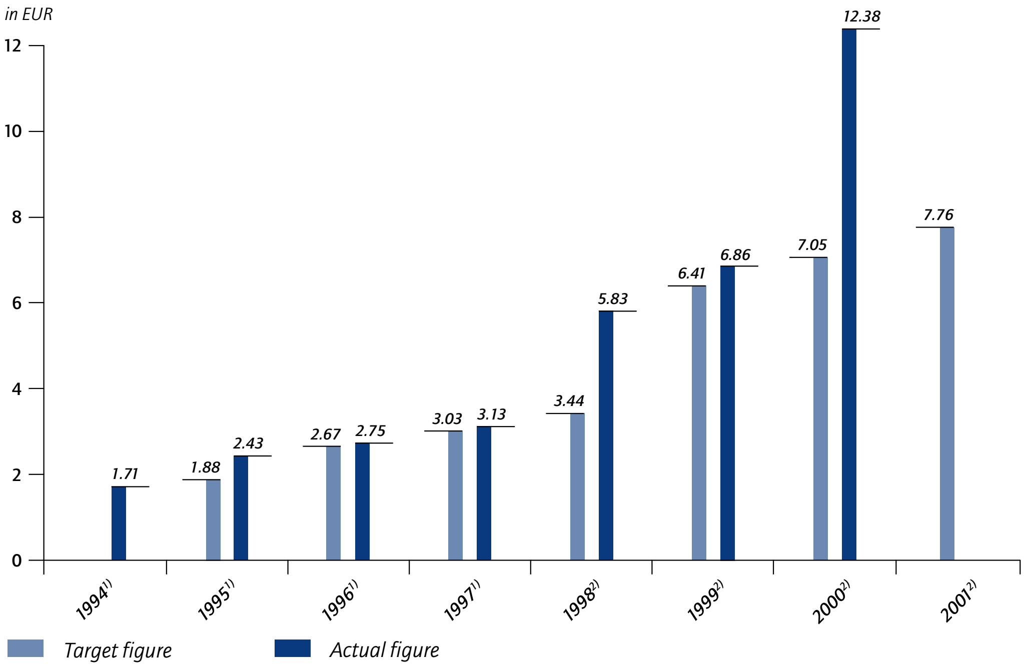
The profit targets defined above give rise to the following target figure comparisons:

Return on equity after tax



[1] Based on the German Commercial Code (HGB)
[2] Based on US GAAP
Target figure: 750 basis points in excess of the average 10-year government bond yield

Earnings per share



[1] DVFA revised calculation method (without adjustment for amortisation of goodwill)
[2] Earnings per share under US GAAP

Our global presence

Europe

Hannover Rückversicherungs-AG
Hannover, Germany

E+S Rückversicherungs-AG
Hannover, Germany
(50.1%)

America

Hannover Rückversicherungs-AG Canadian Branch - Chief Agency
Toronto, Canada

Hannover Rückversicherungs-AG Facultative Office - Canadian Branch
Toronto, Canada

Hannover Rückversicherungs-AG Representative Office USA
Schaumburg, USA

Clarendon Insurance Group, Inc.
New York, USA
(90.0%)

Insurance Corporation of Hannover
Los Angeles, 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%)

Africa

Hannover Life Reassurance Africa Ltd.
Johannesburg, South Africa
(96.9%)

Hannover Reinsurance Africa Ltd.
Johannesburg, South Africa
(96.9%)

Hannover Re Mauritius Ltd.
Port Louis, Mauritius
(96.9%)

E+S Reinsurance (Ireland) Ltd.
Dublin, Ireland
(50.1%)

Hannover Life Reassurance (Ireland) Ltd.
Dublin, Ireland
(100.0%)

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

Hannover Re Advanced Solutions Ltd.
Dublin, Ireland
(49.9%)

International Insurance Company of Hannover Ltd.
Virginia Water,
Great Britain
(100.0%)

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

Hannover Life Reassurance (UK) Ltd.
Virginia Water,
Great Britain
(100.0%)

Hannover Re Sweden Insurance Company Ltd.
Stockholm, Sweden
(100.0%)

Hannover Rückversicherungs-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 Re Services Italy Srl
Milan, Italy
(99.5%)

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

Asia

Hannover Rückversicherungs-AG Representative Office Seoul
Seoul, Korea

Hannover Re Services Japan
Tokyo, Japan
(100.0%)

Hannover Rückversicherungs-AG Shanghai Representative Office
Shanghai, China

Hannover Rückversicherungs-AG Representative Office Taipei
Taipei, Taiwan

Hannover Rückversicherungs-AG Hong Kong Branch
Hong Kong, China

Hannover Rückversicherungs-AG Malaysian Branch
Kuala Lumpur, Malaysia

Australia

Hannover Rückversicherungs-AG Australian Branch
Sydney, Australia

Hannover Life Re of Australasia Ltd
Sydney, Australia
(75.0%)


5253

Thomas Windheim,
Program and transportation business USA

Economic climate

Particularly in the first half-year 2000 the industrialised nations recorded strong economic growth. As the year progressed, however, the economic cycle in many countries began to lose impetus and the increase in production fell away sharply. Rising oil prices were a notable restraining factor in this regard. In the USA, western Europe and Japan economic growth experienced a slowdown towards year-end. Developments in the USA were crucial to the increasing decline in economic activity around the world. Nevertheless, the weak euro and surging US demand enabled Europe to enjoy a welcome export boom.

Of the major industrial nations, the USA showed the strongest economic growth (at around 5%) and Japan – despite promising indications in the first half-year – the weakest (at 1.5%). In western Europe and the euro zone overall economic production rose by approximately 3.3%. While the pace of growth thus lagged behind the USA, it was the highest since 1989. The German economy recorded growth of 3.1% in 2000. This figure was double the average of the previous decade and the highest since the 1991 boom associated with German reunification.

The developing markets again provided substantial impetus for global economic growth. The brisk pace of economic development in Asia was sustained. In Latin America, too, the national economies recovered in the year under review following a sluggish performance in 1999.

The cyclical upturn in the euro zone stabilised, although economic activity peaked in the third quarter. The level of incoming orders was generally good. Compared to Japan and the USA, the euro zone profited particularly well from the economic growth of the emerging markets due to its high market share. The weak euro gave exports a further boost.

In Germany the economic upswing peaked in the summer. The German economy was driven primarily by export demand. After dropping off sharply over the summer, capital expenditure on plant and equipment continued to climb sharply in the second half-year. Private consumption, on the other hand, rose only slightly after the summer, and the drain on purchasing power was particularly evident here. The cost of living rose into the autumn months, driven first and foremost by higher oil prices. The labour market improved in 2000. This was due not only to the brighter state of the economy, but also to increased employment of part-time workers as a consequence of the amendment of laws governing jobs paying up to DM 630 per month.

The financial markets started 2000 in turbulent mood. As the year progressed the euphoria on the stock markets surrounding "New Economy" stocks gave way to market disillusionment. Investors began to switch to fundamentally stable financial and pharmaceutical stocks. The restrictive interest rate policy – originating from the USA – gave rise to fears about the development of corporate profits, and share prices were therefore generally sluggish. Bond markets, too, looked to the USA for their lead. While the short end of the market initially saw interest rate increases, longer-range maturities experienced an impressive positive trend throughout the year. The interest rates on 10-year US Treasury Bonds, for example, fell from more than 6.8% in January to less than 5% in December.

The insurance and reinsurance markets posted moderate growth. Property and casualty (re-)insurance showed initial signs of an improvement in market conditions. The decline in prices was halted in major markets, and the first sporadic rate increases were achieved in the course of the year. These were, however, hardly sufficient to write business on a consistently profitable basis.

Although the number of natural catastrophes increased in 2000, insured losses were lower than in the previous year. There was a particularly marked rise in climate-related catastrophe losses. Bearing in mind that global warming may be the most significant factor in this regard, increased losses must be anticipated in this sector in years to come.

Life insurance generated disproportionately strong growth rates around the world. The German market in 2000 was still overshadowed by the previous year, in which private old-age provision had been affected by various extraordinary factors. Nevertheless, life insurance business can be considered satisfactory as a whole. Asset-forming life insurance policies showed correspondingly lower growth in new business. Private annuity and pension insurances also showed a decline in new business in 2000. Unit-linked life insurance policies, however, benefited from the stock market euphoria and served to boost growth.

Business development

We closed the 2000 financial year with substantial growth and a sharply higher after-tax profit. The strong profit increase was attributable to the extraordinary tax effect in the order of EUR 219 million. Nevertheless, the result shows that we were able to operate successfully and profitably despite the – in some respects – difficult business environment. Our earnings per share rose by approximately 81% from EUR 6.86 to EUR 12.38, and we generated a return on equity of 26% after tax and 17% before tax.

Gross premium income grew by a sizeable 24% to EUR 8.3 billion. Of this, around 9 percentage points were due to exchange rate factors. Following a sluggish and sometimes even declining trend in recent years, property and casualty reinsurance actually accounted for the highest share of growth in absolute terms in the year under review (12 percentage points). We also achieved vigorous growth in our newest segment – program business. This has now been expanded to include activities outside the USA, and it contributed growth of 9 percentage points. In relative terms, financial reinsurance – our smallest business segment – in fact showed the greatest year-on-year growth of 71%. Its share of overall growth was thus 5 percentage points.

The business development reported for life and health reinsurance was very heavily impacted by two extraordinary effects. On the one hand, a special contract in the previous year had produced additional premium income of around EUR 200 million. On the other hand, financing transactions – which under German accounting requirements generate additional gross premiums of EUR 404 million – are reclassified under US GAAP (SFAS 97), with the result that this premium income was not reported. Once these two effects are factored out, the growth rate was 23%.

The business model of the Clarendon Insurance Group in US program business is based upon the ceding of substantial parts of its business to other reinsurers. In the year under review it again slightly reduced its retention. However, due to the higher retention of the other companies participating in program business, net premiums in this segment rose sharply. We also made further use of our innovative securitisation instruments and transferred part of our life and health reinsurance portfolio to the capital markets. Overall, the Group's retention increased from 62% to 64% and we recorded net premiums of EUR 5,304 million.

The performance of the various business segments produced very differing – and sometimes even contradictory – effects on the technical result. The burden of major losses decreased dramatically in property and casualty reinsurance, following a record amount in the previous year. However, the inadequate terms and conditions of previous years continued to leave their mark, and the result therefore improved only slightly. Life and health reinsurance posted a gratifying development and the result increased sharply. Program business deteriorated appreciably. On balance, the Group's technical deficit increased from EUR 395 million to EUR 449 million. This deterioration was attributable primarily to financial reinsurance, although the segment was more than able to offset its technical deficit with higher investment income.

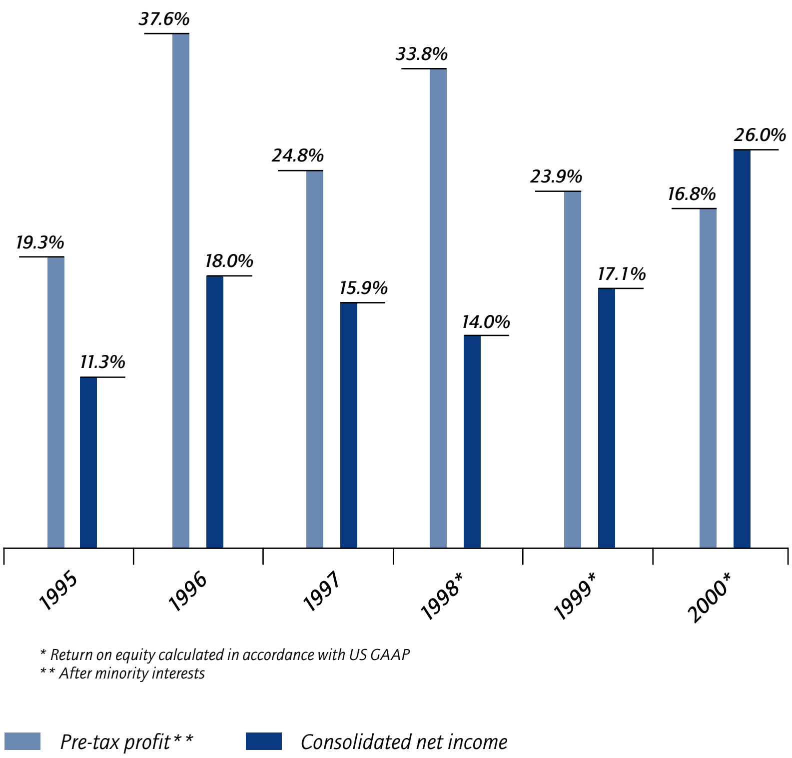
Our investment portfolio grew from EUR 9.9 billion to EUR 10.2 billion. In the spring of 2000, we used the record levels on the stock markets to realise valuation reserves and partially reorganise our equity portfolio, with the result that the profits on disposals of EUR 251 million (previous year: EUR 286 million) for the most part derive from the first half of the year. In combination with increased ordinary income, we generated net investment income of EUR 869 million (EUR 828 million) – an increase of 5%.

The other income and expenses shown in the statement of income comprises items such as exchange gains and losses as well as expenses for the company as a whole. The latter increased in line with the expansion of business. The amortisation of goodwill in the amount of EUR 12 million related primarily to the Clarendon Insurance Group and E+S Rück. Overall, the pre-tax result decreased slightly from EUR 330 million to EUR 304 million.

As a consequence of the larger profit contribution made by E+S Rück, minority interests in the Group profit were markedly higher than in the previous year.

The tax situation was of paramount importance in the year under review and had a decisive impact on the extraordinary increase in the profit after tax. Companies, which draw up their balance sheet in accordance with international accounting principles are obliged notionally to pay tax on all divergences from the relevant profit calculation for tax purposes and show them under deferred taxes. These tax items are determined by using an average overall rate of taxation, which is based on the tax rate applicable in Germany to retained earnings. In 2001, this rate of taxation was cut from 40% to 25%. Since the "deferred taxes" item is intended to reflect future tax effects, this reduction in the tax rate is to be applied immediately in 2000. Consequently, the tax rate for all items hitherto allocated to deferred taxes is reduced by 15 percentage points. In our case, the corresponding effect totalled EUR 219 million on balance, and it thus reduced the deferred taxes by the same amount. The actual tax burden in the 2000 financial year also fell due to the slight decrease in the pre-tax result and the lower rate applicable to deferred taxes, thereby producing overall tax proceeds of EUR 129 million. This caused consolidated net income to rise by 81% to EUR 365 million.

Above-average return on equity



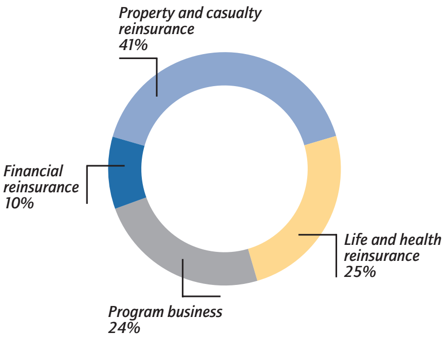
The balance of cash flows from operating, investing and financing activities produced a positive overall balance of EUR 45 million.

The re-calculation of deferred taxes had a clearly favourable impact on the development of our stockholders' equity. Foreign currency conversion adjustments, on the other hand, led to a decline in other comprehensive income. On balance, our stockholders' equity increased from EUR 1.2 billion to EUR 1.6 billion.

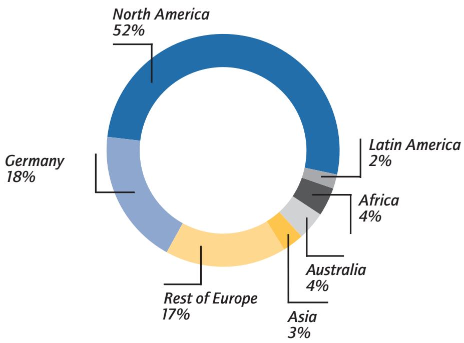
Our business segments

The following sections describe the development of business, subdivided strictly according to our four strategic segments. The corresponding results are also shown in detail in our segmental report as part of the annual financial statement.

Gross premiums by segment



Gross premiums by region



Property and casualty reinsurance

Ten years ago property and casualty reinsurance accounted for more than 95% of our total gross premium income. This figure has since decreased to just 41% in the year under review. Yet, in absolute terms this segment has grown sharply in this period and it continues to generate the greatest share of premiums. In property and casualty reinsurance we have no growth targets; rather, our premium volume is guided by the prevailing market conditions. Last year's conditions bottomed out and our premium income consequently declined; in the course of the year under review, selected markets showed a favourable development. We took advantage of these opportunities and expanded our premium volume by a sizeable 30%, around 6% of which derived from movements in exchange rates.

The burden of major claims and catastrophe losses decreased considerably and was lower than expected. On the other hand, an additional burden derived from losses in the previous year, most notably in connection with the winter storms "Lothar" and "Martin" at the end of 1999. The loss ratio and the technical deficit consequently decreased overall, but they were still adversely affected by the scarcely adequate premium level at the beginning of the year under review. In the previous year, expenses had been favourably influenced by performance-related reimbursements from retrocessionaires. Partly because this factor no longer applied, the expense ratio rose in the 2000 financial year. The investment income apportionable to this segment decreased sharply. All in all, the operating result before general expenses deteriorated slightly and was therefore unsatisfactory.

Key figures for property and casualty reinsurance

Figures in EUR million	*2000*	*1999*	*1998*
Gross written premiums	3 385	2 614	2 734
Net premiums earned	2 524	2 069	2 038
Technical result	(206)	(228)	(192)
Investment income	472	526	591
Operating result before general expenses	266	297	399
Loss ratio	81%	88%	81%
Expense ratio	27%	23%	27%
Combined ratio	108%	111%	108%

Germany

The German insurance industry was only able to a limited extent to pick up on the positive leads given by the economy as a whole. The premium volume grew by a mere 1.2% in 2000, a figure below the rate of inflation. The favourable effects deriving from a greater demand for insurance and the increase in insured values associated with the stepping up of economic activity were to some extent offset by opposing factors. These included mergers and acquisitions, the marked interest shown by banks in insurers' distribution networks and vice versa and the accelerated cultivation of new, more cost-effective sales channels such as the internet. The internationalisation of the German insurance industry featured prominently in these developments. Some providers believed that size was the key to their business opportunities while others saw their chances in independence or in a targeted niche policy. At the same time, insurance customers are becoming more sophisticated: the demand for products tailored to their individual needs at the right price is increasing. In a largely saturated market, this inevitably led to persistent cut-throat competition.

Competitive pressure thus remained intense and there was little improvement in the inadequate premium level. The negative trend in the claims experience was, however, reversed, with the result that the loss ratio of roughly 86% (87%) was slightly more favourable than in 1999.

The concentration in the insurance markets brought about by mergers and alliances also impacted the reinsurance industry. On the one hand, the number of (potential) clients has decreased, while on the other hand the reinsurance requirements of large, international insurance groups differ from those of small or medium-sized companies with a purely national orientation. Given this state of affairs, reinsurers are obliged to show a high level of adaptability and must offer new products based on a holistic approach to a company's risk situation. In some areas there is also a demand for considerably higher exposures, which have corresponding implications for the potential volatility of technical results and place greater strains on capital resources.

Despite the dramatic decrease in natural catastrophe losses, results in the reinsurance markets were by no means satisfactory. In motor reinsurance it was merely possible to halt the downward trend of the previous years, while industrial fire insurance again produced heavy losses for insurers and reinsurers alike. These insights hardly came as a surprise, however, and we had already scaled back our participation in this market segment to an unavoidable minimum.

This general environment allowed us only limited expansion of our premium volume. In some lines of business, such as industrial fire reinsurance, we withdrew almost entirely from the market or changed over to non-proportional covers, thereby causing premium income to decline here.

In the course of the year under review, however, it became evident that this phase of difficult market conditions was beginning to give way to an upturn. Efforts taken by insurers – in addition to those implemented by reinsurers – to restore business to profitability started to filter through positively to the reinsurance markets from the second half of the year onwards.

Due to the decrease in natural catastrophe losses and the favourable run-off of the loss reserves from previous years, our technical result improved on the 1999 financial year. Motor and liability reinsurance also played a part in this improved result.

In our assessment, the rapidly changing structure of the insurance market poses special risks and challenges for the reinsurance industry. As things currently stand, the German insurance market still shows only a middling degree of concentration. The ten largest insurance groups in the property and casualty segment account for a market share of less than 50%. Yet it would appear to be merely a question of time before the stronger trends towards concentration in neighbouring countries also make themselves felt here. In France and the United Kingdom, for example, the three largest providers alone enjoy market shares in excess of 40%.

United Kingdom and Ireland

The United Kingdom experienced a stable business climate and good rates of economic growth in 2000. The insurance and reinsurance markets have seen an unparalleled wave of consolidation in recent years, causing a drop in the number of insurers and Lloyd's Syndicates. This went hand-in-hand with fierce competition for market shares and technical losses, although the latter were offset by healthy investment income. Initial positive indications were reinforced in the course of 2000, prompting insurers to take drastic action to rehabilitate their portfolios. Large multi-line insurers, for example, reviewed their business strategies and in some cases withdrew from volatile industrial business.

Lloyd's insurance market was similarly swept by a wave of mergers. Numerous Syndicates equipped with limited commercial liability capital changed hands because of poor results or were absorbed into other organisations. At the same time, however, new Syndicates were set up. Overall, approximately 80% of Lloyd's capital now derives from corporations, which are therefore continuing to squeeze out private individuals with unlimited liability.

Particularly in property business, the growing number of mergers in all sectors of the economy is leading to ever-higher sums insured – a trend which runs parallel to an increase in the international exposure of the risks. The failure of the international reinsurance market in Australia also caused clients to attach even greater importance to their reinsurers' quality and credit ratings. Although reinsurance capacity continues to be in ample supply, it was possible to secure improvements in treaty terms and conditions. Many reinsurers, especially in London, were and still are reliant on their own reinsurance (retrocession). However, with capacity of this type in scarce supply, closer attention is being devoted to the profitability of assumed reinsurance business. This also has a favourable impact on terms and conditions.

Increasing reinsurance costs and the reduction in reinsurance capacity have ultimately brought about improved conditions on the insurance market, most notably in industrial fire insurance.

Towards the end of the year the UK market suffered the most severe flood losses in forty years. Numerous towns and villages were partially submerged for days or even weeks on end. Some locations were even hit by repeated flooding. Nevertheless, the insured loss marketwide was in the order of just GBP 500 million, and for the most part insurers therefore carried it in their retention.

Motor insurance performed well, with all insurers recording double-digit percentage increases in premiums. Due to the applicable premium limits in this sector, some Lloyd's Syndicates found that they were no longer able to carry risks on the same scale as had hitherto been the case without the support of reinsurers or co-insurers, as a consequence of which larger premium volumes were ceded to the reinsurers. Competitive pressure nevertheless remained intense, and results were adversely impacted by the so-called "Woolf Reform". This change in the law will sharply accelerate the speed with which liability claims are run off. It is, however, anticipated that in the long term the lost investment income can be offset by lower claims figures. Conditions in liability business remained virtually unchanged and were thus unattractive, despite the fact that here, too, results in previous years were in many cases inadequate.

A further important aspect is the potential extension of the scope of cover to include claims connected with loss of information and computer viruses. The goal here is to precisely define the additional exposure and either exclude it or incorporate it into the premium calculation.

The premium increases in the insurance market also generated substantially higher premium income for our portfolio, especially in the areas of motor and international property business – in both the proportional and non-proportional sectors. In addition, we were increasingly active as a leading reinsurer in various niche segments, such as international property per-risk business, thereby enabling us to push through our price expectations more frequently than had hitherto been the case. Contrary to the pleasing development of the 2000 financial year, however, we incurred run-off losses on the loss reserves of previous years. Numerous claims and increases in loss reserves were only reported by the ceding companies very belatedly, and these losses from previous years consequently burdened the year under review. Overall, the technical result therefore showed only a slight improvement and was just sufficiently satisfactory.

Although Ireland's almost unparalleled economic boom has of course favourably impacted the insurance industry, opportunities for reinsurers have remained few and far between. The attractive environment led to a wave of take-overs, ultimately leaving just a few domestic insurers in the market. Altogether, the market lost a further three insurers in 2000. As in the United Kingdom, this led to a struggle for market shares with the inevitable consequences for business results.

The vast majority of Irish insurance companies belong to large international groups with only a limited need for reinsurance. Our rather modest Irish portfolio therefore remained virtually unchanged, and results were again hardly adequate.

France

The French economy continued on its expansionary course in 2000 with growth in gross domestic product of 3.2%. Growth was particularly dynamic in two areas: exports, fostered by strong global demand, and investment activity.

Private household consumption, which had been growing steadily since 1997, was dampened by rising oil prices in the spring of 2000. At 1.2%, inflation was again lower than in most other eurozone countries.

For the insurance industry, the generally favourable economic environment was overshadowed by the effects of the winter storms "Lothar" and "Martin" at the end of 1999. In the course of the year under review, expenditures associated with these loss events increased from an initially estimated EUR 4.5 billion to EUR 7 billion, at the same time bringing to an end the downward slide in the premium level in all lines of business. The strained situation enabled large insurers to secure commensurate premiums not only in property business but also in the liability lines, where prices rose by around 5% on average. Even the consistently highly competitive motor insurance line, which initially suffered under increased motor vehicle repair costs, showed a premium increase of roughly 3% after five years of declining rates.

The treaty negotiations between insurers and reinsurers had been largely completed when the winter storms occurred, and it was therefore too late to factor them into the year under review. For reinsurers, the conditions agreed at the beginning of 2000 thus marked the low point in a phase characterised by wholly inadequate terms and conditions. However, the strong surge in demand as the year progressed – French clients purchased additional windstorm coverage worth around EUR 600 million – subsequently made it possible to push through appropriate reinsurance conditions. Since the demand for covers even surpassed the actual scale of the recent storms, a capacity shortage ensued – thereby enabling reinsurers to secure very attractive prices in the windstorm segment at the end of 2000 and in the 2001 renewals.

Showing a slight increase in gross premium income, our result for 2000 was still adversely affected by the additional reserves constituted for the windstorm losses and the poor conditions prevailing at the beginning of the year; even after allowing for the non-technical result, our French portfolio therefore closed with a deficit.

The Netherlands

Despite strong economic growth and a generally favourable business climate, the year just-ended was a disappointing one for Dutch property and casualty insurers. The technical deficit across all non-life lines was 2% of the premium volume. This was primarily attributable to unsatisfactory results in motor insurance and industrial fire business. In addition to the fiercely competitive climate, the year under review was marked by record figures for major fire claims – most notably with a sharp rise in the average loss amount. The largest single event was the explosion in Enschede, which caused an insured loss of EUR 250 million.

While the total reinsurance premium stood at EUR 1.5 billion, fire business continued its traditional dominance, accounting for an overall volume of around EUR 665 million. A trend towards non-proportional covers can be discerned.

As was true of almost all continental European markets, reinsurance terms and conditions bottomed out in the year under review – having deteriorated steadily in previous years. Nevertheless, as the year progressed, the first premium increases ensued in the light of the windstorm losses experienced in France and Germany.

In this environment our business volume remained roughly on a par with the previous year.

Despite a substantial loss burden associated with the Enschede disaster, our Dutch portfolio generated a positive technical result.

Nordic countries

Against the backdrop of a stable economic environment, the wave of insurance company mergers which had swept through the Nordic countries in recent years slackened in 2000. Scarcely any mergers or acquisitions were recorded. In all the countries of this region – with the exception of Denmark – the five major players now hold more than 80% of the non-life premium. Past international mergers have led to a relatively strict distinction between companies and groups that operate on an exclusively local basis and those which are active across national borders. The latter consider the entire Nordic and Baltic region as their primary sector of operations. Internationally active insurance groups still have a minimal presence. Due to the formation of ever-larger groups, the overall volume of ceded reinsurance is contracting and competition is constantly intensifying. Nevertheless, a continuing decline in the premium level is not to be expected since the poor results of past years have left no room for further concessions. Particularly in industrial fire business, the rate level was clearly too low and it has not shown any sign of improvement to date.

As a consequence of the losses caused by the storm "Anatol", rates for catastrophe covers rose appreciably in Denmark. However, since some reinsurance programmes were placed as multi-year covers it was not always possible to translate these losses into premium increases. Overall, though, demand for windstorm covers rose sharply and favourably impacted the rate level. These effects also made themselves felt in the neighbouring countries of Norway and Sweden. Rate increases did not, however, spill over into other lines of business.

In view of the inadequate level of rates in industrial fire business, we withdrew to a large extent from proportional treaties – especially surplus treaties. At the same time we substantially expanded the share of the total premium volume deriving from non-proportional business. We also made use of the market conditions in the natural catastrophe sector and slightly expanded our overall business volume in the year under review. The result in the Nordic countries was adversely affected by a high burden of losses in the fire line and, all in all, it was not satisfactory.

Gudrun Keller,
Property and casualty reinsurance France

Italy

The Italian national economy grew by 2.9% in the year under review. The generally favourable economic trend was fostered by improved order books in industry and expansion in the service sector.

In this overall economic climate, premium growth in property and casualty reinsurance was slightly lower than in the previous year at 6.5%. While motor third party liability insurance, the largest line of business by volume, grew by 8.7%, increases in the other lines ranged from 2% to 4.5%. Surety insurance, on the other hand, showed a premium decrease of roughly 5% due to legal changes affecting value-added tax risks.

In March 2000 the Italian government caused a stir at home and abroad when it accused market players of price collusion in the motor insurance sector, prohibited rate adjustments in the discounted categories for a period of one year and thus interfered in the companies' freedom to set prices. It is unanimously believed that this 12-month tariff freeze violates EU law and will bring about a further deterioration in the already negative technical performance of this line. The deficit posted by Italian insurers in this line of business totalled approximately EUR 2.5 billion in 2000.

In other respects, the development of property and casualty insurance began the year on a bright note. In October, however, parts of northern Italy were hit by severe storms accompanied by prolonged rainfall. The heavy precipitation resulted in major flooding, which caused considerable property damage in numerous densely populated areas and metropolitan centres with high concentrations of values. Despite total economic losses of around EUR 12.5 billion, the insured losses from this event were in the region of just EUR 300 million.

This catastrophic event caused ceding companies to adjust conditions according to market requirements – especially in industrial business – and hence the demand for reinsurance capacity also rose. Towards the end of the year it was thus possible on a large scale to implement both long overdue premium increases and benefit restrictions, which we also exploited in order to expand our portfolio.

Since we had already largely withdrawn from the industrial insurance segment in the preceding years due to the inadequate terms and conditions prevailing in the market, the flooding in northern Italy placed only a minimal strain on our result. In motor third party liability insurance we have long pursued a restrictive underwriting policy. Due to the inadequate level of original premiums, we accept almost exclusively non-proportional business in order to divorce ourselves from the original terms and conditions.

Overall, our Italian portfolio contracted slightly. Nevertheless, our selective underwriting policy enabled us to achieve an almost balanced business result in a year of heavy losses.

Eastern Europe

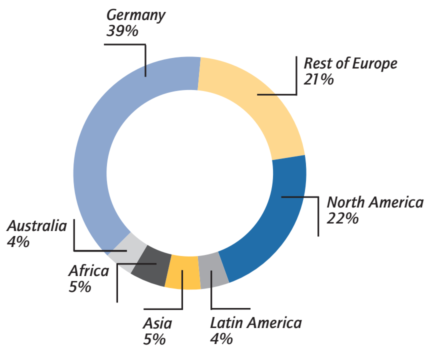
Ten years after the opening up of the markets, the implementation of economic reforms and the accompanying deregulation of the insurance industry, it is still the case that the basic political and economic conditions differ widely in the various countries of eastern Europe. Particularly in the CIS states, numerous reforms continue to be necessary for the establishment of a functioning insurance market.

Nevertheless, the general state of the economy as a whole can be assessed increasingly favourably. The markets have experienced a broadly based acceleration in economic growth. The countries in the eastern part of central Europe (Poland, Czech Republic, Slovenia, Slovakia and Hungary) recorded growth of between 3% and 5% in gross domestic product. Bulgaria and Romania also reverted to GDP growth in real terms. Given that crude oil and other mineral resources can currently be sold at adequate prices on the global market, the Russian crisis of 1998 would appear to have been overcome.

The business development in the insurance markets is largely founded on the expansion of obligatory motor insurance. Adjusted for inflation, the average annual growth in the non-life sector in recent years was a gratifying 7.6%. Measured as a percentage of gross domestic product, the premium volume now stands at around 1.7% – a level which is already roughly half that of western Europe.

First and foremost due to the entry into the market of foreign insurance companies, a properly functioning competitive environment has emerged. This could clearly be observed, for example, in the Czech Republic when the motor third party liability monopoly was abolished. The former holder of the monopoly lost business appreciably to its rivals, but still enjoys comfortable market shares of between 30% and 50%. In those countries seeking to join the European Union, the reforms implemented by the insurance supervisory authorities are aimed at rapid alignment with EU standards, i.e. the introduction of solvency requirements, the abolition of price and product controls and the tightening of capital adequacy requirements.

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



Against this backdrop, we were successful – especially in the Czech Republic, Poland and Slovenia – in writing attractive new business. In Romania and Bulgaria, on the other hand, we were unable to expand our position as planned. Overall, however, we recorded gratifying growth. Results were burdened by proportional motor business, most notably in Bulgaria, as well as by two major losses, as a consequence of which our account closed with a slight technical deficit.

North America

The US economy was clearly overshadowed by an impending downturn in the year under review, although its effects had not yet left a mark on the insurance and reinsurance industries. A greater impact derived from the collapse of the stock markets, thereby causing a drop in the investment income, which in previous years had partially offset the technical deficits. With the decline in the valuation reserves in investment portfolios, stockholders' equity in the insurance industry also fell by a sizeable 2.5%.

Furthermore, the scarcely adequate results gave additional impetus to the trend towards concentration among insurers and led to another substantial number of mergers and acquisitions. Most notably, many small and medium-sized companies disappeared from the market.

In 1998 and 1999 almost the entire US insurance industry suffered under wholly insufficient premiums and high loss burdens. In many instances positive annual results could only be shown by massively cutting reserving levels. In the year under review this trend could no longer be sustained. More due to the lack of profitability than any shortage of capacity, a significant turnaround began to occur. This manifested itself initially in workers' compensation insurance and commercial motor insurance as well as industrial property business and some casualty segments. US property and casualty insurance business consequently showed overall premium growth in excess of 5%. Yet it should not be overlooked in this context that the amount of the covered risks also increased sharply. The costs of medical care, for example, have climbed by more than 50% in recent years, the concentration of values in catastrophe-exposed coastal regions has risen particularly sharply and the loss-of-profits risk in industrial property business has increased considerably. It was more by chance that the 2000 financial year was almost entirely spared any significant natural catastrophes.

The positive developments, which in some sub-sectors are by no means adequate, also made themselves felt in the reinsurance market. Most notably, the trend towards multi-year covers was stopped and increased deductibles from ground up were implemented almost across the board. The necessity of securing further improvements derives, inter alia, from the need to restore reserves to the former levels.

Declining premiums and increasing loss amounts were the hallmark of liability (re-)insurance in recent years. We had therefore heavily scaled back our participation in this segment. In the course of the year under review, however, the basic environment improved appreciably – a trend which was supported by the fact that clients are attaching greater importance to the financial strength of their reinsurers.

We took advantage of various opportunities and systematically increased our acceptances in the areas of workers' compensation, commercial motor and professional indemnity. Now that conditions on some insurance markets have also become more attractive and commissions could be reduced, we began to expand our proportional portfolio. In previous years we had withdrawn to a large extent from this segment too. Overall, our casualty portfolio in the USA recorded substantial growth. In the short term, this always goes hand-in-hand with a deterioration in the combined ratio. However, since long-tail casualty business accounts for disproportionately large shares of the investment income, the profit contributions are positive.

Although conditions in the insurance markets languished at a low level in property business during the first two quarters of the year under review, the second half of 2000 witnessed a marked improvement in this area too. Insurers were then able to demand adequate prices much more systematically and to factor claims experiences and risks into the pricing process. In this segment, however, there is a particularly acute need to supplement proportional reinsurance cessions with additional non-proportional cover for risks. Although these segments were not unusually burdened by sizeable losses in the previous year, reinsurance prices developed favourably and we were therefore able to step up our participation in this business.

The rate level in (natural) catastrophe business had already been largely sufficient in previous years due to the heavy demand. Windstorm and tornado risks in the Midwest of the USA were an exception in this regard. Inadequate terms and conditions combined with an increased number of losses produced unsatisfactory results in this business, although these were taken into consideration at year-end and during the renewal season. On balance, our business again recorded profitable growth.

Latin and South America

Following the general economic crisis of 1999 the situation has largely stabilised. The gross domestic product – spread across altogether 17 countries – grew by 0.1% overall to approximately 4%, while the inflation rate fell from 8.5% to around 7.1%. The balance of trade showed a surplus, and even foreign debt was reduced from USD 756 billion to USD 741 billion. Interest rate cuts in the USA also positively impacted the level of foreign debt, which in some countries was still high.

This trend was fostered not only by US interest rate movements but also by stable growth in Europe, although the differences between individual countries were sometimes pronounced. Mexico, for example, conducts 90% of its foreign trade with the USA, whereas the proportion in Argentina's case is just 10%.

Motor insurance continues to be the most important line of business for the insurance industry in Latin America. One after another, almost all the countries have introduced obligatory motor third party liability insurance. It should be noted, however, that the required insured limits are sometimes very low. With the exception of Argentina, Brazil and Mexico, the same is therefore true of the premium volumes. In some instances, motor own damage insurance included natural catastrophe claims without reflecting this in the tariffs, and premium levels were consequently inadequate. What is more, this line of insurance is generally transacted with very high expense ratios – both for acquisition and internal administration – and the business performance was therefore again highly unsatisfactory.

In Argentina court decisions placed an additional enormous strain on the situation. Judges awarded amounts of compensation on a par with US practice, causing alarm especially among reinsurers. If this trend continues, it is to be anticipated that reinsurers will withdraw entirely from this market. In this connection, the modest premium increases at the end of the year under review will scarcely have any positive implications.

Due to the high natural catastrophe exposure in Latin America, the fire line of insurance together with its allied natural hazards risks is heavily reinsured – especially given the relatively low capital resources of insurers and hence their correspondingly limited capacity to run business in their retention. Accordingly, this segment is of paramount importance to reinsurers. Following a phase characterised by massive pressure on reinsurance terms and conditions with correspondingly poor results, a series of loss events has turned the market around. The considerable losses of the previous years associated with the storms "Mitch" and "Georges" as well as the flooding in Venezuela and the Colombian earthquake pushed original premiums higher and made possible improvements in reinsurance conditions. In Latin America, however, these positive developments only commenced in the course of the year and thus had little influence on results in the year under review. Particularly in the industrial fire segment, results were therefore unsatisfactory.

It was generally noticeable that the Brazilian reinsurance market failed to open up in the year under review, and indeed it remained firmly entrenched in its existing monopoly structure. We remain ready to utilise the opportunities which will present themselves after the expected deregulation. As things currently stand, however, it is scarcely possible to foresee just when this will happen on a comprehensive scale.

Asia

At the beginning of the year under review, it appeared that most of the national economies in Asia had finally recovered from the dramatic slumps of 1998. Stimulated by exports, especially to the United States, some countries recorded double-digit growth rates. China even achieved a 30% rise in exports. Japan, on the other hand, scarcely showed any increase and posted a mere 1.9% rate of real growth.

Due to the different systems of government and the associated degree of state control, the political and economic environments confronted insurers and reinsurers with widely differing tasks.

In Japan the effects of the far-reaching process of deregulation have currently reached a high point. Fierce competition has ensued and a hitherto unparalleled wave of consolidation has been set in motion among insurers, with the result that here, too, the number of reinsurance clients is decreasing dramatically. It remains to be seen how this development will impact the demand for reinsurance capacity.

Unlike the dynamic processes at work in the insurance sector, the tone of the reinsurance market remained stable, and only in isolated cases did considerations of market share and prestige give rise to unjustifiable price reductions.

Supply and demand for natural catastrophe covers continue to be the dominating feature of the Japanese insurance market. Whereas insurers tended to extend the scope of cover for earthquake risks due to the competitive climate, reinsurers only made capacity available at improved terms and conditions, therefore causing a shortage in the market. Our company similarly reduced its participation in various proportional treaties in this sector, preferring instead non-proportional concepts, and initially our premium volume therefore declined slightly. Windstorm risks experienced sharp rate rises due to developments around the world, and in part as a consequence of the major storm event in 1999 (typhoon "Bart").

Marine business also performed well. In contrast to many other world markets, marine cargo business in Japan was adequately priced and correspondingly profitable.

The portfolio of risks with natural hazards exposure produced generally favourable results, and the overall result of our Japanese business was therefore highly satisfactory. Nevertheless, it should be borne in mind that this was in large measure due to the fortuitous non-occurrence of major losses. Considering the potential losses and their statistical probability of occurrence, we regard the rate level as insufficient.

The renewal season in Korea was very sluggish at the beginning of the year under review. In this market we systematically adhered to our strategy of no longer supporting underrated treaties – especially in non-proportional property business. We counterbalanced this restraint by writing business in segments with little or no catastrophe exposure. Our approach proved justified and generated positive results with a virtually unchanged premium volume. In the course of the year additional opportunities emerged, which we shall monitor in future via a representative office which we opened in Seoul in the year under review.

Due to continued positive growth, especially in its coastal regions, China has enjoyed an extraordinary economic upturn. The strong competitive pressure, which resulted from an excessive number of reinsurers with overly high expectations was clearly to the benefit of clients. We nevertheless posted a balanced result. The total business volume – with regard to both the insurance and reinsurance sectors – is still very low.

A number of competitors sharply scaled back their involvement in the Taiwanese reinsurance market. The ensuing decline in supply, which actually encountered a rise in demand for natural catastrophe cover following the severe earthquake in September 1999, thus enabled reinsurers to push through appreciable improvements in terms and conditions. We ensured compliance with minimum conditions for natural hazards under proportional treaties and secured appropriate reductions in commission on our participations. The premium volume in this line of business climbed sharply. We succeeded in assuming the role of leading reinsurer under a number of non-proportional programmes. This pleasing and likely highly profitable growth unfortunately contrasted with a number of losses in industrial fire insurance, as a consequence of which we showed a deficit for the year under review.

Motor insurance continues to be one of the most significant business segments in Taiwan. Premium income from this line accounts for almost half of our total premium volume. These participations posted satisfactory results. Overall, therefore, our Taiwanese portfolio closed with a slight technical deficit.

The insurance markets in the ASEAN countries were slow to recover from the latest financial crisis and lagged somewhat behind the general economic upswing. Competition for market shares remained intense and overshadowed initial signs of improved conditions for reinsurers. The rate level thus continued to decline, and the worldwide turnaround has yet to materialise in this region. Positive exceptions were Thailand and Singapore, where it was at least possible to halt the decline in premiums.

Our results in the year under review were adversely affected by several instances of flood damage, which impacted the performance of our property account. Thailand suffered the most severe flooding in its history, and the Malaysian capital Kuala Lumpur experienced its first-ever major flooding.

In motor business, too, results in all the ASEAN countries deteriorated. On the one hand, this was attributable to increases in benefits awarded by the courts in motor third party liability insurance. On the other hand, the faltering economic recovery in the second half of the year had an adverse impact on this segment.

Notwithstanding the aforementioned negative factors, the overall business performance in the ASEAN region was satisfactory – a result primarily made possible by our regional diversification and the favourable loss experience in fire material damage insurance.

Australia and New Zealand

In Australia, despite initial uncertainties associated with the tax reform implemented in July 2000, the positive economic growth of recent years on a scale unparalleled in the country's history was sustained. In addition to several company mergers – most notably in the financial and insurance sectors – the business climate was characterised by the strong Australian dollar and rising interest rates. Our point of departure in the year under review was therefore determined by the progressive concentration in the insurance market and the continuing excessively low level of premiums. The disappearance from the market of a number of domestic reinsurers had few positive implications for the competitive environment, since international players forced their way into the market and competition therefore remained fierce.

This situation was exacerbated by the fact that the number of (re-)insurance brokers also diminished, leaving the remaining brokers to fight over a similarly reduced number of insurers. Thorough technical analysis of risks sometimes suffered under the competitive pressure thereby unleashed; in many instances it proved impossible to obtain remuneration which was more commensurate with the risk, and the premium development fell short of expectations.

This was all the more disappointing because in 1999 Australia had suffered the largest insurance loss in the history of the continent – the Sydney hailstorm with an estimated market loss of AUD 1.9 billion. Even in natural catastrophe business the reaction to this event was restrained, especially because many customers had arranged multi-year policies which do not come up for renewal until the middle of 2001. At least in our proportional portfolio, however, we observed the first hopeful trends inasmuch as our clients were able to raise rates in the second half-year – in some cases by double-digit margins.

By contrast, the liability line needs to be considered in a more differentiated light. While personal liability business continued its stable development and facilitated moderate premium increases, industrial liability business still suffered under inadequate tariffs. On the other hand, the reform of privatised workers' compensation business in western Australia – which was initiated in 1999 – showed its first appreciable positive effects in the year under review. The reform not only made it more difficult to take legal action, but also led to a marked rise in original premiums. We were thus able to improve the hitherto negative results of our proportional participations in this line of business. Owing to the fact that the run-off of the reserves for older occurrence years also proved better than originally anticipated, the result for the reporting period was very pleasing.

Overall, in the course of the year under review we cautiously and selectively stepped up proportional acceptances again after scaling them back substantially a few years ago. With the exception of storms and flooding on a minor to moderate scale, natural catastrophe business was spared any major loss events, and we therefore generated a very good result in this segment.

Africa

The general economic situation throughout Africa was difficult. Economic activity in central Africa was adversely influenced by political flashpoints. Hence, the growth achieved by the insurance industry in East Africa, Kenya, Tanzania and Uganda remained minimal.

Against the backdrop of economic growth of around 3.1% in 2000, the most significant insurance market on the continent – South Africa – was characterised by meagre growth and intense competition. In the year under review, as in previous years, it was difficult to secure adequate premiums in southern Africa. What is more, the high overall burden of losses hampered profitable operations. This state of affairs was exacerbated by extensive structural changes. The number of medium-sized insurance companies fell sharply. Four property and casualty insurers ceased trading or were taken over in the last year. This steady reduction in the number of potential clients had a detrimental impact on property and casualty reinsurance. The previously large number of insurers who ceded their premiums to the reinsurers also had a positive effect on risk spreading. Concentration undermined this balance of risks and made the reinsurers' results more volatile. Particularly through its co-operation arrangements with South African insurance companies, our subsidiary Hannover Re Africa successfully adjusted to these new circumstances, thereby alleviating potential declines in premium income.

Despite depressed market prices and considerable flood damage in the north-eastern part of South Africa and in Mozambique as well as various fire losses, the technical deficit posted by Hannover Re Africa decreased appreciably. The portfolio of fire business was burdened by altogether 46 major claims with a loss amount in excess of ZAR 1 billion. Total premium income in this market was no more than ZAR 3 billion. Compared to 1990, the rate level in the year under review was thus down more than 60% over a ten-year period. This prompted us to drastically scale back this segment until prices recover to an acceptable level. Results in motor business were not satisfactory and placed a strain on the technical account.

Marine and aviation reinsurance worldwide

In view of the special features of these lines, we transact marine and aviation reinsurance in a central department with worldwide responsibility, thereby concentrating our expertise and services in a single competence centre.

The expansion of the global economy has generally had a positive impact on the marine insurance market. In Asia, for example, the turnover of goods picked up substantially as part of the general turnaround in the economic crisis. Ship owners worldwide saw an increase in the level of freight rates. Developments on the oil markets led to the increased building of production facilities and greater capacity utilisation of the worldwide tanker fleet.

Due to fierce competition and overcapacity, however, the marine insurance market again failed to achieve any general improvement in the rate level in 2000. As a consequence of the poor results in recent years, various players withdrew from the market; efforts to restore business to profitability were therefore assisted by more restricted capacities. Certain lines, such as offshore business, recorded marked improvements in terms and conditions including premium increases and limitations on the scope of cover.

The favourable trend was even more pronounced in the reinsurance market, for example in non-proportional business written on the London Market. It was possible here to increase ceding companies' retentions and achieve average rate increases of 25 - 30%. In other countries, however, premium increases were more moderate and the scope of coverage remained largely unchanged.

We accept the predominant share of our marine business from the London Market and the USA. Since premiums in these markets are for the most part booked in US dollars, our growth in this sector is also attributable to the appreciation of the dollar against the euro.

Owing to the unsatisfactory result in previous years, we exercised great restraint in our proportional acceptances. The focus of our obligatory acceptances was on non-proportional reinsurance. In facultative reinsurance our risk acceptances were concentrated on offshore business as well as on types of coverage in the hull and cargo lines where the only exposure is to major losses.

With slight overall growth the technical result showed a modest improvement.

In aviation and space reinsurance high rates of increase continued to be recorded in the areas of tourism and goods-in-transit. In space business the demand for new telecommunications and science satellites continued unabated.

Although the year under review again witnessed a number of plane crashes, the total burden of losses was average. In both aviation and space business the insurance markets continued to suffer under insufficient rates and considerable overcapacity. Despite the fact that sizeable reinsurance capacity was still available, the deficits of previous years gave rise to rate increases averaging between 25% and 30%. Combined with greater airline activity and increased fleet values, the market premium for aviation fleets climbed from roughly USD 850 million to USD 1.2 billion. This level is nevertheless scarcely commensurate with the accepted risk.

In aviation and space business, as in marine insurance, the reinsurance market was able to some extent to divorce itself from these developments. Rate increases in the non-proportional sector averaged 30 - 40%, albeit with some major divergences depending on the individual claims experience of specific programmes.

The bulk of our aviation and space business similarly derives from the London Market and the USA. By purchasing the portfolio of the Swedish company Atlantica we were able to further expand our market share in Scandinavian general aviation business. Our underwriting policy also concentrates on niche markets as well as non-proportional and facultative business. Thanks to this selective approach, the inadequate conditions prevailing in the primary insurance sector had only a very limited influence on our result, which was satisfactory overall.

Credit and surety reinsurance worldwide

As in marine and aviation reinsurance, owing to the special features of these lines we transact credit and surety business in a central department with worldwide responsibility, thereby concentrating our expertise and services in a single competence centre.

Extremely fierce competition continued to be a hallmark of the credit and surety lines in the insurance markets. The very high level of concentration on global groups – which hold around 70% of the world market – and the progressive internationalisation of national markets continued unabated. In this climate reinsurance conditions came under further pressure, especially with respect to the globally operating major cedent groups. This development was based primarily on the very modest loss ratios in Europe.

In the USA, on the other hand, the dramatic claims experience brought about sometimes drastic rate increases and a marked tightening of the underwriting criteria applied to the surety market. The construction boom had led to inadequate rates at a number of leading surety companies and resulted in serious negligence in contract execution by their building customers. The consequence was an increased number of major claims.

Irene Steffensen,
International marine business

Following the successful rehabilitation of their German business in the previous years, German credit insurers saw premiums come under renewed pressure. Loss ratios also showed a striking deterioration, not least due to increased retail insolvencies shortly before year-end. German credit insurers were also adversely affected by the crisis in the building industry. Premium growth derived in large measure from the impressive export boom.

We attach strategic priority to credit and surety business, and our premium volume showed pleasing growth of around 6%. However, the otherwise satisfactory results were impaired by major losses in the USA, Mexico and Germany, and this line therefore closed with a slight technical deficit.

Life and health reinsurance

Key features of the 2000 financial year in the business segment of life and health reinsurance (Hannover Life Re) were the further expansion of international activities in our core markets and the launch of the global brand "Hannover Life Re – A Somewhat Different Reassurer". We also commenced business operations at our branch offices in Kuala Lumpur and Hong Kong and successfully established our Irish life and health reinsurance company in Dublin.

Certain premium components in life and health reinsurance (e.g. savings elements under unit-linked life insurance policies) are not reported as premium under US GAAP. In order to reflect our business development as realistically as possible, the premium income shown below always includes such "premium deposits". Defined in these terms, our consolidated gross premium income grew to EUR 2,494 million. Nominally, this constitutes an increase of 12% compared to the previous year's figure of EUR 2,220 million. However, this latter amount includes a special transaction in Australia with a single premium of approximately EUR 200 million. Once this aspect is factored out, the actual growth amounted to 23%.

Key figures for life and health reinsurance

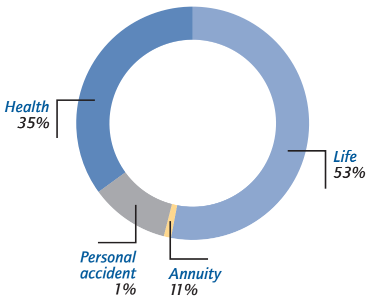
Figures in EUR million	2000	1999	1998
Gross written premiums*	2 494	2 220	1 403
Net premiums earned*	1 723	1 485	1 159
Investment income	204	217	144
Change in benefit reserves	37	496	255
Change in capitalised acquisition costs	424	391	298
Operating result before general expenses	83	46	23

* including premium deposits

Particularly significant growth impetus derived from our preferred financing transactions for life, annuity and personal accident portfolios in German-speaking markets, the United Kingdom, South Africa and the Far East.

For refinancing purposes we again retroceded sizeable parts of our business. Consolidated net premiums (again including premium deposits) therefore increased to EUR 1,723 million – a rise of 16% compared to the previous year's figure of EUR 1,485 million. The retention rate thus stood at 69% in 2000 (as against 66% in the previous year).

Breakdown of life and health reinsurance by lines in %



On account of our positioning as a financing reinsurer, financial factors have a greater influence on our result than on that of other life and health reinsurers. The following aspects, for example, have a major impact on our portfolio and are documented by means of extensive actuarial analyses and sensitivity studies:

- the persistency of the (pre-)financed business in force,
- the exchange-rate trend of the balance sheet currency (euro) against foreign currencies,
- the credit/default risk of ceding companies,
- to a lesser extent the interest-rate movements in foreign markets.

This applies particularly to our portfolio in Europe – especially in German-speaking markets – as well as to the USA, which accounted for approximately 43% of the total premium income.

By contrast, in many of our markets the influence of the traditional risk segments of life, personal accident and disability insurance as well as of critical illness covers is limited. The results of our health reinsurance portfolio improved markedly over previous years – particularly in the USA – but overall they were still unsatisfactory.

In the year under review we devoted special attention to the longevity risk. Our greatest involvement here is in the United Kingdom through our product partnerships in the area of annuity policies for aggravated risks and other enhanced annuities. On the basis of our analyses and in close co-operation with our clients, we significantly raised the conditions applicable to certain risk groups for acceptance of these risks.

The USA again witnessed a substantial number of take-overs of reinsurers in 2000. We too participated in several auctions; however, in no instance did our price expectations correspond with those of the sellers, with the result that none of these acquisition opportunities came to fruition.

The operating result before tax on income, minority interests and other general expenses totalled EUR 83 million in the year under review, an increase of 80% on the previous year's figure of EUR 46 million.

A long-term assessment of the value added should take into account not only the US GAAP result but also the development of the net embedded value of the portfolio. Reflecting the present value of our portfolio of in-force contracts, the present value of future profits rose by 43% from EUR 609 million to EUR 874 million. Of this present value of future profits, an amount of EUR 597 million (EUR 374 million) was already capitalised in the US GAAP balance sheet as at 31 December 2000 as acquisition costs or the present value of future profits (PVFP).

Development of net embedded values

Figures in EUR million	*2000*	*1999*	*1998*
Hannover Life Re Africa	10	7	6
Hannover Life Re America	120	95	51
Hannover Life Re Australasia	76	61	37
Hannover Life Re Germany (E+S Rück)	172	74	72
Hannover Life Re International	401	329	274
Hannover Life Re Ireland	42	–	–
Hannover Life Re United Kingdom	53	43	28
Total	874	609	468
Of which already capitalised as present value of future profits	597	374	323
Non-capitalised portfolio value	277	235	145
Growth in the non-capitalised portfolio value	42	90	

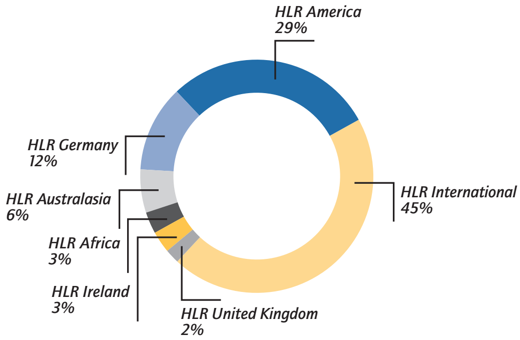
These values are audited and certified separately for each Hannover Life Re company by an internationally renowned firm of actuaries.

Hannover Life Re – the network reinsurer

The business model of Hannover Life Re is based on a network approach, under which seven reinsurance companies currently work together on an equal footing as independent risk carriers. In this context, the companies in Hannover, London, Dublin, Orlando, Johannesburg and Sydney pool their financial resources, risk capacities, expertise and knowledge base as well as their system structures.

Home office in Hannover has assumed a number of general tasks within this network. It draws up the planning on a centralised basis and assumes responsibility for controlling, the management of external retrocessions and capacity refinancing via the capital markets.

Breakdown of gross premium income by companies (before consolidation)



Refinancing through securitisation transactions

	Volume in EUR million	Year of placement	Type of business	Relief in 2000 (in EUR million)	Refinancing in 2000 (in EUR million)
L1	51	1998	New business – life Western Europe	(11)	5
L2	128	1998	In-force business – life, health, personal accident Europe, North America	1	(4)
L3	50	1999	New and in-force business – life, health, personal accident Developing markets in Asia	14	46
L4	200	1999	Unit-linked life insurance German-speaking markets	71	140

The organisation is structured in such a way that in future local competence centres within the network will be accessible to our clients. They will thus be able to draw on our expertise and experience at any time. We believe that this organisational form – that of the network reinsurer – marks the way ahead. It facilitates flexible adjustment to future, still-to-be-defined market requirements.

As at year-end 2000 our clients around the world could draw on the services of roughly 270 Hannover Life Re staff, around 220 of them stationed abroad.

Block assumption transactions

Since the mid-nineties, especially in the USA, we have concentrated on a speciality product. We assume entire portfolios of new business by way of proportional reinsurance treaties – so-called block assumption transactions (BATs).

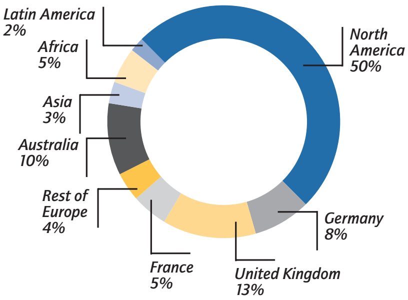
In the year under review clients continued to use this method and the specialist expertise of Hannover Life Re in order to optimise their financial results and hence enhance their liquidity or solvency/tax position.

In 2000 we concluded eight new transactions of this type in the USA, France, Luxembourg and Japan, generating gross premiums of around EUR 310 million for 2001. Five transactions related to life and annuity portfolios, and in three instances health insurance portfolios were reinsured. On two occasions we retroceded the lion's share (75%) to the international capital markets using our securitisation instruments.

The following sections describe activities in our most important markets and highlight the relevant areas of concentration.

North America

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



The US life insurance market is served by Hannover Life Re of America. In this market we have specialised almost exclusively in the aforementioned "block assumption transactions". We continued to conclude such financing arrangements on an ongoing basis. Five new transactions, primarily consisting of life and annuity insurance portfolios, were completed in the year under review.

With effect from 31 December 2000, following two years of preparatory work, we concluded the largest life BAT in our history with a renowned life insurer from the US state of Oklahoma. From 2001 onwards it will bring in an annual premium of more than USD 80 million over the long term.

The performance of our conventional life reinsurance was also highly gratifying. In this context, we have focused on niche products offered by small US insurers; with new business of USD 5.4 billion, the total sum insured of the business in force reached USD 21.2 billion as at 31 December 2000.

The total assets of Hannover Life Re of America amounted to USD 3,560 million as at 31 December 2000. This represents growth of 30.2% compared to the corresponding previous year's figure of USD 2,734 million. Gross premium income, on the other hand, showed only modest growth of USD 819 million (4.8%).

The reported annual operating result after tax of minus USD 2.5 million fails to adequately reflect the true added value of the company due to the special features of our block assumption transactions. These transactions substantially increase the non-capitalised value of our portfolio.

Australasia

Our operations in Australasia are conducted by our subsidiary Hannover Life Re of Australasia Ltd. In a fiercely competitive business climate, we maintained our market leadership among locally active life reinsurers in Australia with a market share of more than 35%.

Gross premiums amounted to AUD 266 million. The claims experience with life and disability annuity risks was appreciably better than in the previous years, and Hannover Life Re of Australasia consequently generated a very pleasing operating profit of AUD 11 million.

Africa

At the beginning of 2000 we concentrated our Group-wide southern African business in the hands of the Hannover Re Africa Group in Johannesburg; since that date our client relationships in southern Africa have been served exclusively by Hannover Life Re Africa. South African cedents account for 95% of its business, while the remainder derives from Mauritius, Kenya and Zambia.

With premium income of ZAR 604 million (equivalent to approximately EUR 93 million), an increase of 42% in gross business was achieved.

Results were burdened especially by certain segments of South African health reinsurance, and with an operating deficit of ZAR 12 million the performance of the portfolio as a whole was therefore unsatisfactory.

United Kingdom and Ireland

We are represented by two operational risk carriers in the United Kingdom and Ireland. Hannover Life Reassurance (UK) Ltd. in London handles the conventional, more risk-orientated reinsurance market in the UK and Ireland. Hannover Life Reassurance (Ireland) Ltd., on the other hand, which we established in Dublin in the second half of 1999, has been assigned a core strategic task within Hannover Life Re. Equipped with a small, highly skilled team, it is able to make use of the favourable supervisory and solvency framework in Ireland in order to implement bespoke reinsurance solutions for our international clientele.

The gross premium income of Hannover Life Reassurance (UK) grew to GBP 42.2 million in the year under review, an increase of 35% compared to the previous year.

Particularly gratifying was the strong increase in new life business and critical illness policies with regular premiums, which now account for almost 60% of total premiums. We acquired a number of new client relationships in this area and took over the position of market leader in the United Kingdom. A further speciality is the design and administration of annuity policies sold to private customers through the marketing channels of major banks. This single-premium business now generates more than 40% of premium income. The claims experience in life business and with critical illness covers was again highly satisfactory, as a consequence of which Hannover Life Reassurance (UK) generated an operating profit of GBP 3 million.

Hannover Life Reassurance (Ireland) develops and markets its financially orientated reinsurance solutions both directly for clients of Hannover Life Re and through the retrocessions of other Hannover Life Re companies. Gross premium income in the company's first full financial year totalled EUR 77 million; of this amount, 86% stemmed directly from external clients, while the remaining 14% derived from other Hannover Life Re companies. As anticipated, the business accepted performed very favourably and generated an operating profit of EUR 4 million.

Germany

The gross premium income of the home office in Germany showed a marked increase in 2000. A sizeable portion of this business (almost 50%) was attributable to retrocessions of foreign subsidiaries to Hannover Life Re International. This office is also responsible for performance controlling within Hannover Life Re in the light of both risk and financial considerations. As part of this brief, further financing arrangements were retroceded to the international capital markets in the year under review by way of securitisations.

In Germany we observed increased demand among our clients for liquidity relief as a consequence of the explosive growth in unit-linked life insurance (27% market share of new business in 2000). Against this backdrop, we succeeded in further expanding our leading position as a reinsurer of unit-linked life insurance policies.

Many of our activities in the German market are carried out with an eye to the future and are intended to establish the basis for a sustained improvement in our market position in the years to come. This was particularly true in the light of the strong demand anticipated for financing arrangements as a consequence of the introduction of additional old-age provision encouraged as part of the Pension Reform Act.

Other countries

Activities conducted in other countries are grouped together under Hannover Life Re International and encompass a network of three branch offices in Stockholm, Kuala Lumpur and Hong Kong as well as service and marketing centres in Paris, Milan, London, Madrid, Mexico City, Shanghai, Taipei and Tokyo. We are thus in a position to provide our clients with technical support and expert advice on a local basis.

The office in Hannover not only serves Germany but also, most notably, Austria, Switzerland, Luxembourg, Liechtenstein and the Netherlands as well as South American markets and selected clients in the United Kingdom. An outstanding feature of 2000 was the conclusion of a large-volume reinsurance treaty with a major financial group in the United Kingdom, which we provided with extensive support for the establishment of a company specialising in the senior citizens' segment. Our assistance included product development, systems for risk selection and underwriting as well as the necessary financing arrangements.

With 17 staff, our service centre in Paris is one of the larger offices abroad. The French market underwent further consolidation in 2000, which also impacted the demand for reinsurance. Contrary to the general market trend, however, we were highly successful in enhancing our market penetration and further enlarging our leading position in the French market. Particularly close contacts with marketing and consulting firms helped us to generate some business "at grassroots level". In addition, we have already succeeded in paving the way for several transactions, on the basis of which – in combination with changes in the law which are expected in France, e.g. in the areas of unemployment and long-term care insurance – we believe that this market offers favourable general prospects.

Whereas in former years we had principally concentrated on financing transactions from our Milan-based Italian office, in the past two to three years we have established ourselves in the market through joint product development activities with various ceding companies. In addition to disability and long-term care policies, our clients were especially interested in coverage for the unemployment risk as part of credit life insurance. Owing to changes in tax legislation in the year under review, the demand for financing arrangements for traditional insurance products will tend to decline in the coming years. On the other hand, segments such as unit-linked life insurance and the reinsurance of capital market risks now offer promising opportunities.

The Spanish life insurance market, responsibility for which rests with our service centre in Madrid, is currently heavily dominated by a number of savings products sold over the counter at banks. Purely from the risk perspective the reinsurance requirement associated with these savings products is relatively low, and the pressure of competition is correspondingly high. We nevertheless succeeded in asserting our position as one of the leading life reinsurers in the client segment consisting of banks and savings institutions.

A team of 16 staff in Stockholm is responsible for the markets of Scandinavia, central and eastern Europe as well as the south-eastern

Mediterranean region. In Scandinavia we observed increasing merger activity among our clients, and their total number therefore decreased. Nevertheless, the year also saw the formation of a number of new companies, with which we established reinsurance relations. Our business activities in the south-eastern Mediterranean region were concentrated on Israel and Cyprus.

Our office in Mexico City enjoyed great success in the year under review, acquiring twelve new clients in various parts of Central America. This achievement was founded in large measure on our local presence and the offer of training resources, especially in the areas of underwriting and reinsurance administration.

We have long had a presence in Kuala Lumpur, and with effect from 1 January 2000 we were the first foreign reinsurer to acquire the status of a branch office for life as well as non-life business. In Hong Kong too we were granted a licence with effect from 1 January 2000 to operate a branch office, having previously maintained a representative office for marketing purposes. The geographical scope of responsibility assigned to this branch office extends from Korea through China (including Hong Kong) and Taiwan as far as Japan. The sales activities of the ten local staff are supported by life specialists at our Shanghai, Tokyo and Taipei locations.

The most notable event in the year under review was the conclusion of a large-volume financing transaction with a medium-sized Japanese life insurer. This arrangement offered our client the desired solvency relief and has since been terminated as agreed. In Japan we also succeeded in establishing business relations with additional primary insurers. Consequently, we are now well positioned in what is – after the USA – the second-largest life insurance market in the world.

As the most heavily populated country in the world, we devote special attention to China. Through the use of our worldwide network we offer Chinese life insurers extensive technical support as well as specially tailored training measures for their staff.

Program business

The Clarendon Insurance Group, New York, which has been part of the Hannover Re Group since 1999, is the market leader in US program business. Whilst this speciality of the US market technically constitutes primary insurance, this acquisition in no way signifies our entry into the insurance sector. In many respects program business reflects the principles and practices of reinsurance, and for this reason it constitutes a strategic segment in its own right within our Group. Program business is written in very close co-operation with highly specialised managing general agents (MGAs).

We have begun to export the business idea underlying program business and have brought together on a centralised basis program business already existing outside the USA. Two different models are in use. The Clarendon model is based upon passing on the largest possible portions of the accepted business to reinsurers, who assume the role of risk carriers (reinsurance model). The principal source of income here is the fees which reinsurers pay Clarendon for its assumption of the primary insurer's function. However, such programs can also be accepted on a so-called retention basis; in other words, the niche business is still written by highly specialised managing general agents "on behalf of" the program insurer, but in line with more usual practice only a small portion is reinsured. In this case, the technical result and the investment income constitute the profits basis. This model is more appropriate for programs with modest premium volumes of less than EUR 5 million, and it is already in use in some markets outside the USA.

By far the bulk of our program business stems from Clarendon. Nevertheless, we have already positioned our Los Angeles-based subsidiary Insurance Corporation of Hannover to transact the retention model in the USA, while other international business is concentrated in the hands of our subsidiary International Insurance Company of Hannover in London. The latter two companies contributed 10% of gross premiums in program business and hence accounted for 14 percentage points of the overall growth, which totalled 45% to reach EUR 1.97 billion. Altogether, 17 percentage points were attributable to exchange-rate effects. The tendency here towards a higher retention produced a disproportionately strong increase in net premiums from program business.

Results were decisively influenced by the Clarendon Insurance Group, which looked back on a year of mixed fortunes. Despite parting with a sizeable portion of the business existing at the beginning of the year, gross premium income in the year under review grew by 30% to EUR 1.8 billion. This growth was generated through higher premiums – sometimes up by as much as 50% – as well as the expansion of current programs and the acquisition of new business. With various competitors in danger of losing business as a consequence of downgrades by the rating agencies, additional new business opportunities opened up. In these instances Clarendon benefited from its very good rating compared to its rivals and was able to take over such business. In this way it further expanded its position as market leader in US program business.

Key figures for program business

Figures in EUR million	*2000*	*1999*
Gross written premiums	1 974	1 364
Net premiums earned	293	163
Technical result	(7)	42
Investment income	25	10
Operating result before general expenses	17	52
Loss ratio	89%	79%
Expense ratio	13%	(4%)
Combined ratio	102%	75%

Clarendon's business success continues to be founded on its ability to respond flexibly to market opportunities while at the same time applying strict standards to risk acceptance and the management of business. New programs were developed in the year under review, and the company considerably expanded the scope of audit activities used to constantly monitor MGAs. In some cases, however, it was also necessary to cancel programs in order to limit losses. In accordance with the business model, the bulk of the premiums were ceded to reinsurers. The net premiums written amounted to EUR 168 million, and the retention thus decreased further to 9.4%.

The result posted by Clarendon reflects a difficult year. Some business relationships could not be continued because of the losses they produced. On the other hand, the core business that was not cancelled recorded the expected profitable performance. Controlled expansion of these programs was a factor in this success, as was the well-balanced and diversified portfolio structure. No single line of business accounts for more than 20% of the total premium volume.

The year under review was spared any substantial loss events, and Clarendon's property business – which primarily consists of insurance for buildings in Florida and California – therefore closed with generally positive results. In workers' compensation business we focused on a smaller number of MGAs with a higher average premium as the year progressed. Due to the large proportion of business reinsured and the stable level of fees, the overall result of this line was satisfactory. Although our premium income in private motor insurance contracted by around 20% compared to the previous year, we improved results and met our profit requirements. Despite considerable regrouping within the portfolio, the volume of business in commercial motor insurance remained stable. This was also true of the current results situation. Due to a significant boosting of the reserves for losses from previous years, however, this line closed with a deficit. Personal accident and health business was also disappointing both with regard to terms and conditions – and hence growth prospects – and results. Consequently, we have begun to review our participation in this line of business.

Overall, fee income – Clarendon's principal source of revenue – rose by around 6% from USD 82 million to USD 87 million. On the other hand, the substantial strengthening of the reserves, the default on a reinsurance receivable and the inadequate premium level placed a considerable strain on the technical account, as a consequence of which only a break-even result was achieved. In this context, the terminated business relationships had a significant negative impact on the result.

Three years ago the Insurance Corporation of Hannover (ICH) began to develop program business based on the retention model, i.e. unlike Clarendon ICH runs most of the risk in its own retention or reinsures a large part of it within the Hannover Re Group. In the year under review the company's gross premiums from program business totalled USD 79 million, primarily from motor insurance. Despite the costs associated with building up this business and the unsatisfactory market conditions prevailing at the beginning of the year under review, the operating result of USD 5 million was highly satisfactory.

In March 2001, ICH acquired the renewal rights to the program business of Acceptance Insurance Companies, Inc. with a gross premium volume in the order of USD 60 million. The experienced underwriting team of Acceptance was also taken over as part of this transaction. Bearing in mind also that terms and conditions on the American insurance markets have improved considerably, we expect gross premiums of more than USD 125 million and appreciably higher results in the current year.

The International Insurance Company of Hannover Ltd. (Inter Hannover) began preparing the ground for the cultivation of program business in Europe around 18 months ago. The infrastructure has now been put in place, and a highly specialised, experienced team has been charged with implementing the plans. In the year under review we largely transferred existing European program business in the area of property and casualty reinsurance to Inter Hannover. In addition, based on an analysis of the most important European markets, we began to draw up a communication concept. Taking this as our starting point, the aim is to launch active marketing of our operation at the end of the third quarter 2001.

The total volume of Inter Hannover's program business, which for the most part derives from the United Kingdom, Ireland and Germany, amounted to EUR 115 million in the year under review. The portfolio generated a gratifying operating profit of EUR 6 million.

Inter Hannover's stated aim is to evolve into a recognised writer of program business in Europe. Its target segment comprises managing general agents who have focused on a special customer or product segment and whose infrastructure and business policy orientation promise a long-term successful co-operation. The goal is to establish business relations with no more than 30 MGAs Europe-wide. In accordance with the approved business plan, Inter Hannover is seeking to generate a premium volume of GBP 300 million from program business in the next five years.

The overall result in the program business segment reflects not only the performance of the individual companies but also at the Group level amortisation of the goodwill of Clarendon, pro-rata interest on debt financing, expenses for the Group as a whole and the effects of deferred taxes. Before deduction of these general expenses the operating result declined – most notably due to Clarendon – from EUR 52 million to EUR 17 million, but it remained in positive territory despite the special strains.

Financial reinsurance

The framework conditions under which we offer our financial reinsurance products developed favourably in the year under review. The worldwide trend towards concentration in the insurance markets led to greater volatility in the risk situation in recent years and hence in insurers' results. In order to counteract the repercussions of both technical risks and general risks, insurers are increasingly calling for reinsurance products that spread these burdens over several years. What is more, the volatility of our clients' results was further exacerbated by the implementation of new accounting standards (IAS, US GAAP). This increased the need and demand for reinsurance solutions that protect their balance sheets. As an additional factor, various market players purchased traditional reinsurance cover in those periods when it could be obtained at a reasonable price, despite the fact that they were not dependent on the risk transfer. Now that traditional protection has become harder to obtain and in some cases substantially more expensive, these clients too are increasingly seeking alternative solutions.

Key figures for financial reinsurance

Figures in EUR million	2000	1999	1998
Gross written premiums	870	509	368
Net premiums earned	801	463	351
Technical result	(114)	(37)	(37)
Investment income	168	75	79
Operating result before general expenses	54	38	42
Loss ratio	120%	62%	97%
Expense ratio	(6%)	46%	16%
Combined ratio	114%	108%	113%

This was particularly true of the already well-developed financial reinsurance markets such as North America and the United Kingdom. The developing markets in Asia and Latin America followed the trend, and it is now the case that non-traditional financial reinsurance solutions are used almost everywhere in order to stabilise balance sheet result and optimise the cost of capital.

This rising demand went hand-in-hand with a growth in the range of solutions now available from almost all established reinsurers. Not only that, various niche providers have specialised in customised solutions. Overall, there has been a considerable intensification in competition founded on a willingness to accept technical risks with varying degrees of risk transfer.

We made the most of this environment and vigorously enlarged our business; in accordance with our practice to date, we focused on individual and sometimes highly complex constructions, which are closely geared to our clients' specific needs but comprise only a minimal degree of risk transfer.

The training facilities offered to our clients with a view to passing on information about the benefits of innovative financial reinsurance solutions constitute a key aspect of our efforts to acquire new business. In many countries – most notably in Asia – even the supervisory authorities are now taking a positive view of our educational activities. Needless to say, it is also in our interest that these countries develop clear and transparent regulatory frameworks and rules for financial reinsurance. This will enable many still hesitant clients to shed their inhibitions when it comes to using new reinsurance solutions.

We have concentrated our financial reinsurance activities at the International Financial Services Centre (IFSC) in Dublin, where we operate through two reinsurance companies – Hannover Reinsurance (Ireland) Ltd. and E+S Reinsurance (Ireland) Ltd. The financial position and development of our financial reinsurance segment are determined by the consolidated business figures of these two operational risk-carriers.

The business year just-ended was marked by strong growth. Compared to the previous year, gross premium income grew by 71% to EUR 870 million. Roughly 18 percentage points of this growth were attributable to exchange-rate effects, particularly the appreciation of the US dollar against the euro. Decisive growth impetus again derived from the North American and UK markets, where we concluded significant new business. Retrocessions were used principally to reduce risk components under our original transactions. The retention thus remained virtually unchanged at 92%, and net premiums written increased proportionately to EUR 801 million. Under US GAAP some financial reinsurance transactions are reported in the non-technical rather than the technical account. Although they form part of our financial reinsurance activities, their volume is therefore not reflected in the premium. We anticipate that the scale of such transactions will steadily grow in significance in the future.

Bearing in mind the special nature of financial reinsurance business, it is to be assumed that the premiums collected and the investment income generated on these premiums will in large measure flow back to our clients in subsequent years. Given the fact that under the applicable accounting requirements we are obliged to show these amounts as loss reserves, loss expenditure climbed sharply to EUR 963 million. Generally speaking, in financial reinsurance little insight is to be gained by considering the technical account in isolation, since non-technical items normally form an integral part of the transaction.

Thanks to the favourable general climate enjoyed by our financial reinsurance segment, we increased the previous year's high operating result before general expenses by a pleasing 42% from EUR 38 million to EUR 54 million.

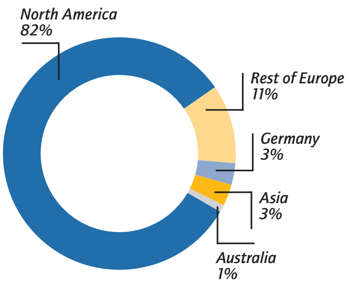
The strong capitalisation of both companies – EUR 180 million for Hannover Re Ireland and EUR 144 million for E+S Re Ireland – enables us to assert our position in the competitive arena, not least by offering considerable underwriting capacities. The financial strength of the companies and their integration into the Hannover Re Group are also reflected in their ratings. In addition to the existing A+ (Superior) rating from the agency A.M. Best, which is particularly significant in the North American market, both companies were for the first time awarded Standard & Poor's second-highest rating of AA+ (Very Strong) during the reporting period.

The following sections describe the development of financial reinsurance in our most important markets.

North America

Accounting for around two-thirds of total premium volume in this segment, North America – and in particular the USA – remains by far our most important market. We have concentrated here primarily on products that enable our clients to realise profits, which in economic terms have already been achieved, more quickly. Thanks to our balance sheet capacities, we are a sought-after contact especially among major US insurers and reinsurers. Furthermore, US clients are frequently obliged by supervisory regulations to require bank guarantees from their reinsurers. Since such capacities are available to us at reasonable terms on the basis of our excellent rating, we are therefore able to satisfy these requirements.

Geographical breakdown of financial reinsurance in % of gross premium income



Growth in the year under review derived principally from the expansion of existing client relationships. The poor conditions prevailing in the insurance markets in the previous year and at the beginning of 2000 resulted in increased calls on treaties dating from earlier years. These produced additional premiums and corresponding investment income. For our part, due to the mechanisms underlying our financial reinsurance arrangements, the fundamentally negative development of risks and losses from previous years scarcely caused any additional strain and left our results largely unscathed.

We co-operate closely with brokers as well as directly with insurers and reinsurers when acquiring our business. Our goal is to reinforce our market position and in this way ensure that we share in the positive trend in reinsurance conditions in all sectors of the market. This is all the more imperative in view of the fact that the increase in the premium level has also rendered the transfer of risk components more attractive.

Germany

German insurance companies have consistently found themselves confronted by new challenges in recent years. The lowering of barriers within the European Union, national deregulation and their own striving for growth all led to increased competitive pressure.

The system of equalisation reserves enables many German insurers to balance results over time to some degree. However, the heavily formula-based method used to calculate the equalisation reserves imposes limits on the balance sheet stabilisation which can be achieved, and these restrictions are not always in tune with current and future needs.

These considerations have prompted companies to take a greater interest in modern reinsurance solutions. Their primary objective is to optimise the management of capital costs and to put balance sheet protection on a broader footing, where appropriate by also including non-technical aspects.

In the coming years we anticipate significant growth in our German portfolio, both as regards the number of treaties and the premium volume.

Europe

As one of the developed markets for financial reinsurance products, the United Kingdom constitutes the focal point of our activities in Europe. We eased our hitherto rather restrictive position in the year under review because the terms and conditions under which clients sought financially orientated covers improved appreciably. This applied inter alia to Lloyd's Syndicates, whose results for recent underwriting years had shown a sometimes alarming trend; demand for covers designed to stabilise results thus increased in step with a greater willingness to pay margins which were commensurate with the risk.

In other European markets, too, an upsurge in interest in innovative reinsurance solutions could be discerned. Many companies, however, were still at the stage of gathering information and building up the appropriate know-how. We supported these efforts with new training services.

Asia and Australia

The energy that we have invested in the Asian region over the past several years led to a number of relationships, most notably with the aim of creating balance sheet continuity and reducing the cost of capital. The increased demand also attracted the attention of various supervisory authorities, which are keen to develop appropriate regulatory frameworks.

Concepts are currently being designed in Japan for the financing of natural catastrophe risks. Tendencies towards the use of innovative products for balance sheet stabilisation can also be identified, particularly in the context of risks associated with the loss reserves of earlier years.

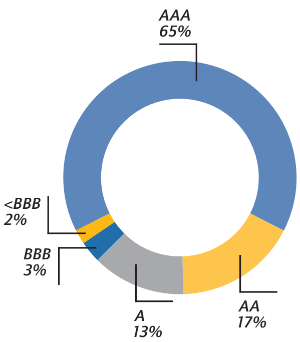
Several large transactions have secured our position as one of the dominant reinsurers in the financially orientated sector of the Australian market. Through constant enhancement of our products and close co-operation with our existing and potential new clients, we shall consolidate and expand our market position.

Investments

The financial markets were again highly volatile – and at times even turbulent – in the 2000 financial year. This was especially true of the stock markets; taking their leads from the USA, movements on the exchanges varied. The sustained bullish mood in the TMT (technology, media and telecommunications) sectors through into March 2000 pushed the leading indices in the USA and Europe to record highs which – viewed on the basis of fundamentals – were almost beyond comprehension. It was above all these stocks which then suffered an at times dramatic crash in the second half of the year. As the manifestly exaggerated price trends persisted into May, the US Federal Reserve Board responded with a restrictive interest rate policy in order to quickly counter the possible inflationary risks. Even during the summer the vast majority of market players were still unable to recognise that the economy would take such a dramatic downturn, bringing stock prices down with it. In addition to the interest rate rises in the USA, the strength of the US dollar also served to cool down the American economy. What is more, energy prices rose sharply – especially for crude oil – and placed a strain on economic activity worldwide. It was thus evident that the high point in the economic cycle had finally passed, and the downward trends merely added to the pressure on companies' business prospects and hence their stock market value.

The interest rate policy in the USA not only had a decisive impact on share prices, it also dominated the interest rate markets. Particularly in the area of short maturities, increases in key lending rates by the US Federal Reserve and the European Central Bank during the first half of the year led to interest rate rises. In the second half of the year, faced with a slowing US economy, the central banks adopted a more cautious approach. Longer maturities, such as 10-year government bonds, showed an impressively stable trend throughout the year. It was notable in this connection that in January 2000 the interest rate curve was inverted for the first time in this cycle: the yield on 30-year interest-bearing securities dropped below those with a 10-year maturity. Further interest rate cuts ensued with correspondingly favourable effects on bond market prices. Interest rates for 10-year US Treasury Bonds fell from more than 6.8% in January to less then 5% in December. The same trend saw the benchmark yield in Europe reduced from 5.7% to 4.8%.

Rating of fixed-income securities



The situation on the financial markets was thus all but reversed over the course of the year: initially booming stocks and unstable bond markets contrasted with dramatic falls in the value of company shares and more robust bonds and debentures by year-end.

Although we substantially expanded our reinsurance portfolio, our self-managed assets (i.e. excluding funds held by ceding companies) grew only slightly by 3.5% to EUR 10.2 billion (EUR 9.8 billion). In life and health reinsurance business, treaties frequently make provision for the benefit reserves for which the reinsurer is responsible to be deposited with the ceding company. The high premium growth in this segment consequently does not lead to corresponding additions to our self-managed assets. The situation is similar in program business due to the low retention rate and in financial reinsurance, where the contracting parties often dispense with a real exchange of assets. Although property and casualty reinsurance generated very strong growth in the year under review, this has not as yet been significantly reflected in increases in the investment portfolio because the natural catastrophes which occurred in the 1999 calendar year – especially the winter storms – caused considerable cash outflows in the 2000 calendar year in the form of claims payments.

There were no major changes in the structure of our investment portfolio in the year under review. In accordance with our strategy of investing the Group's capital in equities, we increased our total equity holdings to around EUR 1.6 billion. In relation to our total self-managed assets, the proportion attributable to equities thus rose from 14.0% in the previous year to 15.6%. In the light of the emerging negative market trend, however, we carried out considerable regrouping within our equity portfolio. The previous overweighting of technology and growth stocks was almost entirely eliminated from April 2000 onwards. As in the previous year, these substantial sales of portfolio holdings produced high profits on disposals. The growth in our equity portfolio was largely financed by the scaling back of short-term investments, which were reduced from EUR 709 million in the previous year to EUR 476 million.

The focus of our investments continued to be on fixed-income securities, which accounted for an unchanged share of 67%. The high quality of the portfolio reduced the overall investment risk. With a comparable maturity pattern, the average yield on our fixed-income securities was slightly below that of 1999 due to the interest rate movements in recent years.

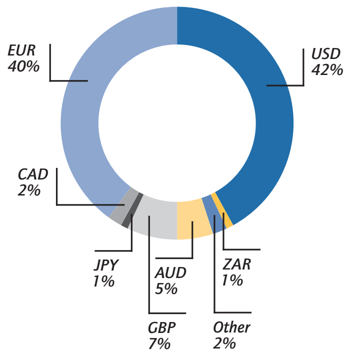
Our growth capital and private equity investments are reported in the balance sheet under the item "Other invested assets". Both in absolute and relative terms, the change in the share of total investments attributable to these items was insignificant in the 2000 financial year.

Unrealised price gains in our portfolio of fixed-income and equity securities decreased overall by EUR 16 million to EUR 102 million. The declining interest rate level produced an increase in value in the portfolio of fixed-income securities totalling EUR 149.6 million compared to the previous year. On the other hand, unrealised price gains in the equity portfolio fell markedly from EUR 169.2 million to EUR 15.5 million due to profits on disposals and the general development of the market.

Despite the mere slight increase in self-managed investments, ordinary investment income surged by 28% to EUR 799 million. This increase was in large part attributable to significantly higher deposit interest credited – especially in financial reinsurance – as well as to higher interest credited on the benefit reserves in life reinsurance.

The regroupings in our equity portfolio combined with the continuing good earnings performance of our private equity investments again generated gratifyingly high profits on the disposal of investments. In the previous year realised profits on disposals had been favourably influenced by a special effect amounting to EUR 50 million in connection with a life reinsurance treaty. Nevertheless, the total income of EUR 251 million even surpassed the extraordinarily high level of the previous year.
The losses from the disposal of investments in the amount of EUR 70.5 million were on a par with the previous year; they too derived principally from our equity portfolio. Other investment expenses were, however, significantly higher. The increase of EUR 57 million to EUR 107 million was attributable to a change in the valuation method applied to our participations in two domestic venture capital companies. This change led to a depreciation charge of EUR 55 million. Adjusted for this special effect, the increase in the other investment expenses was EUR 2 million.

Breakdown of investments by currency



Total net investment income stood at EUR 869 million, a figure which surpassed the previous year's highly satisfactory result by a further 5%.

Ulrich Wallin,
Aviation and space business worldwide

Risk management

The long-standing concern with the issue of risk management has in recent years also acquired considerable prominence in communication with the financial markets. Particularly conspicuous examples of glaring control weaknesses and the resulting corporate crises contributed to the adoption in Germany of the Law on Controlling and Transparency in Business (KonTraG) with effect from 1 May 1998. The legislation stipulates that risks which could jeopardise a company's continued existence must be rendered transparent by means of an efficient control and monitoring system; we consider this requirement to be an indispensable prerequisite for the management of the Group.

The acceptance and professional management of risks constitute the core business of an internationally operating reinsurer; to this extent, the professional management of risks is also a major competitive factor for our company. This has a bearing on the concerns and interests of both our business partners and our shareholders. Our business partners expect us to have sufficient risk capital resources and a correspondingly high security rating from renowned rating agencies. Our shareholders, on the other hand, call for returns that are commensurate with their invested capital and the accepted risk. We try to satisfy these opposing expectations with optimised capital resources, which are nevertheless adequate to meet the risks involved. Consequently, risk management has always played a central role in the management of Hannover Re's business.

Within the framework of our comprehensive risk management system, we assess systematically and at regular intervals the risks which could threaten our company's future existence with an eye to determining the possible loss amount, probability of occurrence and time horizon. At the operational level, the system is locally integrated into the organisation of Hannover Re's various business segments. This allocation of responsibility is intended to ensure that risks can be identified and controlled as quickly as possible. To this end, we use a number of quite different measuring methods tailored to the individual risk, and they provide information at an early stage about any potentially undesirable developments. A central risk co-ordinator ensures that all the risk management activities carried out are monitored, harmonised and documented; the co-ordinator also bears responsibility for the comprehensive description of the risk situation of the company as a whole. Independently of these permanently installed procedures, the internal auditing department verifies compliance with defined processes in all functional areas of our company.

Our risk management system distinguishes between three risk categories:

- Global, external risks,
- Strategic risks,
- Operating risks, which we subdivide into
  - technical risks,
  - investment risks and
  - other operating risks.

Global risks

Global risks may arise as a result of changes in the legal framework (including changes in the general regulatory or tax situation), through social and demographic trends or developments in the insurance industry and also as a consequence of environmental and climate factors. We counter these risks by constantly monitoring claims trends, analysing claims and major losses and applying precise models in order to control results. It is hardly possible to reduce – let alone avoid – such risks. Risk management measures must therefore be geared to the early identification of dangerous trends. Monitoring of developments in the individual national frameworks around the world is therefore carried out locally by our market specialists, whose market intimacy ensures that they detect significant changes without delay. Global changes in possible losses, however, are monitored centrally by the appropriate specialist departments. For example, our legal experts in the central claims department assess developments in court decisions worldwide, especially with respect to the liability lines – e.g. new liability risks associated with EMFs or the use of new media (so-called cyberspace liability). With the aid of sophisticated simulation models, we also monitor centrally the increase in the frequency and extent of losses arising out of natural catastrophes induced by global climate changes. On the basis of these analyses, we then determine both the maximum liability which we are prepared to accept within the Group and our own retrocession requirements.

Strategic risks

Our paramount strategic objective is to assert our position in the international reinsurance markets as an important, optimally diversified reinsurance group of above-average profitability in order to secure our long-term survival as an independent enterprise. Derived from this strategic mission, the individual business segments of Hannover Re are guided by further, inherently consistent detailed strategies which are subordinate to the overriding objective. In order to ensure that our strategic targets are also applied to at the operating level, we have, on the one hand, defined company-wide ratios and controlling processes which measure and control the contribution made by each business segment to the Group's overall performance. On the other hand, specific ratios have also been defined which facilitate the performance controlling of our strategic objectives for each segment, subsidiary etc. With a view to structuring these processes on an even more efficient and uniform basis, we have begun to implement a new worldwide standard system. Using a lean, top-down approach, strategic targets are translated into ratios, measured and communicated. In this context too, generally applicable parameters are combined with segment-specific standards. These defined target figures then serve as a basis for the measurement of results and the performance-based remuneration received by management.

Technical operating risks

The technical risk comprises first and foremost the danger of accepting risks that exceed the available financial resources as well as those cases where the previously calculated premiums are insufficient to offset the resulting losses. Possible reasons here may be inaccurate calculation assumptions or models, unexpected claim developments or inadequate reserves as well as insufficient own reinsurance (retrocession) or the default of a retrocessionaire. The technical risk for our Group is principally determined by mandatory underwriting guidelines. These define in detail which risks may be accepted and up to what amount. The contents of the guidelines are reviewed annually, adjustments are made where necessary and compliance is subject to regular control.

In order to ensure that adequate premiums are agreed, various instruments are available for controlling the profitability of individual reinsurance treaties. Detailed minimum returns defined for the various business segments form the basis of the premium calculation. Shortly after conclusion of a new transaction or the renewal of existing business, the so-called first forecast analysis determines the extent to which it was possible to achieve the quoted premiums on the market, while a contribution margin analysis identifies whether the terms and conditions agreed for individual treaties will produce the expected results. In this connection, the calculation of the loss reserves – which in reinsurance business frequently have a significant impact on results – is scrutinised by independent external experts and not least audited and certified by our auditors. Particularly in property and casualty reinsurance, this multi-layered system ensures that risks are written with an eye to profits, not volume.

A further key instrument of risk limitation and results stabilisation is our own reinsurance, referred to as retrocession. Whereas premiums are always payable at the beginning of a contract, risks derive from the fact that long periods – sometimes even decades – may elapse until losses are paid. An intensive credit investigation must therefore ensure that the business partner will be able to meet its obligations even after such long periods. Retrocessionaires are selected on the basis of a graded approach, which takes account of the probable run-off period of the business in question. In addition, we are guided by the opinions of internationally recognised rating agencies, whose assessments are supplemented by the analyses of our own internal dedicated service.

Investment operating risks

Our risks in the investment sector consist primarily of price, interest rate, default and exchange rate risks. Since investment income constitutes a major source of revenue for reinsurance companies, the repercussions of capital market fluctuations on the statement of income may be similar to those of natural catastrophes. For this reason, our investment policy is not geared first and foremost to yield maximisation at any price. Rather, the intention is to optimise investment income on a sustained basis subject to the condition that risks are limited and clearly defined. The investment portfolio is very largely based on inflows (premiums) which are set aside for future loss payments. Consequently, investment activities too are guided by the conditions of the reinsurance business. In order to eliminate exchange-rate risks, we invest funds in the currencies in which future losses will be paid (principle of matching currencies). Similarly, maturity commitments and the choice of investment categories take into account the probable periods until payment (principle of matching maturities). Additional investment risks are limited by the selection of borrowers with a high credit standing.

Investment decisions are made within the framework of detailed investment guidelines, which are constantly reviewed and where necessary revised, as determined by the entire Executive Board. Compliance with these guidelines and the associated observance of defined limits are ensured, inter alia, by the strict separation of trading and settlement functions as well as by regular reviews. These encompass, for example, the weighting of the investments (e.g. proportion of equities), the quality of the investments (e.g. issuer's credit rating), the limits per issuer, etc. Not only that, the entire portfolio as well as the associated profit and loss items pending settlement are evaluated on a daily basis.

Derivative financial instruments are used by Hannover Re solely to hedge existing investment portfolios against price, interest rate, currency and default risks and as a substitute for securities purchases; they are controlled using mark-to-market valuations and with the aid of appropriate sensitivity analyses.

Other operating risks

By other operating risks we particularly have in mind risks associated with information technology and human resources management. The failure of technical equipment, especially in the case of the data processing infrastructure and the availability of the applications which it provides, poses a major risk to our company. We ensure the availability of our IT systems by means of state-of-the-art defence technologies and efficient methods of anti-virus protection, preventive structural measures and active fire protection safeguards as well as a secure uninterrupted power supply. Contingency plans and safety guidelines have also been drawn up to define the measures to be taken and appropriate behaviour in such emergencies. The relevant safety measures are documented centrally and subject to regular review. Thus, for example, all systems managed the change of date at the turn of the millennium virtually flawlessly thanks to intensive preparatory measures. Virus attacks at those points where we are connected with worldwide public data networks have also been effectively prevented. The so-called "I LOVE YOU" virus, for example, did not cause any damage whatsoever within our company.

Reinsurance is a highly complex financial service, the success of which is crucially dependent on the expertise, motivation and dedication of our staff. In the future, therefore, it is important that we continue to be able to recruit highly qualified specialists and management staff and secure their long-term loyalty to the company. Consequently, we cultivate close contacts with a number of universities and set great store by personnel development activities.

Assessment of the risk situation

As an internationally operating reinsurer we are confronted with numerous opportunities and risks which are directly connected with our entrepreneurial activities and can therefore impact our net income or financial situation. Given the information currently available to us, however, we do not perceive any risks which could jeopardise the continued existence of our company in the short or medium term or which could impair the assets, financial position or net income in a significant or sustained manner.

Human resources

As at the end of 2000 the Hannover Re Group employed 1,528 staff worldwide. Growth in the number of employees was recorded primarily in the USA and the United Kingdom. This reflects the internationalisation of our business, which is increasingly transforming us into a global reinsurance group. In Germany asset management activities within the HDI Group were centralised. Around 50 members of staff transferred to HDI Asset Management GmbH and are thus no longer on the payroll of the Hannover Re Group. The regional distribution of our employees around the world is shown in the following table.

Breakdown of employees by country

	2000	1999
Germany	661	696
USA	430	407
South Africa	134	153
Sweden	81	83
United Kingdom	49	38
Australia	41	39
France	27	26
Malaysia	26	25
Mexico	21	22
China	15	10
Italy	13	12
Ireland	12	11
Spain	6	7
Japan	6	6
Canada	3	4
Taiwan	3	3
Total	1 528	1 542

Internationalisation of the Group

The integration of different cultures and the existence of various political, social and economic environments pose a considerable challenge to an international organisation. They also offer opportunities to learn from one another. As a globally active company, we have taken up these challenges; we believe that the temporary exchange of staff within our organisation is a particularly appropriate way to foster integration. This takes place largely through delegation as well as co-operation on projects of worldwide scope.

New management model

The globalisation of our own organisation and the drive to ensure international comparability prompted us to implement new job titles and hierarchical structures in the year under review. We now use uniform English-language job titles and have redefined the group of staff with managerial duties. This project was conducted efficiently and successfully in co-operation with a renowned international firm of consultants. On the basis of workshops lasting several days the management positions – including those of the Executive Board – were also described in detail and evaluated. We have thus created the basis for classification, development planning and not least fair salary determination, while applying a high degree of objectivity and taking account of specific national factors. Not only that, we began to complement the skills appraisal of our managerial staff with bottom-up feedback. Last but not least, we refined our system of agreements on targets. We are now in a position to measure the performance of our staff on the basis of objective targets derived consistently from our corporate strategy.

Performance-orientated remuneration/stock option plan

The job evaluations have also created the basis for company-wide performance-orientated management remuneration, most notably including the launch of a stock option plan. The design of this stock option plan is "virtual", i.e. members of staff receive stock value participation rights which entitle the holder not to the award of shares but to payment of a corresponding cash amount. In this way, we link the interests of decision-makers in a sustained increase in the company's value with those of shareholders. At the same time, the Hannover Re Group offers its managerial staff internationally competitive remuneration components. These payment opportunities are of a long-term nature, closely tied to the company's overall performance and easily comprehensible in the context of a transparent system.

Human resources development / business game

For the purpose of training and fostering the development of both young and experienced managerial staff, we have introduced a business game, which simulates the complex correlations existing in the insurance markets. Participants are able to experience the market dynamics and consequences of management decisions interactively and "true to life". Following an intensive, highly successful test phase, we now use this business game worldwide and as a special service to our clients we also offer to use it for their own specific purposes.

Our human resources development programme also includes extensive internal and external training courses, the contents and goals of which are tailored to the results of staff interviews and needs analyses. Our managerial staff can receive coaching on a voluntary basis from seasoned trainers who work closely together in a coaching pool. We are thus able to exert a positive influence on the development of special skills, especially among younger executives. This is carried out on the job in concrete management and conflict situations, and is considerably more effective than the purely theoretical communication of management ABCs which can be gleaned from books.

We significantly stepped up our university marketing activities for the recruitment of qualified graduates and attend all the major "job fairs" in Germany. Furthermore, we have enjoyed great success with the qualification of certified insurance practitioners and are supporting the development and introduction of professional training in Lower Saxony.

New types of working arrangements/telecommuting

Workplace flexibility and individual management of working time are becoming increasingly important aspects of a successful human resources policy. The telecommuting pilot project, which we conducted in Hannover, produced very positive results and we shall therefore open up this facility for working "away from the office" to further members of staff.

Individual control of working hours creates organisational flexibility and a high level of adaptability to the time needs of our staff and our company – something which ultimately is to everyone's benefit. The various models of part-time working also play a major role in this regard. Long before the enactment of new legislation in Germany, we used such models to keep employees – especially our young and well-trained staff – in their working lives and give them an opportunity to combine their family and career.

Holistic concept of old-age provision

We contribute to the expenses incurred by our staff for old-age provision. In addition to the contributions to the statutory pension insurance scheme, we initiated a pension plan in Germany with effect from 1 July 2000 in the form of an insured provident fund for all members of staff. The company provides the full amount of the contributions according to a fixed scale.

We also assist employees by contributing to their own expenses for old-age provision. In foreign countries we participate in a similar way in local retirement pension models.

Word of gratitude to all our staff

We would like to take this opportunity to thank our members of staff for their considerable commitment and personal dedication. This is particularly true of the hospitality extended to our many guests from home and abroad who visited us during EXPO 2000. We would also like to express our appreciation to the labour council and the senior management committee for their constructive and trusting co-operation.

Outlook

High oil prices and interest rate increases by the US Federal Reserve and the European Central Bank have left their mark on anticipated developments in the global economy in 2001. On the financial markets the fear of recession is growing.

The development of the global economy is in turn crucially dependent on the economic trend in the USA. Just as in the past the US had fuelled growth in the light of progressive globalisation, its economic weakness is currently depressing the global economic cycle. The reduced sales and earnings prospects of American companies will probably have an adverse effect on company investments, and economic growth in the USA is therefore likely to be considerably smaller than in the previous year.

In Japan a new economic program is intended to halt the decline in public-sector investment, yet it is too early to speak of an economic recovery. In the developing markets of eastern and south-east Asia as well as South America the economic situation has improved markedly since the 1997/1998 financial crisis, but considerable structural problems nevertheless persist. The level of debt among businesses is too high in some areas, and price losses on the stock markets at the beginning of the year have caused the cost of capital for companies to rise. To make matters worse, in many developing markets the rise in oil prices has led to cuts in real income and a sharp deterioration in the balance of payments on current account.

In the countries belonging to the euro zone, economic growth – albeit on a more modest scale – in the second half of 2000 and the overall global economic environment have given rise to a mood of cautious optimism. Although the improvement in the euro will dampen the impetus for the export market, stimuli may derive from fiscal policy since several countries have cut taxes in 2001. Particularly in Germany, it is to be anticipated that the economy will benefit from the tax reduction. Bank base rates are unlikely to change significantly during the year, although depressed economic activity around the world may have an adverse effect on the currently strong level of exports.

The restrained forecasts also crucially determine the long-term growth expectations in property and casualty insurance, especially in the already largely saturated markets of the industrialised nations. Positive factors such as a greater need for security, the regional concentration of values and product innovations will not be sufficient to hold the promise of even high single-digit growth rates worldwide.

In property and casualty reinsurance the modestly favourable general climate will be further impaired by the fact that – due to ongoing concentration in the insurance market – the number of clients is steadily diminishing and ceding companies are growing in size and capital resources. This is leading to higher retentions and the increasing prevalence of non-proportional types of reinsurance, with a corresponding decline in premium volumes. On the other hand, the worldwide reinsurance capacity available for the coverage of natural catastrophes is by no means sufficient and thus continues to offer good opportunities. During the current year the extensive improvement in terms and conditions in important property and casualty reinsurance markets had almost exclusively positive repercussions, and given a normal major loss experience – i.e. slightly worse than the previous year – premiums and technical results are therefore likely to rise. What is more, there is every indication that the favourable trend will continue beyond 2001 and the next renewal season, and this may restore some appeal to markets which are currently still producing losses – such as the liability sector in the USA and motor business in Germany. As at the date of compilation of this report, the incidence of major claims and natural catastrophe losses was within "normal bounds". Nevertheless, our account has been burdened by the explosion and subsequent total loss of an oil-rig off the coast of Brazil as well as an earthquake in Central America and a railway accident in the United Kingdom.

In life and health reinsurance, the non-traditional business model of the "stochastic banker" – in other words, a concentration on our clients' overall financial situation – will continue to offer favourable opportunities in the coming years. This expectation is based, on the one hand, on the assumption that most primary markets for life and health insurance will generate strong growth and, on the other hand, on the forecast that the demand for reinsurance solutions will rise as companies strive to optimally deploy their capital resources. In addition, we are seeing a trend towards the transformation of large mutual societies into joint-stock corporations, giving rise to a much greater interest in individually tailored life and health reinsurance products.

A number of European markets, including Germany, Austria, Italy and Spain, have shifted the focus of their life insurance activities to the area of unit-linked life and annuity policies. We believe that we are superbly positioned in this segment. In the United Kingdom and France we also plan to enlarge our market position in the conventional and bankassurance segment. In the USA we intend to expand our status as a leading specialist reinsurer and here, too, we see particularly promising opportunities to generate profitable growth in the bancassurance sector. In the growth markets of Asia our focus is on China, Taiwan and Japan, and in this context we primarily seek to support insurance companies with local shareholders. Overall, we anticipate premium growth of 20-25% in life and health reinsurance for 2001, accompanied by a similar increase in results. In order to further enhance our client relations, we are in the process of developing our website (www.hannoverlife-re.com) to create a dynamic and interactive medium of communication. The new platform is to be implemented gradually in the second half of 2001 and the first half of 2002.

In financial reinsurance, the existing dependencies on property and casualty reinsurance are currently having positive repercussions. During periods of intense competition on the reinsurance markets large professional insurance companies, in particular, have exploited the situation and ceded risks which they could also have carried themselves purely from the risk management standpoint. However, now that the traditional risk transfer has become considerably more expensive again, the demand for more affordable innovative concepts with a limited risk transfer is also on the rise. We have substantially increased our available capacity and expect to follow on from the very strong growth in the previous year with further high rates of increase and a corresponding rise in profits in the current year. Our teams in Ireland and Germany will be reinforced in order to handle this sustained growth.

The Clarendon Insurance Group can again extend its market leadership in program business in the current year. We will be able to exploit capacity shortages caused by the withdrawal of insurers who in recent years suffered sizeable losses. New opportunities to acquire business at appreciably improved, attractive terms and conditions are opening up in Californian workers' compensation business and in some areas of commercial motor insurance. In the future the Clarendon Insurance Group can continue to benefit from the fact that – as a member of the Hannover Re Group – it enjoys a superior credit rating from the rating agencies, thereby enabling it to become the partner of choice in its business segment.

Our subsidiary Insurance Corporation of Hannover (ICH), based in Los Angeles and Chicago, is similarly planning to further expand its program business. In Europe – and also in selected regions around the world – the International Insurance Company of Hannover Ltd. (Inter Hannover) is expected to press ahead with the expansion of its program business model from its base in London. A state-of-the-art infrastructure has been established there and a professional team is in place to carry out this task from the second half of 2001 onwards.

On the basis of these expectations in our four strategic business segments, we anticipate further substantial double-digit growth in total gross premium income coupled with an appreciable improvement in technical results. Our investment income is by its very nature difficult to forecast. On the stock markets the initial sharp downslide in technology stocks is likely to be halted and a certain stability achieved. We do not anticipate any significant interest rate movements, and bond markets should thus continue to develop favourably. We therefore expect a marked decline in profits on disposals but a further rise in ordinary investment income, and overall it appears realistic to anticipate a slight decrease in net investment income.

The after-tax result will of course be impacted by the elimination of the special factor, which affected the previous year. For a number of years we have openly reported on our strategic objective of increasing the earnings per share by at least 10% annually. Since the two previous years constitute a distorted basis due to the massive tax effects, a consistent comparison can only be based upon the last "normal" financial statements, namely for the 1998 financial year. In the absence of extraordinary capital market strains or natural catastrophe losses, we currently anticipate that this profit target will be achieved.

In order to back the growth in our reinsurance portfolio with sufficient capital strength, we required additional risk capital. To this end, in the year under review we began to prepare the issue of a further subordinated loan (so-called hybrid capital) with a total volume of EUR 350 million. This loan was very successfully placed in March of the current year with a coupon of 6.25%, a figure which reflects the high credit rating of our company and further reduces our average capital costs.

Proposal for the distribution of profits

We intend to propose to the Annual General Meeting that the net income should be distributed as follows:

	EUR
Payment of a dividend of EUR 2.30 on each registered no-par value share fully paid-up for the entire year 2000	38 479 494.50
Payment of a bonus of EUR 0.25 on each registered no-par value share fully paid-up for the entire year 2000	4 182 553.75
Payment of a dividend of EUR 1.94 on each registered no-par value share fully paid-up in 2000 which was partially paid in the amount of 62.5% until 31 May 2000	15 520 000.00
Payment of a bonus of EUR 0.21 on each registered no-par value share fully paid-up in 2000 which was partially paid in the amount of 62.5% until 31 May 2000	1 680 000.00
Payment of a dividend of EUR 1.90 on each registered no-par value share fully paid-up in 2000 which was partially paid in the amount of 58.33% until 31 May 2000	9 120 000.00
Payment of a bonus of EUR 0.21 on each registered no-par value share fully paid-up in 2000 which was partially paid in the amount of 58.33% until 31 May 2000	1 008 000.00
Profit carried forward	109 951.75
	70 100 000.00

CONSOLIDATED BALANCE SHEET *as at 31 December 2000*

Assets *Figures in EUR thousand*	*Notes*	*2000*	*1999*
Fixed-income securities – held to maturity	5.1	267 031	258 414
Fixed-income securities – available for sale	5.1	6 518 580	6 307 706
Fixed-income securities – trading	5.1	40 869	–
Equity securities – available for sale	5.1	1 593 969	1 382 151
Real estate	5.1	228 540	223 735
Other invested assets	5.1	593 415	537 223
Short-term investments	5.1	475 849	708 592
Total investments without cash		9 718 253	9 417 821
Cash		482 262	437 266
Total investments and cash		10 200 515	9 855 087
Prepaid reinsurance premiums	5.2	823 915	686 185
Reinsurance recoverables on benefit reserve	5.2	254 696	240 720
Reinsurance recoverables on unpaid claims	5.2	3 532 690	2 896 441
Reinsurance recoverables on other reserves	5.2	6 392	–
Deferred acquisition costs	5.2	714 427	480 567
Accounts receivable		3 296 030	1 585 521
Funds held by ceding companies		3 995 706	2 955 629
Contract deposits	5.3	–	37 907
Goodwill	5.4	266 066	265 555
Other assets	5.13	275 591	225 110
Accrued interest and rent		131 574	126 094
		23 497 602	19 354 816

Liabilities *Figures in EUR thousand*	*Notes*	*2000*	*1999*
Loss and loss adjustment expense reserve	5.2	12 782 710	10 776 704
Policy benefits for life and health contracts	5.2	3 043 573	2 279 870
Unearned premium reserve	5.2	1 608 381	1 369 731
Provision for contingent commission	5.2	114 243	99 754
Other technical provisions	5.2	22 117	296
Reinsurance payable		1 378 184	570 536
Funds held under reinsurance treaties		817 609	719 511
Contract deposits		109 773	–
Minorities	5.9	294 134	294 800
Other liabilities	5.13	307 740	340 217
Taxes	5.5	171 955	168 065
Provision for deferred taxes	5.5	741 102	985 033
Notes payable	5.8	415 105	396 972
Surplus debenture	5.8	117 597	117 597
Total liabilities		21 924 223	18 119 086
Stockholders' equity			
Common stock	5.9	75 493	62 711
Nominal value 75 493 Authorised capital 20 767			
Additional paid-in capital		201 794	201 794
Cumulative comprehensive income			
Unrealised appreciation/depreciation of investments, net of deferred taxes	5.10	71 413	48 733
Cumulative foreign currency conversion adjustment, net of deferred taxes	5.10	(8 800)	19 137
Other changes in cumulative comprehensive income	5.10	864	2 955
Total comprehensive income		63 477	70 825
Treasury stock	5.11	–	(230)
Retained earnings			
Beginning of period		900 630	730 578
Net income		364 880	201 559
Dividend paid		(80 426)	(50 360)
Other changes		47 531	18 853
		1 232 615	900 630
Total stockholders' equity		1 573 379	1 235 730
		23 497 602	19 354 816

CONSOLIDATED STATEMENT OF INCOME *for the 2000 financial year*

Figures in EUR thousand	*Notes*	*2000*	*1999*
Gross written premiums		8 320 493	6 706 322
Ceded written premiums		3 016 514	2 551 553
Change in gross unearned premiums		(216 922)	(95 248)
Change in ceded unearned premiums		123 127	120 427
Net premiums earned		5 210 184	4 179 948
Ordinary investment income	5.1	798 947	624 943
Realised gains on investments	5.1	251 168	286 436
Realised losses on investments	5.1	70 524	69 121
Unrealised gains and losses on investments	5.1	(4 402)	35 483
Other investment expenses	5.1	106 509	49 588
Net investment income	5.1	868 680	828 153
Other technical income		18 704	9 255
Total revenues		6 097 568	5 017 356
Claims and claims expenses	5.2	4 467 863	2 972 609
Change in policy benefits for life and health contracts	5.2	37 494	496 124
Commission and brokerage	5.2	903 946	884 757
Other acquisition costs	5.2	17 627	17 948
Other technical expenses		71 468	66 387
Administrative expenses		179 675	146 109
Total technical expenses		5 678 073	4 583 934
Profit or loss on ordinary activities		419 495	433 422
Amortisation of goodwill	5.4	11 679	10 072
Other income/expenses	5.15	(103 540)	(93 416)
Net income before taxes		304 276	329 934
Taxes (tax yield in 2000)	5.5	129 025	80 267
Minority interest		(68 421)	(48 108)
Net income		364 880	201 559

Figures in EUR thousand	*Notes*	*2000*	*1999*
Other comprehensive income	5.10		
Net unrealised appreciation/depreciation of investments		22 680	(102 822)
Cumulative foreign currency conversion adjustments		(27 937)	42 196
Other comprehensive income		(2 091)	3 901
Net comprehensive income		357 532	144 834
Earnings per share	5.12		
Earnings per share in EUR		13.29	8.22
Diluted earnings per share in EUR		12.38	6.86

CASH FLOW STATEMENT *for the 2000 financial year*

Figures in EUR thousand	*2000*	*1999*
I. Cash flows from operating activities		
Consolidated net income (after tax)	364 880	201 559
Appreciation/depreciation	88 502	(1 441)
Net realised gains and losses on investments	(180 644)	(217 315)
Amortisation of investments	(10 925)	(24 930)
Changes in funds held	(897 298)	(34 732)
Changes in prepaid reinsurance premiums (net)	77 205	139 249
Changes in tax assets/provisions for taxes	(228 831)	(76 083)
Changes in benefit reserves (net)	679 796	323 944
Changes in claims reserves (net)	1 023 537	1 073 071
Changes in deferred acquisition costs	(220 218)	(48 007)
Changes in other technical provisions	20 883	(65 762)
Changes in clearing balances	(605 279)	–
Changes in other assets and liabilities (net)	(567 173)	(587 379)
Cash flows from operating activities	(455 565)	682 174

Income taxes paid (-)/refunded (+)	(95 269)	(97 116)
Interest paid	(96 205)	(24 827)

II. Cash flows from investing activities		
Fixed income securities – held to maturity		
Maturities	11 924	7 160
Purchases	(14 165)	(986)
Fixed income securities – available for sale		
Maturities, sales	1 803 328	2 552 561
Purchases	(1 766 656)	(2 760 916)
Equity securities – available for sale		
Sales	562 338	349 635
Purchases	(565 639)	(404 796)
Other invested assets		
Sales	306 625	95 760
Purchases	(419 630)	(88 719)
Affiliated companies and participating interests		
Sales	11 002	488
Acquisitions	(80 704)	(65 125)
Change in goodwill	1 934	(195 785)
Real estate		
Sales	–	12 209
Acquisitions	(7 148)	(20 161)
Short-term investments		
Changes	235 194	(367 571)
Other changes (net)	193 961	(54 060)
Cash flows from investing activities	272 364	(940 306)

Figures in EUR thousand	*2000*	*1999*
III. Cash flows from financing activities		
Changes in minority interest in capital	(2 657)	76 556
Changes in treasury stock	230	43
Inflows from capital increases	12 782	–
Net changes in contract deposits	168 850	(28 034)
Dividend paid	(80 426)	(50 360)
Changes in notes payable	(925)	387 111
Other changes	118 791	23 122
Cash flows from financing activities	216 645	408 438
IV. Exchange rate differences on cash	11 552	35 887
Change in cash and cash equivalents (I.+II.+III.+IV.)	44 996	186 193
Cash and cash equivalents at the beginning of the period	437 266	251 073
Change in cash and cash equivalents according to cash flow statement	44 996	186 193
Cash and cash equivalents at the end of the period	482 262	437 266

In the following table we have allocated the underwriting assets and liabilities as at 31 December 2000 and 1999 to our business segments after eliminating intergroup transactions across segments:

Segmentation of underwriting assets and liabilities

Figures in EUR thousand	*Property/ casualty reinsurance 2000*	*Property/ casualty reinsurance 1999*	*Life/ health reinsurance 2000*	*Life/ health reinsurance 1999*
Assets				
Prepaid reinsurance premiums	112 460	104 013	359	6 140
Deferred acquisition costs (net)	135 330	127 901	577 863	350 985
Reinsurance recoverables on benefit reserves	–	–	254 696	240 720
Reinsurance recoverables on incurred claims and others	1 329 943	1 213 704	195 144	287 826
Funds held by ceding companies	301 436	407 607	1 887 236	1 593 611
Total underwriting assets	1 879 169	1 853 225	2 915 298	2 479 282
Liabilities				
Loss and loss adjustment expense reserve	7 497 745	7 029 864	952 999	1 035 114
Policy benefits for life and health contracts	–	–	3 043 573	2 279 870
Unearned premium reserve	701 855	637 245	4 723	27 043
Other technical provisions	121 977	862	6 680	2 712
Funds held under reinsurance treaties	403 926	292 965	347 076	325 159
Total underwriting liabilities	8 725 503	7 960 936	4 355 051	3 669 898

Program business 2000	Program business 1999	Financial reinsurance 2000	Financial reinsurance 1999	Total 2000	Total 1999
673 482	569 051	37 614	6 981	823 915	686 185
(262)	–	1 496	1 681	714 427	480 567
–	–	–	–	254 696	240 720
1 876 231	1 267 133	137 764	127 778	3 539 082	2 896 441
63 159	1 233	1 743 875	953 178	3 995 706	2 955 629
2 612 610	1 837 417	1 920 749	1 089 618	9 327 826	7 259 542
2 175 503	1 439 959	2 156 463	1 271 767	12 782 710	10 776 704
–	–	–	–	3 043 573	2 279 870
792 972	635 176	108 831	70 267	1 608 381	1 369 731
–	–	7 703	96 476	136 360	100 050
8 040	55 960	58 567	45 427	817 609	719 511
2 976 515	2 131 095	2 331 564	1 483 937	18 388 633	15 245 866

Segmental statement of income

Figures in EUR thousand	*Property/ casualty reinsurance 2000*	*Property/ casualty reinsurance 1999*	*Life/ health reinsurance 2000*	*Life/ health reinsurance 1999*
Gross written premiums	3 385 386	2 613 578	2 090 506	2 220 364
Net premiums earned	2 524 439	2 068 862	1 592 297	1 484 982
Claims and claims expenses	2 033 826	1 831 150	1 209 010	727 990
Change in policy benefits for life and health contracts	–	–	(37 494)	(496 124)
Commission and brokerage and other technical expenses	625 844	401 296	424 602	391 054
Other technical income	4 323	313	13 949	8 842
Investment income	471 930	525 714	204 347	217 437
Administrative expenses	75 444	65 193	56 869	49 668
Net technical and investment income	265 578	297 250	82 618	46 425
Other expenses	45 851	63 353	51 720	23 450
Net income before tax	219 727	233 897	30 898	22 975
Taxes (tax yield)	(108 729)	73 065	(27 658)	(7 179)
Minority interest	(61 943)	(32 868)	(4 624)	(8 470)
Net income	266 513	127 964	53 932	21 684

Program business 2000	Program business 1999	Financial reinsurance 2000	Financial reinsurance 1999	Total 2000	Total 1999
1 974 407	1 363 735	870 194	508 645	8 320 493	6 706 322
292 699	163 473	800 749	462 631	5 210 184	4 179 948
261 809	128 682	963 218	284 787	4 467 863	2 972 609
–	–	–	–	(37 494)	(496 124)
(4 365)	(33 821)	(53 040)	210 563	993 041	969 092
–	–	432	100	18 704	9 255
24 682	9 932	167 721	75 070	868 680	828 153
42 686	26 689	4 676	4 559	179 675	146 109
17 251	51 855	54 048	37 892	419 495	433 422
14 650	24 189	2 998	(7 504)	115 219	103 488
2 601	27 666	51 050	45 396	304 276	329 934
3 394	10 315	3 968	4 066	(129 025)	80 267
3 902	(1 576)	(5 756)	(5 194)	(68 421)	(48 108)
3 109	15 775	41 326	36 136	364 880	201 559

Contents

1. General accounting principles

The parent company of Hannover Rückversicherungs-Aktiengesellschaft (Hannover Re) is HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI). HDI is obliged to prepare consolidated annual accounts in accordance with §§ 341 i et seq. of the German Commercial Code (HGB). The annual financial statements of Hannover Re and its subsidiaries are included in these consolidated annual accounts. We have prepared our own consolidated financial statement, although there is no legal obligation to do so, in order to show the activities of the Hannover Re Group.

The consolidated financial statement of Hannover Re has been drawn up fully in accordance with United States Generally Accepted Accounting Principles (US GAAP).

In the consolidated financial statement and the individual companies' financial statements it is to some extent necessary to make estimates and assumptions which affect the assets and liabilities shown in the balance sheet and the disclosure of income and expenses during the reporting period. The actual amounts may diverge from the estimated amounts.

2. Accounting principles including reporting and valuation methods

The annual financial statements included in the consolidated financial statement were drawn up as at 31 December.

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 US GAAP in accordance with standard Group accounting and valuation rules.

3. Consolidated companies and consolidation principles

Consolidated companies

Hannover Re is the parent company of the Group. The consolidated financial statement includes three German and fourteen foreign companies, as well as two foreign consolidated entities. One consolidated entity (Hannover Finance, Inc.) was acquired in the previous year and therefore included in the consolidated financial statement for the first time in 1999. Two German and three foreign companies were consolidated using the equity basis of accounting. One German company is no longer part of the Group and was therefore consolidated for the last time.

The following companies are included in the consolidated financial statement:

Name and registered office of the company	Participation in %
Companies resident in Germany	
E+S Rückversicherungs-AG, Hannover/Germany	50.1
GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG-Grundstücksgesellschaft, Hannover/Germany	67.5

Name and registered office of the company	*Participation in %*
HDI Immobilienfonds Nr. 4 Nürnberg Bucher KG, Munich/Germany	99.8
Companies resident abroad	
Hannover Life Reassurance Company of America, Orlando/USA	100.0
Insurance Corporation of Hannover, Chicago/USA	100.0
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland	100.0
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland	50.1
Hannover Life Reassurance (Ireland) Ltd., Dublin/Ireland	100.0
Hannover Re Advanced Solutions Ltd., Dublin/Ireland	50.0
Hannover Life Re of Australasia Ltd, Sydney/Australia	75.0
Hannover Finance (UK) Limited, Virginia Water/UK	100.0
Hannover Life Reassurance (UK) Ltd., Virginia Water/UK	100.0
International Insurance Company of Hannover Ltd., Virginia Water/UK	100.0
Hannover Services (UK) Ltd., Virginia Water/UK	100.0
Hannover Re Sweden Insurance Company Ltd., Stockholm/Sweden	100.0
Hannover Re Real Estate Holdings, Inc., Orlando/USA	93.3
Penates A, Ltd., Tortola/British Virgin Islands	84.3
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	96.9
Hannover Reinsurance Group Africa compiles its own sub-group financial statement, including the following major companies in which it holds the following shares:	
Hannover Reinsurance Africa Ltd., Johannesburg/South Africa	100.0
Hannover Life Reassurance Africa Ltd., Johannesburg/South Africa	100.0
Hannover Reinsurance Mauritius Ltd., Port Louis/Mauritius	100.0
Lireas Holdings (Pty) Ltd., Johannesburg/South Africa	100.0
Hannover Finance, Inc., Wilmington/USA	90.0
Hannover Finance, Inc. compiles its own sub-group financial statement, including the following major companies in which it holds the following shares:	
Clarendon National Insurance Company, Trenton/USA	100.0
Clarendon America Insurance Company, Trenton/USA	100.0
Clarendon Select Insurance Company, Tallahassee/USA	100.0
Harbor Specialty Insurance Company, Trenton/USA	100.0
Lion Insurance Company, Tallahassee/USA	100.0
Redland Insurance Company, Council Bluffs/USA	100.0
Associated Companies	
Resident in Germany	
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany	37.5
HANNOVER Finanz GmbH Beteiligungen und Kapitalanlagen, Hannover/Germany	25.0
Resident abroad	
WPG Corporate Development Associates IV (Overseas), L.L.C., Grand Cayman/Cayman Islands	26.2
ITAS Assicurazioni SpA, Trient/Italy	43.7
ITAS Vita SpA, Trient/Italy	43.7

A complete list of shares in affiliated companies and participations has been drawn up separately and deposited with the Commercial Register (Hannover HRB 6778).

Capital consolidation

The capital consolidation is based upon the "purchase accounting" method (comparable to the German revaluation method). The purchase costs of the parent company have been netted with the proportionate stockholders' equity of the subsidiary at the time when it was first included in the consolidated financial statement after the revaluation of all assets and liabilities. The difference between the revalued stockholders' equity of the subsidiary and the purchase price is shown in the assets as goodwill and depreciated at a constant rate over the expected useful life. The anticipated useful life is between 15 and 40 years. Immaterial and negative goodwill were booked to earnings in the year of their occurrence. Where minority interests in the stockholders' equity exist, such interests are shown under other liabilities. The minority interest in the result is deducted from the net income in the statement of income and totalled EUR 68.421 million (previous year: EUR 48.108 million) in the 2000 financial year.

Debt consolidation

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

Consolidation of expenses and profits

Expenses and profits within the Group were offset against each other and interim results were eliminated.

4. Acquisitions

Redland Insurance Company

Effective 1 July 2000, Clarendon National Insurance, Trenton, a company belonging to the sub-group of Hannover Finance Inc., New York, acquired all the shares of Redland Insurance Company, Iowa, USA (433,344 shares) for a purchase price of USD 10.9 million. In common with the other companies belonging to the Hannover Finance sub-group, this company transacts program business. The acquisition of the company complements our range of products and services for this segment. The premium volume is in the order of USD 100.0 million.

Hannover Reinsurance Group Africa

Effective 17 April and 29 June 2000, Hannover Re increased its 70% participation to 96.9%. The remaining shares are held by the company's executive staff. In total, 2,745,600 ordinary shares were acquired for a purchase price of ZAR 171.1 million from Rand Merchant Bank, Johannesburg/South Africa and Veritas Rückversicherung, Zug/Switzerland. Following the transfer last year of Hannover Re's portfolio of African business to the former Hollandia Reinsurance Group in the context of a capital increase, business activities in southern Africa have been concentrated on this organisational unit. With effect from 1 January 2000 it has traded under the name Hannover Reinsurance Group Africa (Pty) Ltd. The provision of local service for clients optimises the quality of our consulting and enables us to tap into synergistic potentials.

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

5.1 Investments including income and expenses

Investments were valued in accordance with SFAS 115 (accounting for certain investments in debt and equity securities). The allocation and valuation of investments are guided by the investment intent.

Fixed-income securities classified as held to maturity are valued at purchase costs plus/minus amortised cost. The amortised cost derive from the difference between the nominal value and purchase cost and they are spread over the time to maturity of the fixed-income securities.

Fixed-income securities classified as available for sale are valued at fair value. The difference between the fair value and amortised cost is booked to other comprehensive income.

Trading securities are valued at fair value. The difference between the fair value and amortised cost is recognised within the statement of income.

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

The other investments primarily consist of shares in private equity limited partnerships.

The amortised cost and the unrealised gains and losses on the portfolio of investments classified as held to maturity were as follows:

2000 *Figures in EUR thousand*	*Cost or amortised cost*	*Unrealised gains*	*Unrealised losses*	*Fair value*
Investments held to maturity				
Fixed-income securities				
US Treasury Notes	33 730	806	–	34 536
Other foreign government debt securities	2 188	22	–	2 210
Corporate securities	168 386	6 551	437	174 500
Asset-backed securities	55 986	3 369	–	59 355
Other securities	6 741	22	–	6 763
Total	267 031	10 770	437	277 364

1999 *Figures in EUR thousand*	*Cost or amortised cost*	*Unrealised gains*	*Unrealised losses*	*Fair value*
Investments held to maturity				
Fixed-income securities				
US Treasury Notes	40 467	311	668	40 110
Other foreign government debt securities	2 046	–	31	2 015
Corporate securities	155 703	19 788	188	175 303
Asset-backed securities	55 944	3 482	–	59 426
Other securities	4 254	–	165	4 089
Total	258 414	23 581	1 052	280 943

The contractual maturities of the fixed-income securities in the held-to-maturity portfolio, available-for-sale portfolio and trading portfolio were as follows as at the balance sheets dates of 31 December 2000 and 1999:

Figures in EUR thousand	*2000* *Cost or amortised cost*	*2000* *Estimated fair value*	*1999* *Cost or amortised cost*	*1999* *Estimated fair value*
Held-to-maturity				
Due in one year	13 623	13 640	9 783	9 793
Due after one through five years	162 949	167 962	119 166	123 649
Due after five years through ten years	84 007	89 010	120 455	126 590
Due after ten years	6 452	6 752	9 010	20 911
Total	267 031	277 364	258 414	280 943
Available-for-sale				
Due in one year	920 887	907 266	691 700	692 095
Due after one through five years	2 720 974	2 779 964	2 942 742	2 957 905
Due after five years through ten years	1 350 009	1 371 195	1 355 413	1 328 716
Due after ten years	1 450 673	1 460 155	1 391 469	1 328 990
Total	6 442 543	6 518 580	6 381 324	6 307 706
Trading				
Due after five years through ten years	45 251	40 869	–	–
Total	45 251	40 869	–	–

The actual 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.

The amortised cost and the unrealised gains and losses on the portfolios of investments classified as available for sale and trading were as follows:

2000 *Figures in EUR thousand*	*Cost or amortised cost*	*Unrealised* *gains*	*Unrealised* *losses*	*Fair value*
Available-for-sale				
Fixed-income securities				
Government debt securities of EU member states	756 390	18 464	403	774 451
US Treasury Notes	1 016 210	27 891	1 467	1 042 634
Other foreign government debt securities	327 667	4 380	2 287	329 760
Corporate securities	2 643 204	47 773	34 101	2 656 876
Asset-backed securities	707 007	9 979	7 831	709 155
From investment funds	911 061	11 803	–	922 864
Other securities	81 004	2 756	920	82 840
	6 442 543	123 046	47 009	6 518 580
Dividend-bearing securities				
Equities	477 143	71 117	22 402	525 858
From investment funds	1 097 088	463	37 476	1 060 075
Other dividend-bearing securities	4 255	3 781	–	8 036
	1 578 486	75 361	59 878	1 593 969
Short-term investments	475 850	–	1	475 849
Total	8 496 879	198 407	106 888	8 588 398
Trading				
Fixed-income securities				
Corporate securities	45 251	–	4 382	40 869
Total	45 251	–	4 382	40 869

1999 *Figures in EUR thousand*	*Cost or amortised cost*	*Unrealised gains*	*Unrealised losses*	*Fair value*
Available-for-sale				
Fixed-income securities				
Government debt securities of EU member states	770 228	14 805	4 219	780 814
US Treasury Notes	912 917	3 850	11 229	905 538
Other foreign government debt securities	261 994	1 588	10 142	253 440
Corporate securities	2 675 861	34 800	56 022	2 654 639
Asset-backed securities	818 199	6 747	18 089	806 857
From investment funds	858 312	–	37 987	820 325
Other securities	83 813	2 423	143	86 093
	6 381 324	64 213	137 831	6 307 706
Dividend-bearing securities				
Equities	185 999	87 001	8 302	264 698
From investment funds	1 014 418	80 995	–	1 095 413
Other dividend-bearing securities	12 561	9 479	–	22 040
	1 212 978	177 475	8 302	1 382 151
Short-term investments	708 551	48	7	708 592
Total	8 302 853	241 736	146 140	8 398 449
Trading				
Fixed-income securities				
Corporate securities	–	–	–	–
Total	–	–	–	–

The following table shows the investment income:

Figures in EUR thousand	*2000*	*1999*
Real estate	22 204	20 390
Dividends	82 408	37 997
Ordinary investment income on fixed-income securities	433 745	435 865
Other income	260 590	130 691
Ordinary investment income	798 947	624 943
Realised gains on investments	251 168	286 436
Realised losses from investments	70 524	69 121
Unrealised gains and losses	(4 402)	35 483
Other investment expenses	106 509	49 588
Total investment income	868 680	828 153

Valuation adjustments gave rise to increased write-downs in the year under review which are allocated to the other investment expenses.

Rating structure of investments

2000 *Figures in EUR thousand*	*AAA*	*AA*	*A*	*BBB*	*BB*	*B*	*C*	*Other*	*Total*
Fixed-income securities – held-to-maturity	185 612	64 272	10 853	5 438	856	–	–	–	267 031
Fixed-income securities – available-for-sale	3 369 539	877 367	713 019	154 992	44 377	52 948	136	1 306 202	6 518 580
Fixed-income securities – trading	–	–	–	–	–	–	–	40 869	40 869
Equity securities – available-for-sale	51 876	–	57 201	23 260	2 290	8 820	992	1 449 530	1 593 969
Other invested assets	250	–	87	–	–	–	–	821 618	821 955
Short-term investments, cash	64 258	85 812	14 380	–	–	–	–	793 661	958 111
Total investments and cash	3 671 535	1 027 451	795 540	183 690	47 523	61 768	1 128	4 411 880	10 200 515

1999 *Figures in EUR thousand*	*AAA*	*AA*	*A*	*BBB*	*BB*	*B*	*C*	*Other*	*Total*
Fixed-income securities – held-to-maturity	188 944	50 139	16 956	2 375	–	–	–	–	258 414
Fixed-income securities – available-for-sale	3 442 803	792 603	760 459	149 848	34 068	75 312	2 134	1 050 479	6 307 706
Equity securities – available-for-sale	39 848	3 903	55 063	22 743	–	11 490	–	1 249 104	1 382 151
Other invested assets	271	–	127	–	–	2 331	–	758 229	760 958
Short-term investments, cash	110 681	131 707	66 475	–	–	–	–	836 995	1 145 858
Total investments and cash	3 782 547	978 352	899 080	174 966	34 068	89 133	2 134	3 894 807	9 855 087

Investments were held in the following currencies:

2000 *Figures in EUR thousand*	*AUD*	*GBP*	*JPY*	*CAD*	*EUR*	*ZAR*	*USD*	*Other*	*Total*
Fixed-income securities – held-to-maturity	–	–	–	–	215 163	–	51 868	–	267 031
Fixed-income securities – available-for-sale	352 835	610 788	68 172	163 005	2 491 153	7 732	2 724 523	100 372	6 518 580
Fixed-income securities – trading	–	–	–	–	–	–	40 869	–	40 869
Equity securities – available-for-sale	38 526	48 700	2 020	2 743	782 562	71 251	607 607	40 560	1 593 969
Other invested assets	87	8 516	5 110	–	384 836	9 536	410 347	3 523	821 955
Short-term investments, cash	136 781	80 564	19 470	12 272	158 834	38 072	457 426	54 692	958 111
Total investments and cash	528 229	748 568	94 772	178 020	4 032 548	126 591	4 292 640	199 147	10 200 515

1999 *Figures in EUR thousand*	*AUD*	*GBP*	*JPY*	*CAD*	*EUR*	*ZAR*	*USD*	*Other*	*Total*
Fixed-income securities – held-to-maturity	–	–	–	–	213 008	–	45 406	–	258 414
Fixed-income securities – available-for-sale	340 609	499 613	16 758	137 012	2 677 363	30 239	2 462 145	143 967	6 307 706
Equity securities – available-for-sale	10 711	69 528	–	1 206	646 087	60 404	545 265	48 950	1 382 151
Other invested assets	122	9 310	2 194	–	377 239	2 370	366 802	2 921	760 958
Short-term investments, cash	92 049	71 137	41 757	15 040	325 803	55 219	422 263	122 590	1 145 858
Total investments and cash	443 491	649 588	60 709	153 258	4 239 500	148 232	3 841 881	318 428	9 855 087

Real estate

Real estate is divided into real estate for own use and third-party use. 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.

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

Figures in EUR thousand	*2000*	*1999*
Real estate	228 540	223 735
Own-use real estate (other assets)	46 964	48 838

Cash equivalents

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

Securitisation of reinsurance risks

The portfolio of investments includes securities whose returns are dependent on the occurrence of defined natural catastrophe events. Interest on these securities is calculated using the retrospective interest method.

5.2 Underwriting assets and liabilities

Underwriting assets

The retrocessionaires' portions of the technical provisions are recorded in accordance with the contractual agreements of the underlying reinsurance treaties.

Contrary to German accounting requirements, 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 premiums.

In the case of property and casualty reinsurance, acquisition costs directly connected with the acquisition or renewal of treaties are deferred and amortised in line with the unearned portion of the premiums. In life and health reinsurance, the capitalised acquisition costs under life and annuity policies with regular premium payments are determined in the light of the period of the contracts, the expected surrenders, the lapse expectancies and the anticipated interest income. In the case of annuity policies with a single premium payment, these values are determined in relation to the expected policy period or period of annuity payment.

Overall, the deferred acquisition costs developed as follows in the year under review:

Figures in EUR thousand	*2000*	*1999*
Balance as at 1 January	480 567	415 307
Currency exchange rate differences	650	30 350
	481 217	445 657
Changes	233 605	33 769
Currency exchange rate differences between valuation at the average rate and the year-end rate	(395)	1 141
Balance as at 31 December	714 427	480 567

Technical provisions

The loss and loss adjustment expense reserves are in principle calculated on the basis of the information supplied by ceding companies. IBNR reserves are also included. 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 future development. In one subsegment of financial reinsurance technical provisions were discounted at interest rates of between 6.5% and 8.6%. The interest rates are determined by the contractual agreements. These treaties are discounted over a period of at least four years, which represents the period from inception to expiry of the respective contracts. The discounted amount totals EUR 675.9 million. As at year-end 2000 the discounted provisions amounted to EUR 1,760.3 million.

A claims accumulation system has been set up to monitor our overall risk, particularly in the USA. As at year-end 2000 we recorded the following additional provisions on the basis of this data:

Figures in USD million	*Gross*	*Net*
Asbestosis	55 239	52 982
Pollution damage	75 873	50 296

Projections and calculations make allowance for all foreseeable risks and are constantly adjusted in line with the latest information. Management believes that the provisions are adequate to cover the ultimate gross cost of losses and loss expenses incurred as at 31 December 2000.

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.

Figures in EUR thousand	*2000*	*1999*
Reserve as at 31 December of previous year (gross)	10 776 704	7 583 531
Reserve as at 31 December of previous year (retro)	2 896 441	1 060 336
Reserve as at 31 December of previous year (net)	7 880 263	6 523 195
Effects of currency conversion as at 1 January of year under review	303 350	890 641
Net reserve as at 1 January of year under review	8 183 613	7 413 836
Incurred claims and claim expenses		
Year under review	3 518 106	2 469 437
Previous years	949 757	503 172
	4 467 863	2 972 609
Less:		
Claims and claims expenses paid		
Year under review	534 475	740 302
Previous years	2 741 273	1 818 115
	3 275 748	2 558 417
Effects of currency conversion at exchange rates on 31 December of year under review (net)	(125 708)	52 235
Reserve as at 31 December of year under review (net)	9 250 020	7 880 263
Reserve as at 31 December of year under review (retro)	3 532 690	2 896 441
Reserve as at 31 December of year under review (gross)	12 782 710	10 776 704

Policy benefits for life and health contracts 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.

Unearned premiums derive from the deferral of ceded reinsurance premiums. They are geared to the period during which the risk is carried and were established in accordance with the information supplied by ceding companies. In cases where no information was received, the unearned premiums were estimated using suitable methods. Premiums paid for periods subsequent to the date of the balance sheet were deferred from recognition within the statement of income.

5.3 Contracts with no 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. Contracts allocated to the life and health reinsurance segment were merely brought to account in the amount of the fees accruing to the reinsurer from the ceding company. Contracts allocated to the other segments were eliminated in full from the technical account. The profit components were netted under other income and expenses. Technical amounts were shown as contract deposits on the assets and liabilities sides.

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

The development of goodwill is shown in the following table:

Figures in EUR thousand	*2000*	*1999*
Goodwill net as at 1 January	265 555	57 900
Currency exchange rate differences	14 124	–
	279 679	57 900
Additions	21 899	217 727
Deductions	23 833	–
Amortisation	11 679	10 072
Goodwill net as at 31 December	266 066	265 555

The primary factor here was the goodwill added as a result of the increases in the participation in Hannover Reinsurance Group Africa (Pty) Ltd.

The present value of future profits (PVFP) on acquired life reinsurance portfolios developed as follows in the year under review:

Figures in EUR thousand	*2000*	*1999*
Balance as at 1 January	23 253	25 450
Currency exchange rate differences	(102)	1 043
	23 151	26 493
Additions	1 207	1 382
Amortisation	4 949	4 622
Balance as at 31 December	19 409	23 253

The period of amortisation on acquired portfolios varies between 5.5 and 15 years.

5.5 Taxes and deferred taxes

Deferred tax assets and liabilities are booked in accordance with SFAS 109 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 assessed using 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 published. Deferred taxes at the Group level are booked using the Group tax rate of 40% (53%).

The deferred tax assets and deferred tax liabilities of all Group companies are summarised in the following table:

Figures in EUR thousand	*2000*	*1999*
Deferred tax assets		
Tax loss carry-forwards	56 347	42 338
Valuation differences arising out of leasing agreements	–	35 530
Valuation differences arising out of property and casualty reinsurance	83 935	88 031
Valuation differences arising out of the portfolio of life and health reinsurance	–	85 369
Other technical revaluations	14 577	4 565
Valuation differences relating to investments	1 595	14 657
Other valuation differences	13 977	34 816
Total	170 431	305 306
Deferred tax liabilities		
Valuation differences arising out of leasing agreements	–	25 213
Valuation differences arising out of property and casualty reinsurance	34 854	15 162
Change in the equalisation reserve	433 739	542 579
Valuation differences arising out of the portfolio of life and health reinsurance	189 091	251 826
Valuation differences relating to investments and other valuation differences	233 185	416 156
Other revaluations	20 664	39 403
Total	911 533	1 290 339
Deferred tax liabilities	741 102	985 033

The following table illustrates the reconciliation of the expected expense for income taxes with the actual provision for income taxes:

Figures in EUR thousand	*2000*	*1999*
Profit before income taxes, extraordinary profit components and minority interests	304 276	329 934
Expected tax rate	0.53	0.53
Expected expense for income taxes	161 266	173 724
Tax levied on distributions	(13 021)	(7 986)
Reduction of deferred taxes	(218 780)	(79 738)
Taxation differences affecting foreign subsidiaries	(46 765)	(42 700)
Other	(11 725)	36 967
Actual provision for income taxes	(129 025)	80 267

5.6 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 1,525 (1,518). Of this number, 661 were employed in Germany in the year under review. The other staff were employed at the consolidated Group companies abroad.

Personnel information	*Average in 1999*	*31.3.2000*	*30.6.2000*	*30.9.2000*	*31.12.2000*	*Average in 2000*
Number of employees (excluding board members)	1 518	1 526	1 521	1 526	1 528	1 525

Nationality of employees	*German*	*US*	*UK*	*South African*	*Irish*	*Other*	*Total*
Number of employees	601	419	47	160	9	292	1 528

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	*2000*	*1999*
a) Wages and salaries		
aa) Expenditures on insurance business	76 262	65 841
ab) Expenditures on the administration of investments	4 433	3 204
	80 695	69 045
b) Social security contributions and expenditure on provisions and assistance		
ba) Social security contributions	8 162	5 988
bb) Expenditures for pension provision	5 475	2 818
bc) Expenditures for assistance	1 338	15
	14 975	8 821
Total	95 670	77 866

5.7 Provisions for pensions and similar liabilities

Pension commitments were given in accordance with the pension plan. The 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 was closed as at 31 March 1999.

In addition to these two 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.

Additional similar obligations based upon length of service exist in Asian countries.

Provisions for pensions are established in accordance with SFAS 87 (employers' accounting for pensions) using the only method permitted for this purpose – the projected unit credit method. 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.

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:

- Discount rate 6.0% to 7.5%
- Rate of compensation increase 3.5% to 5.5%
- Indexation 4.5% (every three years)

The commitments to employees in Germany comprise commitments financed by the Group companies. The pension plans are unfunded. Amounts carried as liabilities are shown as other liabilities.

Provisions for pensions in accordance with SFAS 132 developed as follows:

Figures in EUR thousand	*2000*	*1999*
Change in benefit obligation		
Projected benefit obligation at the beginning of the period	37 317	34 926
Service cost	2 992	1 973
Interest cost	2 484	2 085
Actuarial gains/losses in the reporting year	91	(756)
Contributions by employees	525	–
Benefits paid during the year	(961)	(911)
Business combinations, divestitures and other activities	2 913	–
	45 361	37 317
Fair value of plan assets		
Balance at the beginning of the period	–	–
Business combinations, divestitures and other activities	3 352	–
Return on plan assets	(343)	–
Employer's contributions	420	–
Benefits paid	(4)	–
	3 425	–
Funded status of plan		
Unrecognised net obligation	1 474	1 931
Unrecognised actuarial loss	365	769
Unamortised prior service cost	669	–
	2 508	2 700
Accrued pension liability	39 428	34 617
Additional minimum liability		
Net periodic pension cost of the year		
Service cost		
Year under review	2 992	1 973
Amortisation for previous years	22	–
Interest cost	2 484	2 085
Expected return on plan assets	(277)	–
Recognised net actuarial loss	(20)	13
Amortisation of net obligation	457	457
Total	5 658	4 528

5.8 Loans and surplus debenture

Loans

On 31 March 1999 Hannover Finance issued a floating-rate debt 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.

The capitalised issuance costs for this loan total USD 1.8 million and will be amortised over the loan term.

In order to hedge against the risk of interest rate changes associated with this loan, the issuing 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.

The interest rate arising after allowance is made for the interest rate swap amounts to an annual average rate of 6.69% until 31 March 2009.

Surplus debenture (Genussrechtskapital)

On 2 November 1993 Hannover Re and E+S Rück issued surplus debentures in the amount of EUR 76.7 million at an interest rate of 7.55% and in the amount of EUR 40.9 million at an interest rate of 7.75%. Repayment is due in full on 2 November 2004.

In the event that interest incurred in connection with servicing the surplus debenture should in future no longer be deductible in Germany for the purpose of calculating taxable income, a right of premature repayment exists. Interest payments and repayment of the nominal amounts are dependent on the company's results. In the event of insolvency, the participating rights are serviced before the stockholders and after the claims of creditors.

Surplus debenture is shown as a liability with the amount repayable.

Other financial facilities

In order to protect against possible future major losses, Hannover Re took out a new credit line of EUR 250 million in 2000 in the form of a syndicated loan; this replaced the facility in the amount of DM 250 million which became due in November 2000. The facility has a term of five years and is due in November 2005. E+S Rück has a credit line of EUR 40 million, which is extended on a half-yearly basis and can be drawn on as required.

5.9 Stockholders' equity and minority interests

The stockholders' equity is shown as a separate component of the financial statement and is in accordance with SFAS 130 (reporting of comprehensive income). The stockholders' 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 which do not impact the statement of income.

The equity of the Group's parent company, Hannover Rückversicherungs-AG, was fully paid up in the financial year on 31 May 2000.

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

Authorised capital of EUR 0.8 million is available for the issue of employee shares until 31 August 2002.

In addition, authorised but unissued capital of EUR 20.0 million is available until 1 July 2004.

On 20 July 2000 the Annual General Meeting of Hannover Rückversicherungs-AG resolved that the bearer shares still existing at that date should be replaced with registered shares. The changeover was completed in the year under review.

Consolidated statement of changes in stockholders' equity

2000 Figures in EUR thousand	*Balance as at 1 January*	*Capital increase / additions*	*Change in the current period less deferred taxes*	*Change in retained earnings*	*Group stock-holders' equity*	*Minority interests*	*Group stock-holders' equity incl. minority interests*
Common stock	62 711	12 782	–	–	75 493	15 590	91 083
Additional paid-in capital	201 794	–	–	–	201 794	24 508	226 302
Other comprehensive income	70 825	–	(7 348)	–	63 477	8 746	72 223
Treasury stock	(230)	230	–	–	–	–	–
Retained earnings	900 630	–	–	–	900 630	152 415	1 053 045
Currency exchange rate differences	–	–	–	15 746	15 746	5 771	21 517
Net income	–	–	–	364 880	364 880	68 405	433 285
Dividends paid	–	–	–	(80 426)	(80 426)	18 699	(61 727)
Other changes	–	–	–	31 785	31 785	–	31 785
Total	1 235 730	13 012	(7 348)	331 985	1 573 379	294 134	1 867 513

1999 Figures in EUR thousand	*Balance as at 1 January*	*Capital increase / additions*	*Change in the current period less deferred taxes*	*Change in retained earnings*	*Group stock-holders' equity*	*Minority interests*	*Group stock-holders' equity incl. minority interests*
Common stock	62 711	–	–	–	62 711	35 704	98 415
Additional paid-in capital	201 794	–	–	–	201 794	43 325	245 119
Other comprehensive income	127 550	–	(56 725)	–	70 825	21 110	91 935
Treasury stock	(272)	42	–	–	(230)	–	(230)
Retained earnings	730 578	–	–	–	730 578	146 553	877 131
Net income	–	–	–	201 559	201 559	48 108	249 667
Dividends paid	–	–	–	(50 360)	(50 360)	–	(50 360)
Other changes	–	–	–	18 853	18 853		18 853
Total	1 122 361	42	(56 725)	170 052	1 235 730	294 800	1 530 530

The other changes relate primarily to currency exchange rate differences deriving from the conversion of the stockholders' equity using historic exchange rates and the rates on the reporting dates.

5.10 Comprehensive income

The other comprehensive income increased by EUR 18.7 million in the year under review due to the reduction in the deferred tax rates for German operations. Overall, comprehensive income fell by 10% after deduction of deferred taxes. This decrease was primarily attributable to the lower comprehensive income resulting from currency conversion.

5.11 Treasury stock

By a resolution of the Annual General Meeting of Hannover Rückversicherungs-AG adopted on 30 July 1999, the company was authorised until 31 December 2000 to acquire treasury stock of up to 10% of the capital stock existing on the date of the resolution. The company did not hold treasury stock as at the balance sheet date, nor does it hold treasury stock at the current time.

5.12 Earnings per share

The basic earnings per share and the fully diluted earnings per share shown in the statement of income are calculated as follows on the basis of the annual result:

	2000			1999		
	Result (in EUR thousand)	*No. of shares*	*Per share (in EUR)*	*Result (in EUR thousand)*	*No. of shares*	*Per share (in EUR)*
Total number of fully-paid shares		27 446 882			24 530 215	
Less treasury stock (weighted)		(1 000)			(3 917)	
Basic earnings per share	364 880	27 445 882	13.29	201 559	24 526 298	8.22
Dilution through payment of outstanding capital		2 018 585			4 836 856	
Fully diluted earnings per share	364 880	29 464 467	12.38	201 559	29 363 154	6.86

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

5.13 Other assets and liabilities

Other assets

Figures in EUR thousand	*2000*	*1999*
Securities payable	50 991	–
Own-use real estate	46 964	48 838
Other non-technical contracts	30 296	17 819
Present value of future profits on acquired life reinsurance portfolios	19 409	23 253
Fixtures, fittings and equipment	18 792	18 324
Other intangible assets	10 417	26 469
Interest and rent payable on investments	5 892	1 663
Tax refund claims	3 469	2 660
Other	89 361	86 084
Total	275 591	225 110

Other liabilities

Figures in EUR thousand	*2000*	*1999*
Provisions for pensions and similar obligations	40 726	36 133
Liabilities from derivatives	12 219	11 659
Interest	14 501	33 781
Dividends payable	12 281	–
Deferred income	16 323	15 859
Costs of the annual financial statements	2 593	3 286
Liabilities to trustees	26 867	49 864
Loans	65 774	58 648
Interest on additional tax payments	5 541	24 821
German Economy Foundation Initiative	8 037	–
Stock options	4 618	–
Liabilities from the acquisition of participations	–	11 344
Other	98 260	94 822
Total	307 740	340 217

5.14 Technical statement of income

In accordance with SFAS 60 insurance contracts are to be classified as "short-duration contracts" or "long-duration contracts". The determinative criteria in this regard are, inter alia, the termination opportunities available to the insurer, the period of risk protection and the scope of the services provided by the insurer in connection with the contract. Premiums from short-duration contracts are brought to account over the period of the underlying contract, and where appropriate unearned premiums are deferred to subsequent years. By contrast, premiums deriving from long-duration contracts are brought to account at the date payable.

Most of the contracts underwritten by our company are classified as short-duration contracts.

5.15 Other income and expenses

The other income and expenses can be broken down as follows:

Figures in EUR thousand	*2000*	*1999*
Other income		
Exchange gains	19 529	18 574
Other interest income	20 441	22 336
Income from the disposal of other assets	14 511	–
Income from the waiver of claims	9 055	–
Income from services	6 900	1 635
	70 436	42 545
Other expenses		
Exchange losses	34 720	37 753
Other interest expenses	69 484	24 827
Depreciation	21 400	11 659
Expenses for services	6 620	4 099
Expenses for the company as a whole	18 024	16 829
Participation in German Economy Foundation Initiative	8 037	–
Separate value adjustments	6 285	8 735
Expenses for trust accounts	–	11 740
Sundry expenses	9 406	20 319
	173 976	135 961
Total	(103 540)	(93 416)

6. Relations with affiliated companies

6.1 Relations with affiliated non-consolidated companies

HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI) indirectly holds approximately 75% of the shares of Hannover Re through Talanx AG.

The Hannover Re Group is responsible for the reinsurance of the HDI Group. To this extent, numerous underwriting business relations exist with affiliated companies in Germany and abroad which are not included in Hannover Re's consolidation. This applies to both assumed and ceded business.

The details of these underwriting business relations are as follows:

Figures in EUR thousand	*2000*	*1999*
Written premiums assumed		
HDI	623.2	594.8
Other non-consolidated affiliated companies	332.9	213.6
Written premiums ceded		
HDI	1.4	2.0
Other non-consolidated affiliated companies	–	15.6
Funds held by ceding companies		
HDI	0.2	0.2
Other non-consolidated affiliated companies	119.3	63.6
Funds held under reinsurance treaties		
HDI	41.6	220.8
Other non-consolidated affiliated companies	–	–
Accounts receivable		
HDI	–	–
Other non-consolidated affiliated companies	49.6	12.2
Reinsurance payable		
HDI	95.3	89.1
Other non-consolidated affiliated companies	16.1	33.5

HDI Asset Management GmbH manages the investments of Hannover Re and some of its subsidiaries.

All other business relations, such as the performance of services on a limited scale or the renting of office premises, are of subordinate importance.

All transactions are conducted on the same basis as between independent and wholly unrelated third parties. We gave an account of these transactions with regard to Hannover Re and E+S Rück in our dependent company report.

6.2 Emoluments received by the management boards of the parent company and loans granted to them

The names of the members of the management boards of the parent company are listed on pages 4 and 5.

Emoluments of EUR 206 thousand were received by the Supervisory Board and EUR 3,353 thousand by the Executive Board in the year under review. The emoluments of former executive board members and their surviving dependants amounted to EUR 598 thousand, and a liability of EUR 7,519 thousand was shown as at year-end.

No loans secured on mortgages or by land charges were granted to board members.

The company did not enter into any contingent liabilities for members of the management boards.

6.3 Stock options

With effect from 1 January 2000 Hannover Re set up a virtual stock option plan. Members of the Executive Board as well as the two further levels of management may choose to waive variable remuneration components and acquire stock options. The number of such options granted each year is based upon the diluted earnings per share under US GAAP. An additional performance criterion is an industry benchmark based upon the (unweighted) Reactions' reinsurance index.

A present value of EUR 20.00 is assumed in order to determine the basic number of stock options. The basic number increases or decreases according to the over- or underperformance of the earnings per share. For each full amount of EUR 0.10 by which the earnings per share exceeds the target performance the basic number of stock options is increased by 10%, while for each amount of EUR 0.20 by which the earnings per share falls short of the target performance it is reduced by 10%.

The industry benchmark is measured by the extent to which the stock market performance of the Hannover Re share exceeds or undershoots the development of the Reactions' reinsurance index in the year when the stock options are granted. For each full percentage point by which the Hannover Re share surpasses the benchmark index, the basic number of stock options increases by 10% up to a maximum of 400% of the basic number; if the share falls short of the benchmark index, the basic number decreases by 5% for each full percentage point, although by no more than 50%.

The concrete value of the stock option is calculated as the difference between the current stock market price of the Hannover Re share at the time when the option is exercised and the share price at the beginning of the year in which the stock option was granted. This value is paid out on exercise of the stock option.

The maximum option period is 10 years. The waiting period prior to first-time exercise of an option is two years following the expiry of the year in which the option was granted.

Following expiry of the waiting period a maximum of 40% of the granted stock options may be exercised. The waiting period for each additional 20% is one year. Stock options which are not exercised lapse after 10 years.

A liability of EUR 4,618 thousand was shown for the first time as at 31 December 2000.

6.4 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.

7. Other notes

7.1 Lawsuits

No significant court cases were pending during the year under review or as at the balance sheet date.

7.2 Contingent liabilities

Hannover Re has secured by guarantee a surplus note in the amount of USD 400.0 million issued in the 1999 financial year by Hannover Finance Inc., Wilmington/USA.

As security for our 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 661.4 million (EUR 499.1 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 2,060.0 million.

7.3 Long-term commitments

Several Group companies are members of the German aviation pool, 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.

7.4 Derivatives

In 1998 the Financial Accounting Standards Board (FASB) approved Standard 113 "accounting for derivative instruments and hedging activities". Under the rules of this standard all derivatives are valued at fair value in the balance sheet irrespective of their intended purpose. SFAS 133 is to be applied by all companies which use derivatives – regardless of the sector in which they operate – for the first time in the financial year commencing after 15 June 2000. We have therefore continued to apply the existing specific standards in the present individual accounts.

The company holds derivative financial instruments solely for the purpose of hedging. For this reason, swaps are held for the conversion of interest flows and currencies. Swaps are valued at fair value. Changes in fair value are not included in the statement of income. The current value is shown in the unrealised gains and losses as a separate item under the stockholders' equity. As at year-end the fair value of the swaps totalled EUR 174.9 million (EUR 177.0 million), and the nominal value of the swaps amounted to EUR 169.4 million (EUR 177.4 million). In connection with these swaps we provided collateral of EUR 19.5 million (EUR 18.1 million) for the year ending 31 December 2000. The periods to maturity of the swaps vary between one year and thirteen years. Two contracts matured in 2000. The fixed interest rates are between 3.5% and 7.5%. Three instruments have a variable interest rate. As at year-end the portfolio did not contain any forward purchase options or forward exchange transactions.

7.5 Events subsequent to conclusion of the financial year

At the beginning of 2001 the Insurance Corporation of Hannover (ICH), Los Angeles, acquired substantial parts of the program business of Acceptance Insurance Companies, Inc. The new acquisition increased the premium income of ICH by USD 70 million.

In order to strengthen the available capital of the Hannover Re Group, Hannover Re has issued subordinated loans. For this purpose it established Hannover Finance (Luxembourg) S.A. on 8 February 2001 as a wholly-owned subsidiary with common stock of EUR 200 thousand. At the beginning of March 2001 this company placed a subordinated loan on the European capital market. The issue, which has a term of 30 years and a call option for the issuer after 10 years, has a total volume of EUR 350 million and is secured by Hannover Re. Hannover Re received a loan of EUR 100 million from Hannover Finance.

Effective 30 March 2001, Hannover Re established a new subsidiary on Bermuda, Hannover Re (Bermuda) Ltd. The company is equipped with capital of EUR 250 million.

No other events with significant implications for the Group's assets, liabilities, financial position and net income occurred after the balance sheet date.

7.6 Rents and leasing

Leased property

Both operating and capital leasing contracts existed within the Hannover Re Group as at the balance sheet date. In subsequent years an annual amount of EUR 110,004 will be payable as leasing instalments under capital leasing contracts.

Figures in EUR thousand	*Payments*
2001	3 154
2002	2 785
2003	2 662
2004	2 666
2005	2 016
Subsequent years	4 641

Operating leasing contracts produced expenditures of EUR 3,322 thousand in the 2000 financial year.

The Clarendon Group concluded a ten-year contract for the lease of business premises. The contract period ends on 31 August 2005. The Insurance Corporation of Hannover also concluded a multi-year contract for the lease of business premises. The rent instalments are fixed for the rental period, although adjustments in line with changed market conditions are possible at contractually agreed times.

Rented property

Hannover Re Real Estate Holdings rents out real estate in Florida; the period of the contracts ranges from five to seven years. Non-cancellable contracts will produce the income shown below in subsequent years:

Figures in EUR thousand	*Payments to be received*
2001	9 615
2002	8 642
2003	7 620
2004	7 139
2005	4 848
Subsequent years	7 771

Rental income totalled EUR 11,454 thousand in the 2000 financial year.

7.7 Currency conversion

Foreign currency items in the individual companies' statements of income are converted into the respective national 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 the case of functional currencies, differences arising between the average exchange rate and the exchange rate on the balance sheet date lead to the establishment of a separate item in the stockholders' equity which is excluded from the statement of income. Differences arising with regard to non-functional currencies are recognised in the statement of income. Functional currencies are defined as those currencies in which investments are effected.

The following key exchange rates were used:

	Mean rate of exchange on the balance sheet date		*Average rate of exchange*	
1 Euro corresponds to:	*31.12.2000*	*31.12.1999*	*31.12.2000*	*31.12.1999*
USD	0.9305	1.0027	0.9262	1.0646
CAD	1.3933	1.4570	1.3737	1.5848
AUD	1.6754	1.5350	1.5964	1.6606
GBP	0.6233	0.6205	0.6086	0.6580
ZAR	7.0440	6.1753	6.4002	6.5021
SEK	8.8400	8.5630	8.4838	8.8322
MYR	3.5340	3.8238	3.5201	4.0477

Hannover, 23 May 2001

Executive Board

Zeller

Dr. Hecker

Dr. Becke

Gräber

Haas

Dr. Steiner

Dr. Pickel

Auditors' Report

We have audited the consolidated financial statements of Hannover Rückversicherungs-Aktiengesellschaft for the business year from January 1 to December 31, 2000, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of cash flow and consolidated statement of changes in stockholders' equity as well as the notes to the financial statements. The preparation and content of the consolidated financial statements in accordance with US Generally Accepted Accounting Principles (US GAAP) are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing principles and the 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 to obtain reasonable assurance whether the consolidated financial statements are free of material misstatements. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis as part of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group in accordance with United States Generally Accepted Accounting Principles.

Our audit, which also extends to the group management report prepared by the Executive Board for the year from January 1 to December 31, 2000, has not led to any reservations. In our opinion the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development.

Hannover, 23 May 2001

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Geib
(German Public Auditor)

Kollenberg
(German Public Auditor)

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Glossary

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

Alternative risk financing: use of the capacity available on the capital markets to cover insurance risks, e.g. through the securitisation of natural catastrophe risks, if such risks are no longer fully insurable by the insurance and reinsurance industries.

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

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

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

Claims and claims expenses: sum total of paid claims and provisions for loss events which 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.

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

Discounting of loss reserves: determination of the present value of future profits through multiplication by the corresponding discount rate. 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.

Dread disease coverages: 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.

Earnings retention: non-distribution of a company's profits leading to different treatment for tax purposes than if profits were distributed.

Economic loss: 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. The insured loss reflects the total amount of losses covered by the insurance industry (direct insurers and reinsurers).

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

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

Expense ratio: administrative expenses in relation to the 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: specially negotiated participation on the part of the reinsurer in a particular individual risk assumed by the direct insurer. This is in contrast to → obligatory (also: treaty) reinsurance.

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

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

Funds held by ceding companies/funds held under reinsurance treaties: collateral provided to cover insurance liabilities which 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 funds held under a reinsurance treaty, while the company furnishing the collateral shows funds held by a ceding company.

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 characterised by certain characteristics 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.

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

LOC (Letter of credit): 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.

Loss ratio: percentage share of loss expenditure in the → retention relative to the net premiums earned.

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

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

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

Net: cf. → Gross/Retro/Net

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

Policy benefits for life and health contracts: 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.

Portfolio: all risks assumed by a direct insurer or reinsurer on an overall basis or in a defined subsegment (e.g. line of business, country).

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

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.

Program business: a speciality of the US insurance market written by insurers working in very close cooperation with reinsurers and highly specialised managing general agents. The segment is typically focused on niche and non-standard coverages and hard-to-place risks.

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 liability insurance.

Proportional reinsurance: reinsurance treaties on the basis of which shares in a risk or → portfolio are reinsured under the prevailing original conditions. → Premiums and losses are shared proportionately on a pro-rata basis. This is in contrast to → non-proportional reinsurance.

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).

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

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.

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

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).

Unearned premiums: 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.

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.

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.

STRATEGIC BUSINESS SEGMENTS *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, Bermuda*
- Insurance Corporation of Hannover, Los Angeles

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®

- E+S Re Ireland, Dublin
- Hannover Re Ireland, Dublin
- Hannover Re, Advanced Solutions Germany, Hannover

* From April 2001

Program business

clarendon insurance Group

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