# Annual Report 2002

- Highest operating result in company history
- All business groups with positive profit contribution
- Gross written premiums +8%
- Net premiums earned +18%
- Property and casualty reinsurance +22%
- Program business for net account +71%
- Return on equity >15%
- Dividend yield >4%

hannover re®

## Financial calendar 2003/2004

| | |
|---|---|
| 14 April 2003 | Press conference on the annual results 2002 |
| 15 April 2003 | DVFA Analysts' meeting, Frankfurt |
| 15 April 2003 | Analysts' meeting, London |
| 27 May 2003 | **Annual General Meeting**<br>Beginning 10:30 a.m.<br>Hannover Congress Centrum<br>Theodor-Heuss-Platz 1-3<br>30175 Hannover, Germany |
| 27 May 2003 | Interim Report 1/2003 |
| 27 August 2003 | Interim Report 2/2003 |
| 26 November 2003 | Interim Report 3/2003 |
| 29 March 2004 | Press conference on the annual results 2003 |
| 30 March 2004 | DVFA Analysts' meeting, Frankfurt |
| 30 March 2004 | Analysts' meeting, London |
| 17 May 2004 | Interim Report 1/2004 |
| 2 June 2004 | **Annual General Meeting**<br>Beginning 10:30 a.m.<br>Hannover Congress Centrum<br>Theodor-Heuss-Platz 1-3<br>30175 Hannover, Germany |
| 16 August 2004 | Interim Report 2/2004 |
| 15 November 2004 | Interim Report 3/2004 |

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# KEY FIGURES
## of the Hannover Re Group

| *Figures in EUR million* | *2002* | *+/- Previous year* | *2001* | *2000* | *1999* | *1998* |
|---|---|---|---|---|---|---|
| Gross written premiums | 12 463.2 | +8.3% | 11 507.5 | 8 320.5 | 6 706.3 | 4 504.6 |
| Net premiums earned | 7 688.2 | +18.4% | 6 496.1 | 5 210.2 | 4 179.9 | 3 548.7 |
| Net underwriting result | (311.1) | (64.6%) | (878.2) | (449.2) | (394.7) | (350.4) |
| Combined ratio (property and casualty reinsurance) | 96.3% | | 116.5% | 107.8% | 111.1% | 108.1% |
| Net investment income | 928.4 | (1.8%) | 945.7 | 868.7 | 828.2 | 814.7 |
| Operating profit (EBIT) | 470.9 | +331.2% | 109.2 | 342.5 | 358.2 | 435.6 |
| Net income (after tax) | 267.2 | | 11.1 | 364.9 | 201.6 | 171.4 |
| | | | | | | |
| Policyholders' surplus | 2 958.5 | +2.1% | 2 896.5 | 2 400.2 | 2 045.1 | 1 457.9 |
| Total stockholders' equity | 1 739.5 | +4.0% | 1 672.0 | 1 573.4 | 1 235.7 | 1 122.4 |
| Minority interests | 400.4 | +30.1% | 307.8 | 294.1 | 294.8 | 217.9 |
| Hybrid capital | 818.6 | (10.7%) | 916.7 | 532.7 | 514.6 | 117.6 |
| Investments (without funds held by ceding companies) | 12 708.6 | +4.8% | 12 127.2 | 10 200.5 | 9 855.1 | 8 592.2 |
| Total assets | 33 579.0 | +2.9% | 32 647.6 | 23 497.6 | 19 354.8 | 14 294.4 |
| | | | | | | |
| Value of in-force business (life/health) | 1 206.0 | 15.1% | 1 048.0 | 874.0 | 609.0 | 468.0 |
| | | | | | | |
| Bookvalue per share in EUR* | 17.90 | | 17.21 | 17.76 | 13.95 | 12.67 |
| Earnings per share (diluted) in EUR* | 2.75 | | 0.11 | 4.13 | 2.29 | 1.94 |
| Dividend in EUR million | 82.6 | | – | 100.0 | 71.5 | 53.4 |
| Dividend per share in EUR* | 0.85 | | – | 1.21** | 0.97 | 0.73 |
| Return on equity (after tax) | 15.7% | | 0.7% | 26.0% | 17.1% | 14.0% |

** For previous years stock split of 15 July 2002 in a ratio of 3 to 1 taken into account*
*** Incl. bonus of EUR 0.08*

Dear shareholders,
Ladies and Gentlemen,

The 2002 financial year was as difficult as it was successful for your company. As you are aware, the burden resulting from the terrible terrorist attacks of 11 September 2001 in New York and Washington was considerable. Indeed, it was only thanks to our strategy of diversification that we were one of the few reinsurers in the world to close 2001 without posting a loss. I am all the more pleased to report that in 2002 we were able to fully resume our successful course and even surpass the results of recent years. We increased our gross premium income by 8.3% and – despite the exceptionally adverse trend on capital markets – generated an excellent result.

In *property and casualty reinsurance* the market upturn that was already emerging before the attacks in the USA gathered considerably stronger momentum thereafter. As early as the first treaty renewal negotiations in the autumn of 2001 we were able to benefit from significant market hardening and profitably enlarged our premium volume. In subsequent renewal phases during the year under review we achieved markedly better rates and conditions in virtually all countries and lines of business. Given this upswing in the market cycle, your company's strategy is to boost profits through systematic expansion of premium volume and market shares. In the year under review we were able to pursue this strategy with exceptional success.

We were also highly satisfied with the development of *life and health reinsurance*. Premium volume and results were both in line with our expectations. In life and health reinsurance it is important to consider not only the posted profit but also the growth in the value of in-force business – a factor that is not reflected in the statement of income or the balance sheet. This figure, too, recorded another significant increase. In special key markets such as Germany, France, the United Kingdom and Italy we now rank among the most prominent reinsurers; in Australia and southern Africa we are in fact the market leader. In the USA we are the leading specialty provider in the profitable niche segment known as "financial engineering" (reinsurance of complete life and annuity portfolios).

*Financial reinsurance* also developed entirely in accordance with our expectations. Although the gross premium volume declined, it should be borne in mind here that in the previous year – as an after-effect of the losses associated with 11 September 2001 – we booked considerable supplementary premium payments due to non-recurring experience-based additional premiums.

The development of our fourth and newest business group, *program business*, was most gratifying. We substantially enlarged our premium income and also significantly increased our retention. A series of organisational and structural measures has enabled us to decisively improve the profitability of our program business.

*Movements in exchange rates* were an opposing factor in all business groups. The US dollar, for example, depreciated by 18.1% against our balance sheet currency in the course of the year. We generate more than half of our premiums and results in US dollars. Had exchange rates remained stable, both the premium volume and result would have been considerably higher still.

The mood on *financial markets* around the world was predominantly gloomy. For the third year in succession the leading stock indices closed with steep declines. Economic and political developments in the year under review did little to restore investor confidence. Interest rate cuts by central banks also failed to cheer the markets. Needless to say, our net *investment income* did not escape unscathed in this climate. Although ordinary income continued to grow thanks to a larger asset volume, total net investment income fell well short of our planned targets. Overall, we were compelled to take write-downs of more than EUR 200 million on our investment portfolio. It was only thanks to the reduction of our equity allocation to its current level of 5.7% by year-end 2002 – a move initiated back at the beginning of 2001 – that these write-downs were not considerably heavier.

In view of the extremely unfavourable conditions, especially on the German stock market, the *Hannover Re share* held up very well in relative terms. It reached its high for the year of EUR 28.30 on 21 March, but was then dragged down by the collapse of the markets in the autumn: it fell to its lowest level of the year – EUR 15.90 – on 9 October. By year-end, however, it had already recovered appreciably to EUR 24.30. This performance is significantly better than that of all the standard indices. Our preferred benchmark is the "Reactions" World Reinsurance Index, which includes the shares of all listed reinsurers worldwide. Your company's share outperformed this index by almost 24%, an achievement that we note with pride.

In view of the marked difficulties of the previous year, and especially in comparison with our competitors, we can thus be greatly satisfied with the development of the 2002 financial year. What is more, we are confident that the *financial year* 2003 will also be highly successful. The treaty renewal negotiations as at 1 January in the cyclical segment of property and casualty reinsurance showed that this year, too, we will be able to profit from a seller's market across all lines and countries. Although early indications of softening conditions can be detected in isolated subsegments, we are prepared to scale back our premium volume in those areas that fail to meet our profitability requirements. This observation should not, however, take anything away from the fact that we are entirely satisfied with the treaty renewals as at 1 January 2003 and anticipate adequate terms and conditions in the coming renewals too.

As the past year emphatically demonstrated, it is scarcely possible to *forecast the development of the capital market* at the present time. With our high write-downs last year and through further write-downs in the first quarter of this year, we have, however, taken steps to avoid carrying forward any further strains into the current financial year. Combined with our low equity allocation and a high-quality portfolio of fixed-income securities, this enables us to look to the future with some degree of composure.

We expect 2003 to be a successful year, assuming that the capital markets at least show a modest recovery and provided our burden of catastrophe losses in property and casualty reinsurance remains within the bounds of multi-year expectations.

In order to safeguard our success and the economic independence of our company for the long term, too, we strive for *above-average and sustained profitability*. Our exclusively profit-oriented business policy, our strategy of diversification and our efficient capital management form the basis for achieving this goal. Since equity capital is the most expensive option for financing business, we use – where appropriate – cost-effective substitutes to cover our capital requirements. Equity substitutes take various forms, including for example the securitisation of reinsurance risks and their transfer to the capital markets, long-term subordinated debt (so-called hybrid capital) as well as traditional reinsurance and retrocession arrangements. This type of capital management produces better-than-average returns on equity.

Our business policy geared exclusively to profitability safeguards our superb ratings: Standard & Poor's and A.M. Best have each rated us in their second-highest category. In today’s market environment an excellent rating serves as a passport to the international reinsurance market and thereby helps us to diversify our portfolio. We deploy our capital in those business groups, lines and regions that promise the maximum profit.

On behalf of my fellow members of the Executive Board and myself, I would like to thank you, our shareholders, for your confidence in Hannover Re. Our goal is to live up to your trust and to consistently enhance the value of your company.

Yours sincerely,

Wilhelm Zeller
Chairman of the Executive Board

## Supervisory Board (Aufsichtsrat)

| | |
|---|---|
| Wolf-Dieter Baumgartl<br>Hannover<br>Chairman | Chairman of the Executive Board<br>of HDI Haftpflichtverband der<br>Deutschen Industrie V.a.G. |
| Dr. Paul Wieandt<br>Hof/Saale<br>Deputy Chairman | Chairman of the Executive Board<br>of SchmidtBank AG |
| Karola Böhme<br>Barsinghausen*<br>(until 24 May 2002) | |
| Dr. Horst Dietz<br>Singapore<br>(until 24 May 2002) | Region Manager North and Southeast Asia<br>of ABB Asea Brown Boveri AG |
| Herbert K. Haas<br>Burgwedel<br>(from 24 May 2002) | Member of the Executive Board<br>of HDI Haftpflichtverband<br>der Deutschen Industrie V.a.G. |
| Karl Heinz Midunsky<br>Munich | Corporate Vice President and Treasurer<br>of Siemens AG |
| Dr. Erwin Möller<br>Hannover<br>(until 24 May 2002) | Member of the Executive Board<br>of HDI Haftpflichtverband der<br>Deutschen Industrie V.a.G. |
| Ass. jur. Otto Müller<br>Hannover* | |
| Bengt Pihl<br>Mannheim<br>(from 24 May 2002) | Member of the Executive Board<br>of ABB AG<br>(until 31 December 2002) |
| Ass. jur. Renate Schaper-Stewart<br>Lehrte* | |
| Dipl.-Ing. Hans-Günter Siegerist*<br>Nienstädt<br>(from 24 May 2002) | |
| Dr. Klaus Sturany<br>Essen | Member of the Executive Board<br>of RWE Aktiengesellschaft |

*Staff representative

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

# EXECUTIVE BOARD
## of Hannover Re




### André Arrago

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

### Dr. Wolf Becke

Life and Health markets
worldwide

### Wilhelm Zeller

Chairman

Controlling, Internal Auditing,
Investor Relations, Public Relations,
Corporate Development;
Human Resources; Underwriting &
Actuarial Services; Program Business

## Jürgen Gräber

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

## Dr. Elke König

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

## Dr. Michael Pickel

Property and Casualty Treaty Reinsurance Germany,
Austria, Switzerland and Italy;
Credit and Bonds worldwide;
Claims Management;
Legal Department

## Ulrich Wallin

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

## Herbert K. Haas

(until 31 January 2002)

# THE HANNOVER RE SHARE

## 2002: The third "bear-market year" in succession …

*Capital markets remained weak*

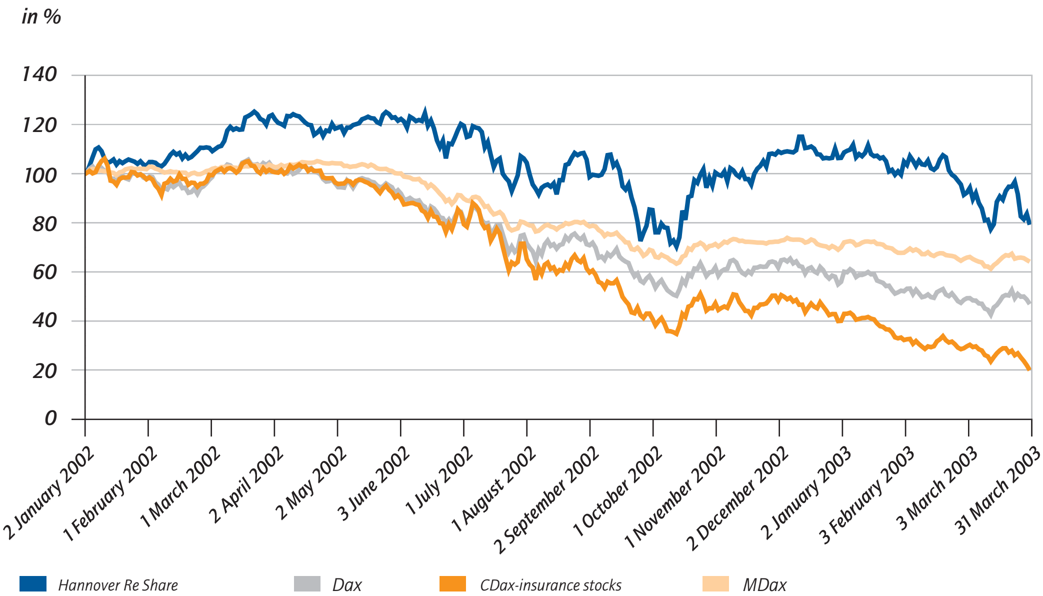
The persistent weakness of leading national economies in the USA, Europe and Japan was a hallmark of 2002. All major stock indices closed in negative territory for the third year in a row. A similar scenario has not been seen since the depression more than 70 years ago (1929–1931), when world markets fell by almost 60%. Equity markets got off to a predominantly bright start in 2002, but accounting scandals shattered investor confidence and set in motion a downward spiral that continued on through the remainder of the year. Financial markets were also shaken by consistently poor economic growth, profit warnings, dividend reductions, fears of deflation as well as insecurity in the face of impending war in the Middle East. Striving to counter this trend and stimulate renewed capital spending, the central banks repeatedly cut interest rates to record lows by year-end of 1.25% in the USA and 2.75% in Europe – albeit without any visible success. The degree of uncertainty was and still is too great.

Dragged down by the poor performance of the US indices (-16% on the Dow Jones and -31.5% on the NASDAQ), European equity markets heavily lost ground as well: the EuroStoxx 50 gave up 37% of its value, while the Dax fell by as much as 44%. Similarly, the MDax (which includes the Hannover Re share) recorded a significant drop of 29%. Government bonds consequently remained investors' preferred investment alternative, ahead of corporate bonds with first-class ratings.

## … insurance stocks suffered especially heavily in this climate

Due to the often high equity allocation of their investment portfolios, insurers and reinsurers saw their shares particularly hard hit by the downward trend on the financial markets. The CDax for insurance stocks was down 60% at year-end, clearly the worst performer of all the benchmark indices. Although the Dax closed 2002 around 9% up at the end of the third quarter, many (re-)insurance companies found themselves compelled to take heavy write-downs on their equity portfolios in the second half of the year. As a result, numerous market players had to revise downwards their earnings forecasts that had been announced as late as the middle of the year.

*Performance of the Hannover Re share compared with standard benchmark indices*



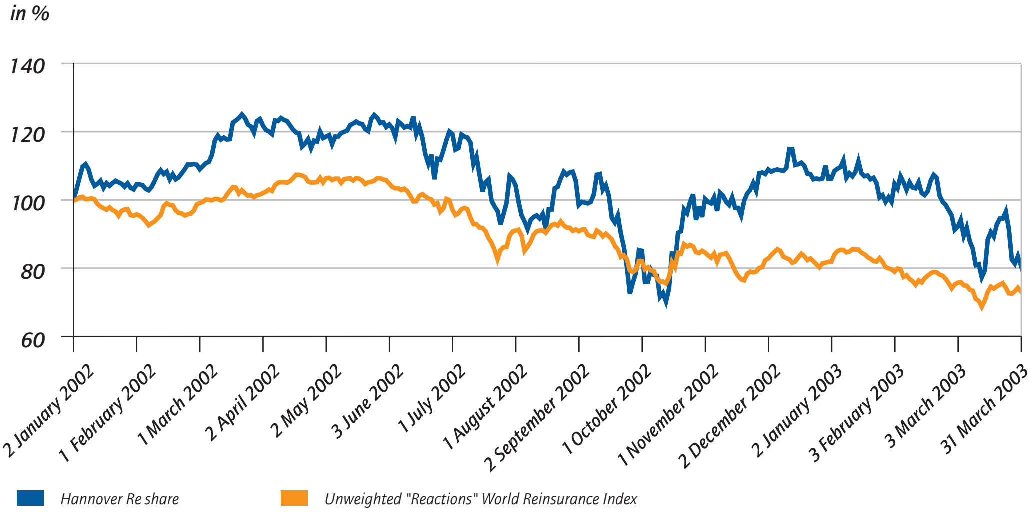
## The Hannover Re share as a safe haven in troubled stock market times …

Relative to the standard indices our share proved to be particularly stable. It significantly outperformed the market as a whole from the beginning of the year onwards and reached its high for the year of EUR 28.30 on 21 March. In September, however, capital markets came under massive selling pressure, and our share, too, did not escape unscathed the wave of bad news coming out of the stock markets. On 9 October it sank to its lowest point of the year at EUR 15.90, a fall of 30% on its value at the beginning of 2002. Yet by mid-October it had already recovered substantial ground, and it closed the year at EUR 24.30 – a price rise of some 8%. With a gain of 68 percentage points relative to the CDax for insurance stocks, 52 percentage points compared to the Dax and 37 percentage points even in relation to the MDax, our share thus demonstrated its extraordinarily strong level of resilience.

As the benchmark for our internal measurement of our share's performance we do not use the standard indices, but rather the unweighted "Reactions" World Reinsurance Index*. While in 2001 after the terrorist attacks in New York and Washington our share lost significantly, it developed positively compared to this index in the year under review: In the nine months from the beginning of 2002 until September our share consistently outperformed this index. In September it fell briefly below the benchmark, only to recover again by November. If we consider only the year under review, our share surpassed the average performance of our global competitors by almost 24 percentage points.

*Hannover Re share outperformed all benchmark indices*

***The Hannover Re share in comparison with the unweighted „Reactions" World Reinsurance Index***




**The unweighted „Reactions" World Reinsurance Index combines all listed reinsurers worldwide. Our strategic objective is to achieve an increase in the share price which on a three-year moving average surpasses the performance of this benchmark.*

## … offers even greater potential when capital markets recover

*Hannover Re meets its profit target again*

The considerable potential inherent in our share is borne out by its stability in this depressed stock market climate. Among European insurers no other stock has so staunchly held its ground against the negative trend on capital markets. Hannover Re was one of the few companies to meet its profit targets last year. This success is founded on the three maxims that guide our strategic actions: better-than-average profitability, optimal diversification and economic independence.

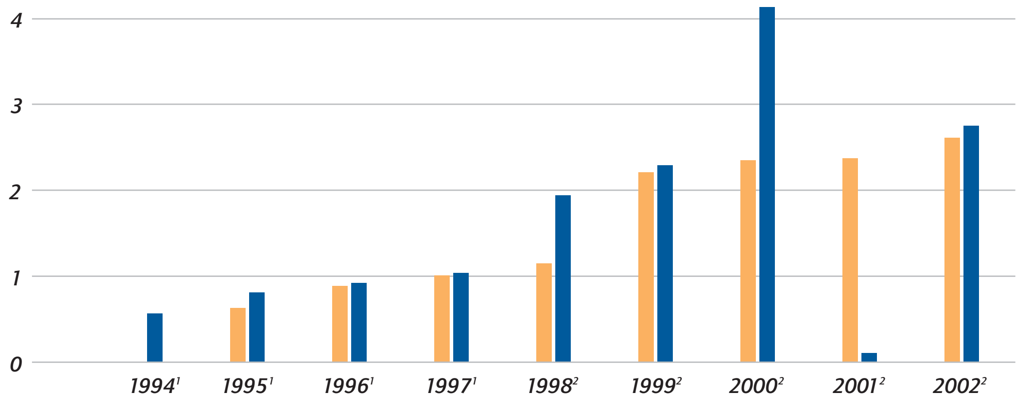
We use a system of management ratios to steer and document the sustained growth in our company's value creation. Our strategic objective is to increase the operating profit (EBIT) and the earnings per share by a double-digit percentage margin each year. Only in the exceptional 2001 year were we unable to achieve this goal because of the World Trade Center event. In the year under review, however – despite disappointing capital markets – we were able to generate earnings per share of EUR 2.75 and thus achieve our strategic goal on the basis of the previous year's target. With the exception of 2001, we have achieved this aim in every year since our company was first listed in 1994.

We consider the return on equity, which we use to demonstrate our ability to sensibly and profitably deploy the capital made available to us, to be a further key profitability ratio. In this respect, our strategic objective is to generate a minimum return on equity of 750 basis points in excess of the average 5-year yield on 10-year government bonds. In the year under review the admittedly highly favourable market conditions for the reinsurance sector contrasted with the adverse influences from the capital markets; we nevertheless succeeded in meeting this target, too. With a reported return on equity of 15.7%, we exceeded the average return on European government bonds of around 5% by 1,070 basis points.

The company's success was assisted not only by disciplined underwriting – with a strict orientation towards profitability rather than mar-

*Earnings per share*

*in EUR*




| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|
| *Target* | | 0.63 | 0.89 | 1.01 | 1.15 | 2.14 | 2.35 | 2.37 | 2.61 |
| *Actual* | 0.57 | 0.81 | 0.92 | 1.04 | 1.94 | 2.29 | 4.13 | 0.11 | 2.75 |

*1) DVFA calculation method (without adjustment for amortisation of goodwill)*
*2) Earnings per share calculated in accordance with US GAAP (for previous years stock split of 15 July 2002 in a ratio of 3 for 1 taken into account)*

ket shares – but also by the deliberate significant scaling-back of our equity allocation in early 2001 with an eye to the depressed state of the capital markets.

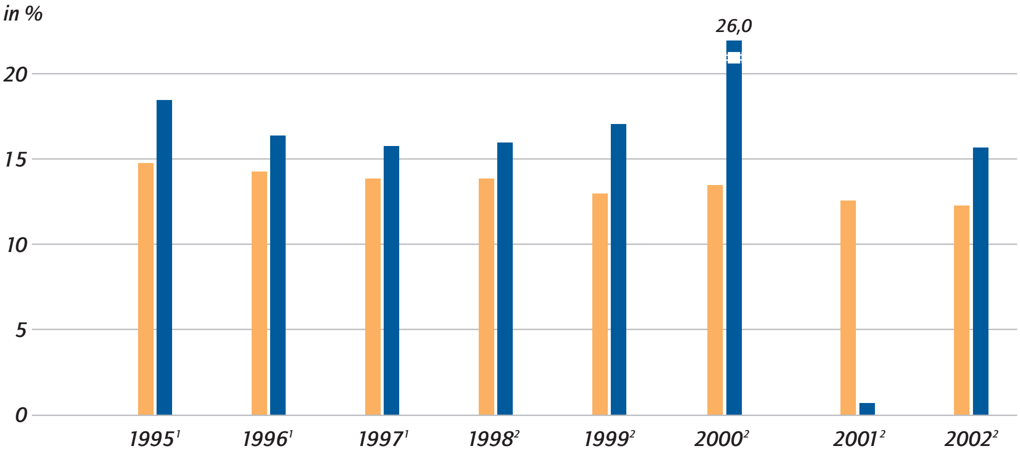
The growth potential inherent in our share is also apparent from a very low price/earnings ratio of around 7 based on a consensus profit estimate for the year 2004. Given a continued favourable business development and a modest recovery on capital markets, there should be nothing to prevent a fair valuation of our share that reflects the company's true value. This view is reinforced by numerous positive reports from analysts.

## Our Investor Relations activities: transparent and proactive

In the financial year just-ended we once more stepped up our Investor Relations activities. Our aim here is not only to raise awareness of our share and generate demand, but also – and especially in troubled stock market times – to provide international investors, private shareholders, and financial analysts with transparent, up-to-date and regular information about the positive growth of our business. We attend stocks forums and investor fairs organised by various banks and shareholder associations and we maintain direct contact with institutional investors. In the year under review we held almost 50 individual meetings at our offices in Hannover and presented our company at more than 30 international roadshows and company conferences. Our current targets include not only the traditional financial marketplaces of Frankfurt, London and New York/Boston, where we are present on a regular basis, but also Switzerland, Scandinavia, the Benelux countries, France and Italy. In addition, we promoted our share on marketing trips to the West Coast of the USA and Australia. Last but not least, we hold telephone conferences with analysts and investors to discuss significant new developments as well as in connection with the release of each quarterly report. Particularly during difficult times, we attach special importance to intensive, proactive Investor Relations.

*International roadshows and analyst seminars form part of our standard repertoire*

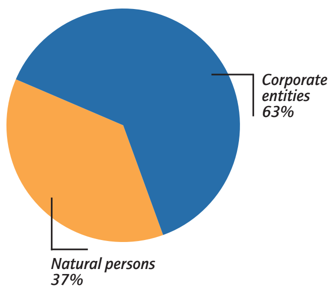
*After-tax return on equity*




| | 1995[1] | 1996[1] | 1997[1] | 1998[2] | 1999[2] | 2000[2] | 2001[2] | 2002[2] |
|---|---|---|---|---|---|---|---|---|
| Target | 14.8 | 14.3 | 13.9 | 13.5 | 13.0 | 13.5 | 12.6 | 12.3 |
| Actual | 18.5 | 16.4 | 15.8 | 16.0 | 17.1 | 26.0 | 0.7 | 15.7 |

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

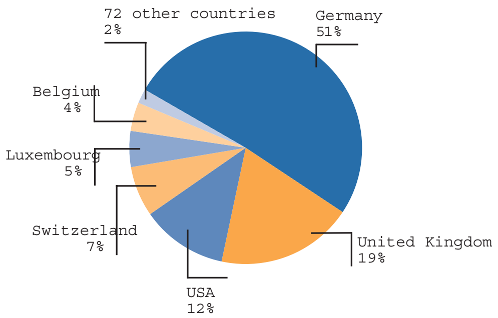
*Natural persons/corporate entities (as % of free float)*




The orientation of our Investor Relations activities is guided primarily by our shareholding structure. The information required in this regard is obtained from regular evaluations of our stock ledger. The breakdown of the shareholding structure into natural persons (private investors) and corporate entities (institutional investors) of course reveals a predominance of institutional investors. Although the number of Hannover Re shareholders rose by roughly 3,000 to altogether more than 25,000, the breakdown compared to the previous year remained virtually identical.

The annual analyst seminar, at which reinsurance specialists from within our company provide background information on a variety of topics, has become part of our standard Investor Relations repertoire. Indeed, in the year under review we offered two seminars of particularly strong interest to our financial analysts and investors: in April 2002 we organised "Risk management in program business" in London and in August 2002 we held an "analysts' day" at our Hannover offices in connection with the publication of our semi-annual report. We used the latter occasion to present the results of our strategy review, broken down into the specific business groups.

*Shareholding structure by countries (as % of free float)*




The Annual General Meeting of Hannover Re held on 24 May 2002 approved by a large majority a stock split in a ratio of 3 for 1 that was subsequently implemented on 15 July 2002. After the split a shareholder who previously owned ten shares of Hannover Re thus held 30 shares in his or her securities account, with the theoretical amount of the capital stock attributable to each no-par-value share fixed at EUR 1.00. The purpose of this split was to significantly reduce the market price of a single share in order to render it optically more accessible and thus improve the liquidity of the share. Improved liquidity boosts demand and hence positively influences the price.

*Stock split increases the liquidity of our share*

On 14 November 2002 at the first Extraordinary General Meeting convened specially for this purpose our shareholders approved an increase in the authorised capital as well as the possibility of using other capital market options as and when necessary. Additionally, a framework was created for the issue of convertible and warrant bonds, dividend bonds and participation rights. This authorisation empowers the Executive Board together with the Supervisory Board to move quickly and flexibly on the capital market. In view of the highly favourable prospects currently existing in reinsurance business, this amendment to the articles of association will enable us to participate to the fullest extent in the market upturn.

Under § 161 of the German Stock Corporation Act listed companies are required from 31 December 2002 onwards to submit an annual declaration of conformity with the German Corporate-Governance Code. We have therefore enlarged our Investor Relations Internet pages to include a section on Corporate Governance. In addition to the declaration of conformity, you will find there further information on our Corporate Governance commitment and measures as well as notifiable stock transactions ("Directors' Dealings" pursuant to § 15a WpHG Securities Trading Law).

As early as 2004 we intend to fully implement the reporting periods recommended by the German Corporate-Governance Code. The consolidated annual financial statements are to be publicly accessible within 90 days of the end of the financial year and the interim reports within 45 days of the end of the reporting period in question. Due to the special features of international reinsurance business and the associated regulatory frameworks, we marginally exceed the recommended periods at present; yet, we by no means use the full scope of the deadlines permitted by law. We are already in conformity with all other recommendations of the Code.

Another major integral component of our Corporate-Governance declaration is the system of variable remuneration for our managerial staff based on the company's performance that was launched in 2000. One element here is the virtual stock option plan for our managerial staff worldwide. The number of stock options is determined by the level of achievement of the earnings per share target defined by the Supervisory Board as well as the development of our share price relative to the unweighted "Reactions" World Reinsurance Index.

The Internet has established itself as a state-of-the-art information tool for listed companies. We have set up extensive Investor Relations webpages in order to enable you to access the latest information about Hannover Re. Our annual financial statements are available here in digital formats, including an interactive HTML report. We additionally provide video clips of our analyst conferences and use online telephone conferences to convey information. Our Internet site also offers complete data on our share, answers to frequently asked questions (FAQs) and an overview of the latest prospects for our company's development.

With the resegmentation of the Frankfurt Stock Exchange in January 2003 a new index model was launched. "Prime Standard" issuers satisfy transparency criteria that exceed requirements prescribed by German law and are comparable with international standards. Additional requirements include the compilation of quarterly reports, accounting in accordance with international standards (IFRS/IAS or US GAAP), a financial calendar, at least one analyst conference each year as well as ad hoc disclosure and regular reporting in both German and English. As an internationally oriented organisation these standards have already been second nature to us for quite some time, and we are therefore listed in the Prime Standard of the MDax selection index.

*Hannover Re online: www.hannover-rueck.de; www.hannover-re.com*

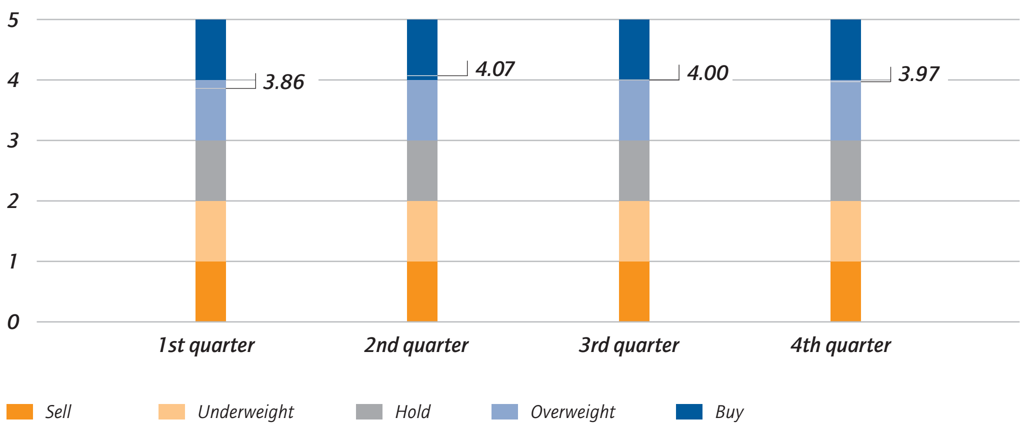
*We are listed in the Prime Standard of the new MDax*

## The opinions of our analysts

At this moment in time Hannover Re can be described as a bright spot in the otherwise severely battered insurance sector. The focus on a currently attractive business group, good management and a low equity exposure have been reflected in a convincing share performance. The depressive factors dragging on the industry affect the reinsurer to a considerably milder extent and at the same time it is able to participate fully in the highly favourable market conditions in property and casualty reinsurance.

Dierk Schaffer
WGZ-Bank, Düsseldorf
February 2003

*Analyst ratings of Hannover Re share*



Analyst ratings of Hannover Re share

| Rating | Amount | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter |
|---|---|---|---|---|---|
| Buy | 61 | 9 | 27 | 8 | 17 |
| Overweight | 23 | 5 | 6 | 4 | 8 |
| Hold | 21 | 4 | 7 | 3 | 7 |
| Underweight | 7 | 1 | 1 | 1 | 4 |
| Sell | 9 | 2 | 5 | 1 | 1 |
| Total | 121 | 21 | 46 | 17 | 37 |

We think Hannover Re's investment story remains appealing, due to its low valuation. We also like the company because of its diversification, both in terms of business mix and geographical breakdown of premiums, its good growth prospects, capital management and high transparency.

Simon Fössmeier
Bank Julius Bär, Frankfurt
February 2003

The improved performance of the Program Unit is largely attributable to actions taken at Clarendon, which is increasing both its business written and its retention. Clarendon has proved a significant challenge for the group since its acquisition and it would appear as though the turnaround is beginning to pay dividends.

Paul O'Sullivan
ABN Amro, London
January 2003

[…], it is worth highlighting that Hannover Re benefits from a series of "soft factors" which ultimately strengthen its capital position: the consistency in earnings, the strengths of reserve levels, the diversification of the business and a substantial deferred tax on its equalisation reserve. Under these circumstances we regard Hannover Re's capital position as being quite comfortable especially relative to some other peers.

Stephen Dias, Giulia Raffo
Goldman Sachs, London
January 2003

Hannover Re is well positioned to take advantage of improved profitability in reinsurance through 2003–2004 – especially after strong premium growth in 2002.

Rob Procter, Chris Hartwell
Morgan Stanley, London
January 2003

In the current hard markets, Hannover Re uses the opportunity to increase the comfort level of its reserves from around 60% to 70%, bringing its reserves on the group level, which are built on the basis of US-GAAP accounting (requires at best estimate) in line with reserves of its German subsidiaries, which are required to follow German accounting rules and which require a more conservative reserving.

Dr. Michael Haid
Sal. Oppenheim, Frankfurt
November 2002

We continue to believe that while not one of the biggest, Hannover Re is one of the best and cleanest ways to play the reinsurance cycle.

Brian Shea
Merrill Lynch, London
November 2002

Hannover Re makes a convincing impression by means of high transparency and an experienced management.

Ralf Dibbern
M.M. Warburg & Co., Hamburg
September 2002

## Share information

| in EUR | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|---|
| Earnings per share (diluted)* | 2.75 | 0.11 | 4.13 | 2.29 | 1.94 | 1.04[4] |
| Dividend per share* | 0.85 | – | 0.77[2] | 0.68 | 0.65 | 0.58 |
| Corporation-tax credit* | – | – | 0.36 | 0.29 | 0.08 | 0.08 |
| Gross dividend* | 0.85 | – | 1.21[3] | 0.97 | 0.73 | 0.66 |

*[1] For previous years' stock split of 15 July 2002 in a ratio of 3 for 1 taken into account*
*[2] On each for the year 2000 fully paid-up share*
*[3] Incl. bonus of EUR 0.08*
*[4] DVFA earnings per share in accordance with German accounting principles*

| | |
|---|---|
| Security identification number:<br>International Securities Identification Number (ISIN): | 840 221<br>DE 000 840 22 15 |
| Stock exchange ID: | Share: Investdata: HNR1<br>Bloomberg: HNR1 GY<br>Reuters: HNRGn.DE<br>HNRGn.F<br>ADR: HVRRY |
| Exchange listings: | Germany<br>Listed on all German stock exchanges and Xetra;<br>Frankfurt and Hannover in official trading<br><br>USA<br>American Depositary Receipts (Level 1 ADR-Program),<br>OTC (over-the-counter-market) |
| Stock class: | No-par-value registered shares |
| First listed: | 30 November 1994 |
| Shareholding structure: | 75% HDI Haftpflichtverband der Deutschen Industrie V.a.G.<br>(via HDI Verwaltungs-Service AG<br>as well as Erste and Zweite HDI Beteiligungsgesellschaft mbh)<br>25% free float |
| Capital measure of 6 June 2002: | Increase in common stock out of company funds in the amount of EUR 14,365,382.11 without issue of new shares |
| Stock split of 15 July 2002: | Ratio of 3 for 1 |
| Common stock as at 31 December 2002: | EUR 97,163,928.00 |
| Number of shares as at 31 December 2002: | 97,163,928 |
| Market capitalisation as at 31 December 2002: | EUR 2.361 million |
| Highest share price in 2002: | EUR 28.30 |
| Lowest share price in 2002: | EUR 15.90 |
| Annual General Meeting: | 27 May 2003, 10:30 a.m.<br>Hannover Congress Centrum<br>Kuppelsaal<br>Theodor-Heuss-Platz 1-3<br>30175 Hannover, Germany |

# Strategy
## and self-image

Our strategic objectives, principles and action fields are governed by three overriding goals, from which all others are derived:

*Above-average profitability*: For us this means to be one of the three most profitable reinsurers worldwide in terms of return on equity and annual growth in earnings per share.

*Optimal diversification*: We take this to mean generation of maximum profits with our scarce equity and flexible allocation of capital to those business groups, regions and lines of business which offer the highest returns.

*Economic independence*: This means for us financing of growth with self-generated profits and avoidance of difficulties that would necessitate additional contributions by shareholders.

## Our 10 commandments at a glance

### Strategic objectives

1. Profit target
   - Return on equity at least 750 basis points over and above the risk-free interest rate
   - Annual double-digit growth in
     - operating profit (EBIT)
     - earnings per share
     - operating value creation

2. Capital management
   - The target is an S&P rating of AA (A.M. Best: A+)
   - Debt before equity in order to keep capital costs as low as possible
   - Optimal use of equity substitutes (risk securitisation and retrocessions)

3. Share price
   - Price development surpassing the performance of the unweighted "Reactions" World Reinsurance Index on a moving three-year average. This facilitates
     - a sustained increase in the value of the shareholders' investment
     - the lowest possible costs of raising equity

### Strategic principles

4. Investments
   - Priority attached to investments aimed at achieving an optimally diversified portfolio

5. Growth
   - Organic growth before acquisitions
   - Acquisitions only when they offer more than volume growth

6. Invested assets
   - Generation of an optimal profit contribution in the light of risk/return considerations
   - Continuous dynamic financial analysis for the purpose of optimal asset/liability management

### 7. Organisation and infrastructure

- An effective and efficient organisation oriented towards our business processes
- Investment priority for information management as an increasingly significant competitive factor
- Accounting systems that satisfy internal and external reporting requirements and support our business processes

### 8. Human resources policy

- Attractive jobs for ambitious, performance-minded employees who identify with our corporate objectives
- Constant improvement of qualifications and motivation
- Fostering of entrepreneurial thinking by delegating tasks, authorities and responsibility wherever possible

### 9. Risk management

- Ongoing monitoring of all risks that could jeopardise the continued existence of the Group or individual parts thereof

## Strategic fields of action

### 10. Performance Excellence

- Constant improvements in leadership, business policy, quality of employees and in the management of resources and processes
- In order to achieve the highest possible levels of satisfaction among staff and clients and to generate optimal business results

# THE HANNOVER RE GROUP
## our global presence

## America

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

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

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

**Insurance Corporation of Hannover**
Los Angeles, USA
(100.0%)

**Insurance Corporation of Hannover**
Itasca/Chicago, USA

**Hannover Re Advanced Solutions US Representative Office**
Itasca/Chicago, USA

**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%)

## Europe

**Hannover Rückversicherungs-AG**
Hannover, Germany

**E+S Rückversicherungs-AG**
Hannover, Germany
(56.8%)

## Africa

**Hannover Life Reassurance Africa Limited**
Johannesburg, South Africa
(96.9%)

**Hannover Reinsurance Africa Limited**
Johannesburg, South Africa
(96.9%)

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

%-figures = participation
You may find the addresses of our branch offices and subsidiaries on pages 122 to 124

**E+S Reinsurance (Ireland) Ltd.**
Dublin, Ireland
(56.8%)

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

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

**Hannover Re Advanced Solutions Limited**
Dublin, Ireland
(52.3%)

**International Insurance Company of Hannover Ltd.**
Virginia Water/London
Great Britain
(100.0%)

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

**Hannover Life Reassurance (UK) Limited**
Virginia Water/London,
Great Britain
(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
(99.6%)

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

## Asia

**Hannover Rückversicherungs-AG Seoul Representative Office**
Seoul, Korea

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

**Hannover Rückversicherungs-AG Shanghai Representative Office**
Shanghai, China

**Hannover Rückversicherungs-AG Taipei Representative Office**
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 - Chief Agency**
Sydney, Australia

**Hannover Life Re of Australasia Ltd**
Sydney, Australia
(78.4%)

# MANAGEMENT REPORT
## of the Hannover Re Group

## Economic climate

*Turmoil on the international financial markets and Iraq conflict hamper economic growth in industrialised nations*

The anticipated economic revival failed to materialise in 2002. Although the business climate gathered some impetus in the first half-year, this initial momentum dissipated over the course of the year. The turmoil on the international financial markets and the Iraq conflict as well as the associated rise in crude oil prices placed an appreciable strain on economic growth in the industrialised nations.

While in the USA the feared double-dip recession did not come about and, thanks to the effects of an expansionary monetary and fiscal policy, the overall economic output actually grew in the third quarter, the US economy has still not regained a firm footing.

In the Eurozone the economic trend remained sluggish in 2002. Movements in exchange rates emerged as a further dampening factor in the course of the year. The sharp rise in the euro against the US dollar resulted in a reduced growth impetus. The stimuli deriving from the monetary policy of the European Central Bank were overshadowed by the retarding influences of the fall in equity prices and the Iraq conflict.

*German economy remains flat*

In Germany the economy remained flat in 2002. Although the business climate brightened markedly at the beginning of the year and overall economic output began to gather fresh momentum, a real upswing failed to materialise. Here, too, one reason was the massive plunge in prices on international equity markets. The German Dax stock index, for example, lost 43.9% of its value, the sharpest decline since its launch in 1988. Particularly in the second half of the year the uncertainties surrounding the Iraq conflict as well as the depressed state of public finances and the tax increases planned by the Federal Government cast a cloud over the economic landscape. Exports, on the other hand, again supported business activity in the year under review. Whether or not the current year will see an upturn remains unclear. The present cyclical conditions in Germany do not appear especially stimulating, although favourable impulses should derive from the US economy.

The situation on the insurance and reinsurance markets in 2002 was dominated in particular by the repercussions of the terrorist attacks on 11 September 2001 in the US. On the one hand, this immense loss event resulted in a market shake-up. Some insurers and reinsurers – including major players – had to cut back or entirely discontinue their business activities. On the other hand, rates surged sharply, thereby generating profitable growth for large reinsurers. Profitability was, however, significantly impaired by the generally depressed state of capital markets.

The financial year witnessed again numerous natural catastrophes. Although the total economic losses were considerably higher than in the previous year, expenditure on insured claims held steady at EUR 11.5 billion. With around 700 recorded loss events, the number of natural catastrophes remained on a par with the previous year. Around 500 were attributable exclusively to windstorms and flooding. The most prominent event in this context was the disastrous flooding that hit Europe in August, causing estimated insured losses of EUR 3 billion. Further notable catastrophe loss events included the flooding in Indonesia, the storm "Jeanett" in western and central Europe and a fire at a Kuwaiti oil refinery.

Growth in premiums and results slowed still further in the life insurance sector. The downward trend on equity markets hampered the business development, since demand for index-linked insurance products declined. The hopes placed in demand for retirement age provision products were only partially fulfilled. In Germany, for example, the so-called "Riester-Rente", a semi-privatised pension, lagged well behind expectations.

## Business development

Having only achieved a result of EUR 11.1 million in 2001 owing to the terrorist attacks of 11 September, we returned to the profitability of previous years in the year under review. With net income of EUR 267.2 million we achieved the best result in the history of Hannover Re – leaving aside the year 2000, which was influenced by special tax effects. Earnings per share amounted to EUR 2.75.

*Net income of EUR 267.2 million marks the best result in Hannover Re's history*

With the exception of financial reinsurance – which had been influenced by special factors in the previous year – we increased our premium volume in all business groups. Total gross premium income grew by 8.3% or EUR 1.0 billion to EUR 12.5 billion. Had it not been for the rise of the euro against most of the key foreign currencies for our company, most notably the US dollar, the increase in premium income would have been as much as 4.3 percentage points higher.

Shortly after the terrorist attacks on the World Trade Center reinsurance markets around the world began to see significant premium increases and improvements in terms and conditions. This market hardening was sustained in all the property and casualty reinsurance lines throughout the year under review. In accordance with our strategy of increasing our business and acquiring additional market shares only during phases of cyclical upswing – thereby enhancing our profitability – we substantially enlarged our premium volume in property and casualty reinsurance. Gross premium income rose by 21.9% or EUR 1.1 billion, while net premiums climbed by 17.2%.

*Market shares in property and casualty reinsurance expanded*

Life and health reinsurance developed as planned. The reported premium growth was 4.2%. It should be borne in mind here, however, that in our US GAAP financial statements certain premium components – which under German accounting principles would be shown as such – are not recognised (so-called premium deposits). These premium deposits amounted to EUR 255.7 million gross and EUR 115.2 million net.

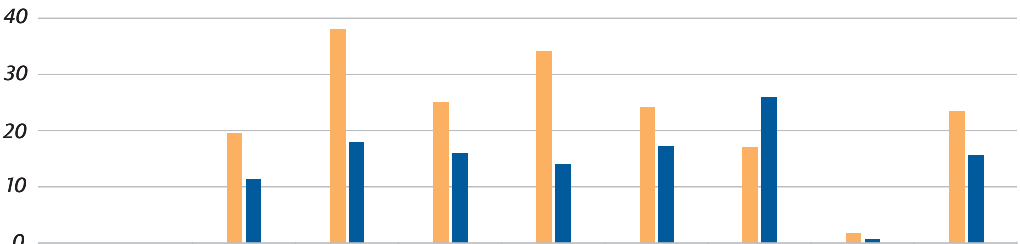
Financial reinsurance also performed in line with our expectations. The decline of 28.6% in gross premium income was due to extraordinary premium effects in the previous year. The 5.4% decrease in net premiums earned was disproportionately low due to the termination of a retrocession arrangement.

The development of program business was highly gratifying. We boosted gross premiums in this business group by 11.1% or EUR 271.7 million to EUR 2.7 billion. In view of the increased profitability of this business group we also sharply raised the level of retained premiums, which climbed by EUR 357.9 million to EUR 1,030.9 million (+ 53.2%). The Group's retention now stands at 37.8% (previous year: 27.4%).

*Gross premium income in program business boosted by 11.1%*

***Return on equity***

*in %*




| | 1995 | 1996 | 1997 | 1998 | 1999* | 2000* | 2001* | 2002* |
|---|---|---|---|---|---|---|---|---|
| Pre-tax profit** | 19.3 | 37.6 | 24.8 | 33.8 | 23.9 | 16.8 | 1.8 | 23.4 |
| Consolidated net income | 11.3 | 18.0 | 15.9 | 14.0 | 17.1 | 26.0 | 0.7 | 15.7 |

* Return on equity calculated in accordance with US GAAP
** After minority interests

*Operating result (EBIT) boosted to EUR 470.9 million in the year under review*

Ordinary investment income grew by 18.9% to EUR 1.1 billion (EUR 942.0 million). With current yields declining worldwide in the year under review, this rise was primarily due to higher deposit interest income. On account of the difficult state of the capital markets, we took write-downs on investments of EUR 207.0 million; of this amount, EUR 164.6 million was attributable to equities. It is thanks to the scaling back of our equity allocation to less than 6% as at year-end 2002 – continuing a move initiated in 2001 – that these write-downs were not higher. The balance of realised price gains and losses increased compared to the previous year; net investment income fell from EUR 945.7 million to EUR 928.4 million.

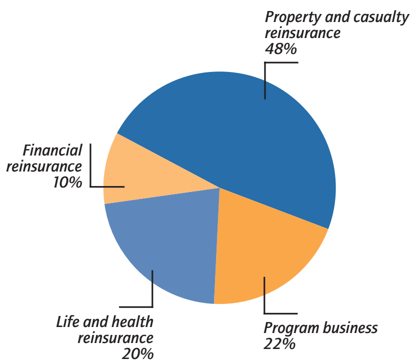
Overall, the operating result (EBIT) increased by 331.2% to EUR 470.9 million (EUR 109.2 million). The interest on our hybrid capital remained virtually unchanged at EUR 57.5 million (EUR 56.1 million); the tax burden in the year under review totalled EUR 131.2 million (EUR 17.5 million). After deducting the minority interest of EUR 15.0 million (EUR 24.6 million), consolidated net income of EUR 267.2 million (EUR 11.1 million) was reported. This corresponds to earnings per share of EUR 2.75 (EUR 0.11).

On 15 July 2002 we implemented a 3 for 1 stock split in order to improve the liquidity of our share. In this context, the common stock was increased by EUR 14.4 million through a withdrawal from retained earnings.

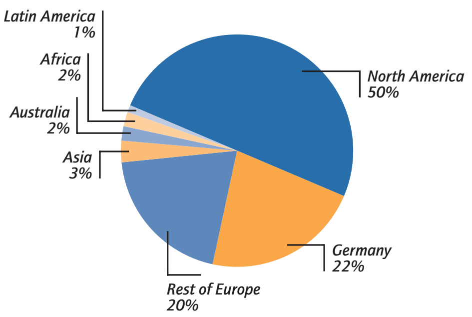
## Our business groups

We conduct operations in altogether four strategic business groups. In addition to the explanatory remarks provided in this management report, the segmental reports show the profit components per business group and contain a breakdown of the key asset and liability items in each group.

*Gross premium by business group*




*Gross premium by region*



## Property and casualty reinsurance

The improvement in premiums and conditions on the reinsurance markets, which had begun to emerge even before the attacks of 11 September 2001, gathered considerable momentum in the months thereafter. This market hardening was borne out during each phase of renewals in 2002 for all our most important lines.

In the cyclical property and casualty reinsurance we pursue a strategy of strict profit orientation. Only during hard market phases do we seek to grow and enlarge our market shares. We were superbly successful in executing this strategy in the year under review. The fact that we write the bulk of our property and casualty reinsurance business centrally from our home office in Hannover helps us to respond flexibly to each market situation. This centralisation also facilitates better controlling of the quality of the treaties written as well as pooling of the necessary know-how and experience.

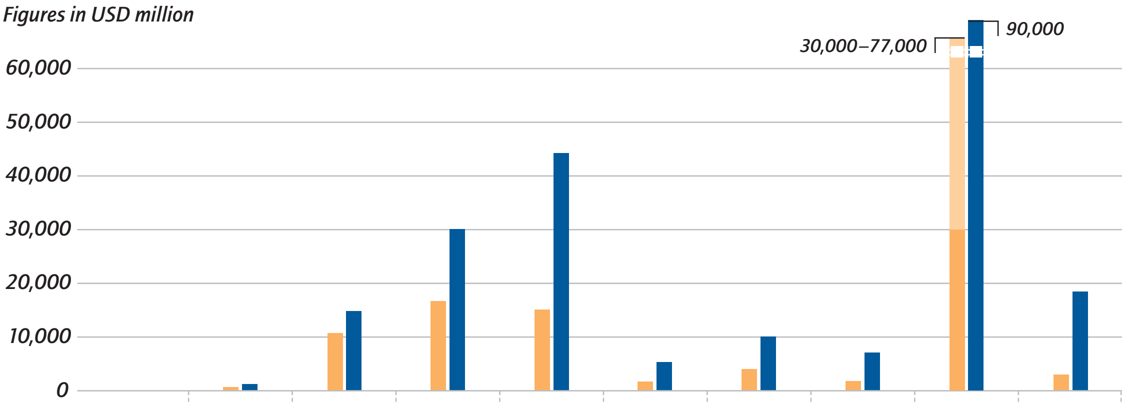
We enlarged our gross written premiums by an impressive 21.9% to EUR 6.0 billion. In the year under review the euro continued to rise steadily, especially against the US dollar. Gross premium income would have grown by as much as 25.8% had it not been for this effect. The proportion of the total gross premium income attributable to property and casualty reinsurance thus rose to 48.3% (previous year: 42.9%).

Net premiums grew by 17.2% to EUR 3.5 billion; the retention rate at year-end was 62.7%, a slight decline compared to the previous year (67.8%). The profitability of the business written is impressively borne out by the change in the combined ratio. The losses associated with the terrorist attacks of 11 September 2001 should be factored out in order to arrive at a revealing comparison (including the losses from the attacks the decrease would be as much as 19.8 percentage points). Leaving aside this extraordinary burden, the combined ratio fell by 6.4 percentage points.

*Proportion of total premium income attributable to property and casualty reinsurance sharply higher*

*The largest losses in the history of the insurance industry*

*Figures in USD million*




| | San Francisco earthquake 1906 | Winter storms in Europe 1990 | Hurricane Andrew 1992 | Los Angeles earthquake 1994 | Flooding in eastern and central Europe 1997 | Hurricane Georges 1998 | Storms in the area Tokai/Japan 2000 | World Trade Center (WTC) 2001 | Floods in Europe 2002 |
|---|---|---|---|---|---|---|---|---|---|
| Insured losses | 180 | 10,200 | 17,000 | 15,300 | 795 | 3,400 | 990 | 30,000-77,000 | 3,000 |
| Economic losses | 524 | 14,800 | 30,000 | 44,000 | 5,900 | 10,000 | 7,440 | 90,000 | 18,500 |

Source: Munich Re, Swiss Re, "Versicherungswirtschaft" journal

**It raises hang-gliders up into the skies. It enables surfers to glide across the water. And it changes our weather. Not only that, wind is also making an increasing contribution to power generation.**

The use of wind power is playing a growing role in energy policy around the world. The development of installations both on land and offshore is progressing rapidly. The existing technological capabilities can be illustrated by an example from the USA. Cape Cod/ Massachusetts is to be the site of the world's largest offshore wind park and the first such facility in the United States. From 2005 onwards, 130 wind power installations with a total power output of 468 megawatts will provide energy for around 500,000 households. This corresponds to 75 per cent of the power required by the Cape Cod region.

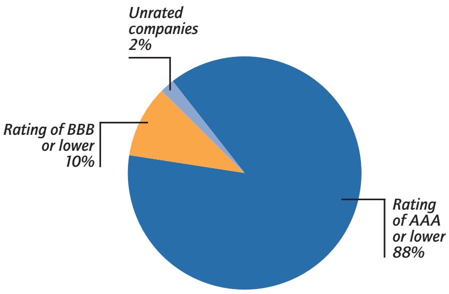
**Yet in the form of storms, hurricanes and tornadoes the wind strikes coastlines and land with unpredictable force and causes immense damage.**

With total damage in the order of USD 17 billion, Hurricane "Andrew" in 1992 had hitherto unparalleled financial repercussions and ranks as the second-largest insurance loss of all time. Had the storm track been a mere 20 kilometres further to the north, estimates suggest the losses could have been three to four times greater. Hurricanes that make landfall on the North American continent are particularly significant loss events for the insurance industry. After "Andrew", the severest hurricanes – measured by loss amount – were "Hugo" (1989), "Floyd" (1999) and "Fran" in 1996. Windstorms cause more damage worldwide than earthquakes, volcanic eruptions and floods combined.

Worldwide we prefer to write non-proportional business, since the profit margins here are significantly higher than with proportional treaties. In the year under review we were able to further increase the proportion of our property and casualty reinsurance portfolio accounted for by non-proportional treaties to 69.8% across all countries and lines of business.

The balance of catastrophe losses in the first half-year was dominated by a small number of large individual losses. The second half of the year was most notable for damage caused by the flooding in central Europe. Our account, too, was affected by the devastating damage in Italy, the Czech Republic, Austria, and Germany. The total net losses from this natural catastrophe were in the order of EUR 69.7 million. Nevertheless, the burden of catastrophes losses for our company in 2002 was in line with the multi-year average. It totalled EUR 182.0 million for net account. Catastrophe losses thus accounted for 5.2% of net premium income.

*Quality of our retrocession receivables*




Unlike many of our competitors, we were not compelled to constitute significant additional reserves for losses from the terrorist attacks and from US liability business. We were protected by our cautious reserving policy – which we keep to even in market cycles of weak profitability – and the composition of our treaty portfolio.

We continued to attach the utmost importance to ensuring the high quality of our retrocessionaires in the year under review. As can be seen from the adjacent chart, the vast majority of our retrocession partners are rated "A" or better by Standard & Poor's.

Overall, we are highly satisfied with the 2002 financial year in property and casualty reinsurance. We generated an underwriting profit of EUR 130.8 million (following a loss of EUR 481.3 million in the previous year). For the first time since 1995 we thus achieved a positive underwriting result in property and casualty reinsurance. The situation on the capital markets was an adverse factor in the year under review. Just as other market players throughout the industry, our company had to take write-downs on its equity portfolio. It was only thanks to our comparatively low equity allocation throughout the year – standing at just 5.7% as at year-end – that we fared better than numerous competitors in this respect, too. Overall, we succeeded in generating net income after tax of EUR 154.1 million, a figure EUR 229.7 million higher than in 2001. The earnings per share contributed by the property and casualty reinsurance business group to the consolidated result thus stood at EUR 1.59, following -EUR 0.75 in the previous year.

## Key figures for property and casualty reinsurance

| *Figures in EUR million* | *2002* | *2001* | *2000* | *1999* |
|---|---|---|---|---|
| Gross written premiums | 6 020 | 4 938 | 3 385 | 2 614 |
| Net premiums earned | 3 502 | 2 989 | 2 524 | 2 069 |
| Underwriting result | 131 | (481) | (206) | (228) |
| Operating result (EBIT) | 306 | (41) | 249 | 256 |
| Net income/loss after tax | 154 | (76) | 267 | 128 |
| Earnings per share in EUR* | 1.59 | (0.75) | 3.02 | 1.46 |
| Retention | 63% | 68% | 64% | 62% |
| Combined ratio | 96% | 117% | 108% | 111% |

**For previous years stock split of 15 July 2002 in a ratio of 3 for 1 taken into account*

## Germany

In the German primary insurance market a considerable capacity shortage can be identified in industrial business. This shortage stems from the fact that numerous companies have discontinued or restructured this line of business. The remaining insurers in Germany are making intensive efforts to rehabilitate their industrial portfolios. Premium increases of between 50% and 100% – in some cases even more – were achieved in industrial fire insurance in the year under review. At the same time policyholders' deductibles were also raised substantially. Similarly, conditions improved considerably in industrial liability insurance. The rehabilitation of business with small and mid-sized companies is progressing somewhat more slowly, but also with appreciable results.

Since the events of 2001 terrorism losses have been excluded under property insurance policies in all cases where the sum insured per risk exceeds EUR 25 million. Where necessary, Extremus, the specialist terrorism insurer newly established in the year under review, provides coverage. To date, however, demand for this offer has been hesitant.

Insurers experienced an uneven development in motor business. Motor third party liability insurance was characterised by a steadily declining claims frequency, stable average claim costs and higher premiums. In own damage insurance the aforementioned flood and windstorm losses served to push up the loss ratio by 15 percentage points.

For the property insurance industry as a whole, the flood damage of last August produced a gross loss burden in the order of EUR 1.8 billion.

On the reinsurance market the cessation of operations by a major competitor caused quite a stir and sharply reduced the available capacities. In this climate our subsidiary E+S Rück – a well-established reinsurer with first-class ratings that bears exclusive responsibility for the German market – was able to consolidate its position and build up attractive new business relationships.

*Motor insurance highly profitable*

In Germany we concentrate on clients who have positioned themselves as insurers of mass business. Our most important line is motor third party liability insurance, which accounted for 47.0% of our total German premium income and had a loss frequency of roughly 70 ‰ – an all-time low over the course of a year. The growth in premiums outpaced the increase in risks. The average claim in the year under review was only marginally higher than in the previous year. Overall, our motor insurance portfolio is a highly profitable line in both proportional and non-proportional business.

General third party liability business profited from the absence of sizeable catastrophe losses in the year under review and therefore generated a satisfactory result.

Our personal accident business was again strongly profitable, not least because we were able to stimulate business with our own product developments tailored to specific target groups. Industrial fire insurance, which benefited from the lack of spectacular catastrophe losses, similarly closed with a profit thanks to our selective underwriting policy.

*Stronger demand for natural catastrophe covers*

Our account came under particularly heavy strain from the flooding in central Europe in August 2002, which produced a net burden before tax of EUR 69.7 million. Further significant events were the heavy rain and hail that fell in southern Germany in June, costing us EUR 10.7 million for net. These natural catastrophes will, however, generate stronger demand for catastrophe covers – accompanied by premium increases – throughout the industry and hence for our company, too.

In credit and surety reinsurance the portfolio rehabilitation measures taken by insurers have been slow to make themselves felt. The claims situation remains tense and again placed a heavy strain on results, causing surplus cap-

*Sharply tightened underwriting standards in credit and surety business*

acities to disappear from the market. One major competitor discontinued its business activities, while others took an increasingly critical stance towards German business. This capacity shortage failed, however, to bring about an adequate improvement in reinsurance terms and conditions.

Anticipating a recovery on the markets, we exploited the capacity shortage and cautiously enlarged our market share. In this regard, we sharply tightened our underwriting standards in order to ensure that the business is also profitable.

The insolvency of a large construction company impacted the entire industry. Nevertheless, our loss burden of EUR 5.6 million was significantly less than that of other reinsurers since we had been quick to adopt a cautious underwriting policy.

## Rest of Europe

### United Kingdom and Ireland

In the primary insurance sector appreciable market hardening can be observed in virtually all lines. Only in motor insurance did the trend towards premium increases, which had been sustained for two years, begin to weaken.

*Improved premiums and conditions in almost all lines*

Against this backdrop an improvement in premiums and conditions was recorded across almost all lines in the reinsurance sector, too. Significant changes also occurred in the supply structure: one large German reinsurer discontinued its acceptances, a Lloyd's syndicate stopped writing liability covers and other competitors are finding it difficult to write long-tail business on account of the current development of their portfolios. These difficulties led to a capacity shortage in the liability sector and accelerated the search for quality reinsurers, especially with respect to long-tail treaties. Insurers seeking to reinsure such business prefer to turn to companies that have a Standard & Poor's rating of at least "AA-" or better.

*Hannover Re well-positioned on the London Market with an "AA" rating*

We are well-positioned with an "AA" rating and were able to exploit the market situation to our advantage. In the year under review we systematically expanded our property business and benefited from the premium increases that followed in the wake of the World Trade Center attacks. Accounting for 72% of total gross premium income, the property insurance lines are by far the most important for our company in the UK market. In motor insurance, our second most important line, we profited from the restructuring of reinsurance programmes against the backdrop of an extraordinary individual loss in 2001.

Following the fundamental exclusion of terrorism coverages from standard treaties, we offer separate, strictly controlled special arrangements for such risks on an opportunistic basis.

In marine and aviation business written on the London Market our underwriting policy targets non-proportional business involving middle and upper programme layers. We accept proportional business only where the premiums are markedly in excess of the expected losses. Due to sharply improved premiums and conditions, we were able to substantially expand our portfolio across all segments.

### France, Benelux

In France and the Benelux countries, too, rates and conditions improved markedly in the primary insurance sector in the year under review. This was especially true of industrial fire insurance. On the reinsurance side the situation for providers was even more favourable than in the primary market. Market withdrawals and cutbacks in underwriting volume by a number of competitors also led to capacity shortages.

We were able to profit from this advantageous market climate. We considerably expanded our non-proportional portfolio, a highly gratifying move in light of the favourable rate trend. The dominant line here is property insurance, most notably covers for natural catastrophe risks. The only sizeable loss event recorded in the year under review was the disastrous flooding that affected the south of France in September 2002.

France has evolved into a significant credit/surety reinsurance market for our company because two of our major clients are based there.

The partial withdrawal of some credit reinsurers cut into the available capacity in the year under review, leading to an – albeit as yet inadequate – hardening of market conditions.

In expectation of a better business climate we made the most of the capacity shortage and increased our market share in credit reinsurance business. At the same time we were able to enforce more stringent underwriting standards. Our European programmes still consist for the most part of proportional treaties, although we increased our share of non-proportional business.

Overall, we were highly satisfied with our reinsurance business in France and the Benelux countries in the year under review.

### Italy

In the primary insurance sector the market players have extensively rehabilitated the largest line, namely motor third party liability. This became possible after the insurance supervisory authority stopped regulating the pricing of the motor third party liability tariff. Private customer business in the property and liability sectors has remained profitable overall. In industrial business, especially due to the pressure exerted by reinsurers, insurers were able to gain better control of natural catastrophe exposures. Liability for natural hazards was generally restricted, while the exclusion of coverage for terrorism – particularly in the case of more exposed risks – was made the rule.

The reinsurance market is experiencing a conspicuously hard market phase, in which – with a few exceptions – technically acceptable prices can usually be enforced. As a general principle, all the reinsurers participating in the Italian market have renounced business policies driven by premium volume and are striving to generate underwriting profits.

We rank among the most prominent reinsurers in Italy. Given the environment described above, our underwriting policy remains selective. The significant improvement in market conditions has made it easier for us of late to push through our pricing requirements.

On the claims side our account was affected most notably by the hail and heavy rainfall of August 2002. Overall, though, the development of our Italian business was satisfactory.

*France is an important market for credit and surety reinsurance*

### Northern Europe

Fierce competition, especially in the areas of commercial and industrial insurance, has been a hallmark of the insurance market in northern Europe in recent years. This competitive climate substantially restricted the level of attainable premiums. In the second half of 2002, however, an appreciable rate increase began to take hold.

Our primary focus in the Scandinavian markets is on the fire and motor lines. *Denmark* is our most important reinsurance market in northern Europe. In the course of the past year we secured the position of lead reinsurer for the mutual insurance societies and thereby almost doubled our premium income. As a consequence of this volume growth and the regrouping of our portfolio in favour of non-proportional treaties, in the year under review we achieved our best result in Denmark since commencing business in this market. Whilst we are less prominent in the other Nordic markets, our name is nevertheless well established among ceding companies. Premium income from these countries increased slightly and derives predominantly from non-proportional business.

*Premium income in Denmark, the most important of the Scandinavian markets, almost doubled*

### Eastern Europe

The insurance market in eastern Europe is increasingly converging with conditions in the rest of Europe, and competition is intensifying.

The most important countries in eastern Europe for our company are those that will be joining the European Union in the foreseeable future (*Poland, the Czech Republic, the Slovak Republic, Hungary and Slovenia*). Large proportional capacities are characteristic of these markets. The most significant loss event in this part of Europe was the disastrous flooding that affected the Czech Republic in August 2002. This event prompted considerable movement on both the primary and reinsurance markets. Improvements in original conditions could already be observed by the autumn of the year under review. At the same time the reinsurance sector experienced a surge in demand for additional coverage. The terms and conditions obtained by providers for these covers were substantially more favourable than in the past.

*We see considerable growth potential in the countries of the former Soviet Union*

The states that used to belong to the former Soviet Union generate less premium income than the aforementioned countries of eastern Europe. Yet, they are recording strong growth rates, and we therefore see considerable potential in this region.

Fire and motor insurance continue to be our most important lines of insurance in eastern Europe. On balance, almost all the countries of central and eastern Europe were profitable for our country in the year under review. The exception was the Czech Republic, where we posted a not inconsiderable loss due to the flood damage.

## North America

The insurance industry can look back on a mixed year with limited natural catastrophe losses but substantial declines in investment income. The most prominent topic, however, was the failure of many insurers to make adequate allocations to their loss reserves during the soft market cycle. Losses caused by asbestos-related claims were a further factor here. In many instances, therefore, insurers found themselves compelled to constitute extensive additional reserves.

*North American business thoroughly successful*

There was no consistent pattern on the premium side, although overall we observed a significant recovery. Premium increases were unusually strong in commercial and private property insurance. In the liability lines, however, we believe there is still considerable room for further improvement.

*Systematic expansion of property and liability business*

In the wake of the events of 11 September 2001 terrorism risks were to be excluded, wherever possible, from standard property insurance policies. This prompted certain companies to offer separate coverage for terrorism risks. At the end of November 2002, however, a bill was passed into law under which terrorism risks must once again be included in property insurance policies. It should nevertheless be noted that this law has not as yet had any effect on policies in force in the year under review.

The recovery on the primary insurance market has still to make itself fully felt in the reinsurance sector. The combined ratio across all US reinsurers was 121.3% as at year-end. It is anticipated that the industry as a whole will move back into the black in the second half of 2003 at the earliest.

Hannover Re enjoyed a thoroughly successful 2002 financial year with its North American portfolio. Having written business cautiously during the soft market cycle, we had already begun to significantly step up our activities in 2001 in view of the emerging market hardening – a move we continued in the year under review. We thus expanded our premium volume in property insurance by more than 60% and in liability business by over 50%. The most important property line in our portfolio is industrial fire insurance. Of the liability lines, commercial business and professional indemnity are the most significant. The sharpest rates of growth were recorded in medical malpractice, workers' compensation and motor third party liability business. Through selective underwriting we also substantially expanded our business providing coverage for terrorism risks. This is an area in which we are one of the market leaders.

We concentrate heavily on excess of loss reinsurance covers. In terms of numbers, this type of business accounted for approximately 90.0% of all the treaties written in the year under review.

In contrast to some of our competitors, we had no need to constitute significant additional reserves for our US business. This was due in part to the fact that – as a general principle – we establish a high level of reserves in the year in which treaties are written. With regard to the World Trade Center losses, a further factor is that the reserves were calculated for every single treaty shortly after the attacks of 11 September. What is more, the bulk of our portfolio consists of non-proportional treaties, for which the full scope of cover has been reserved. Similarly, asbestos-related claims have impacted our company much less heavily than other market players because Hannover Re only began to write a significant volume of US business relatively recently – namely in the 1980s. Nevertheless, we did make a further slight increase in the relevant reserves.

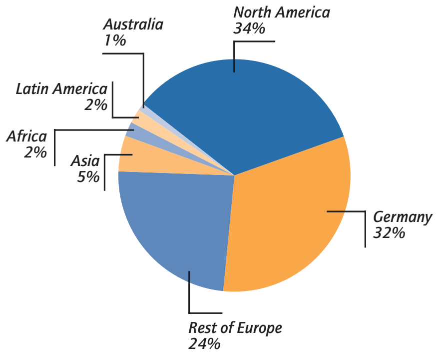
The market for natural catastrophe reinsurance coverage has hardened steadily since the attacks of 11 September. As a further consequence of these events, some ceding companies turned away from the London Market in favour of the newly established catastrophe reinsurers in Bermuda. We, too, established our own company here in 2001, Hannover Re (Bermuda) Ltd. It writes primarily the middle and upper layers of natural catastrophe reinsurance programmes. This company made superb use of the favourable market situation, generating premium income of EUR 121.0 million in its first full year of business operations.

*Hannover Re Bermuda superbly positioned*

With the exception of the annually occurring tornadoes in the Midwest and southern United States, North American business was spared any sizeable natural catastrophe events. Given the higher retentions run by our clients, the strain on our account from these losses was strictly limited.

We also successfully transact credit and surety reinsurance in North America. The market players in this line remain unsettled following considerable losses in previous years and the uncertain outcome of the Enron proceedings. No new catastrophe losses were reported in the year under review. The claims frequency nevertheless remained largely unchanged as a consequence of a relatively high number of small and mid-sized losses. In this line of business we adhered to our strict policy of consolidation and sharply tightened our underwriting standards. We were able to profit from substantial rate improvements in excess of loss reinsurance while at the same time reducing our levels of exposure.

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




## Other international markets

### Africa

The South African market, which generates the bulk of our African business, is dominated by two large insurance companies that together hold a market share of more than 52%. Premiums in the primary sector have risen appreciably, especially for commercial and industrial business.

The reinsurance market experienced appreciable hardening in prices and conditions during the 2002 renewal season. However, these improvements are not yet considered adequate by the reinsurers. In South Africa we rank among the three largest reinsurers and are the most prominent writer of non-proportional treaties.

*Hannover Re one of the three largest reinsurers in South Africa*

*Result of Latin American business boosted thanks to appreciably better terms and conditions*

Nevertheless, these account for a mere 10% of our total portfolio, since the South African market is still composed first and foremost of proportional business.

All in all, 2002 was a very difficult year for our company in South Africa. The burden of losses in the motor and liability lines increased. Write-downs at our participations as well as exchange-rate effects associated with the strength of the rand during the year under review also placed a strain on our result. We initiated a fundamental review of our treaty relationships and have begun to streamline our organisation and improve its efficiency. We thus have reasons to feel confident that we will be able to overcome the aforementioned difficulties during the current year.

*Premium volume in Asia enlarged*

### Latin America

Latin American business was overshadowed by the adverse economic conditions in *Argentina* and *Venezuela*. The Argentine peso slumped in value, the bankruptcy ratio climbed sharply and private consumption collapsed. This also took its toll on the insurance market, which was faced with substantial premium declines in both commercial and private customer business.

Reinsurers responded to this situation either by not renewing business or by significantly raising premiums and tightening the terms and conditions. Many treaties were also converted from pesos to US dollars.

In the years prior to 2002 Argentina had been our most important South American market, both in terms of premium volume and profitability. In light of the developments described above, however, we scaled back our involvement considerably.

In the other Latin American markets we observed market hardening comparable with that seen in other parts of the world. This enabled us to offset the premium decline in Argentina and Venezuela. In Latin America we are particularly active in the area of excess of loss reinsurance. Industrial fire insurance continued to be our most important line in the year under review. Overall, we were able to improve the result of our Latin American business.

### Asia

In *Japan* the process of concentration continued in the primary insurance sector. The five largest providers combined now book 86% of all premiums. On the reinsurance side appreciable hardening could be observed. Premiums for excess of loss reinsurance covers increased by between 15% and 20%. Commissions under proportional treaties were cut substantially. In this general climate, as a sought-after reinsurer, we were able to position ourselves advantageously in the Japanese market.

In *Korea*, too, the market environment changed in our favour, and we were similarly able to enlarge our premium volume. In *Taiwan*, despite the extraordinarily high exposure to natural hazards, we succeeded in boosting our premium income and enhancing profitability as the market hardened. *Hong Kong* offers a number of highly attractively priced excess of loss reinsurance programmes, in which we write substantial lines. We thus enlarged our premium volume in this market, too.

### Australia, New Zealand

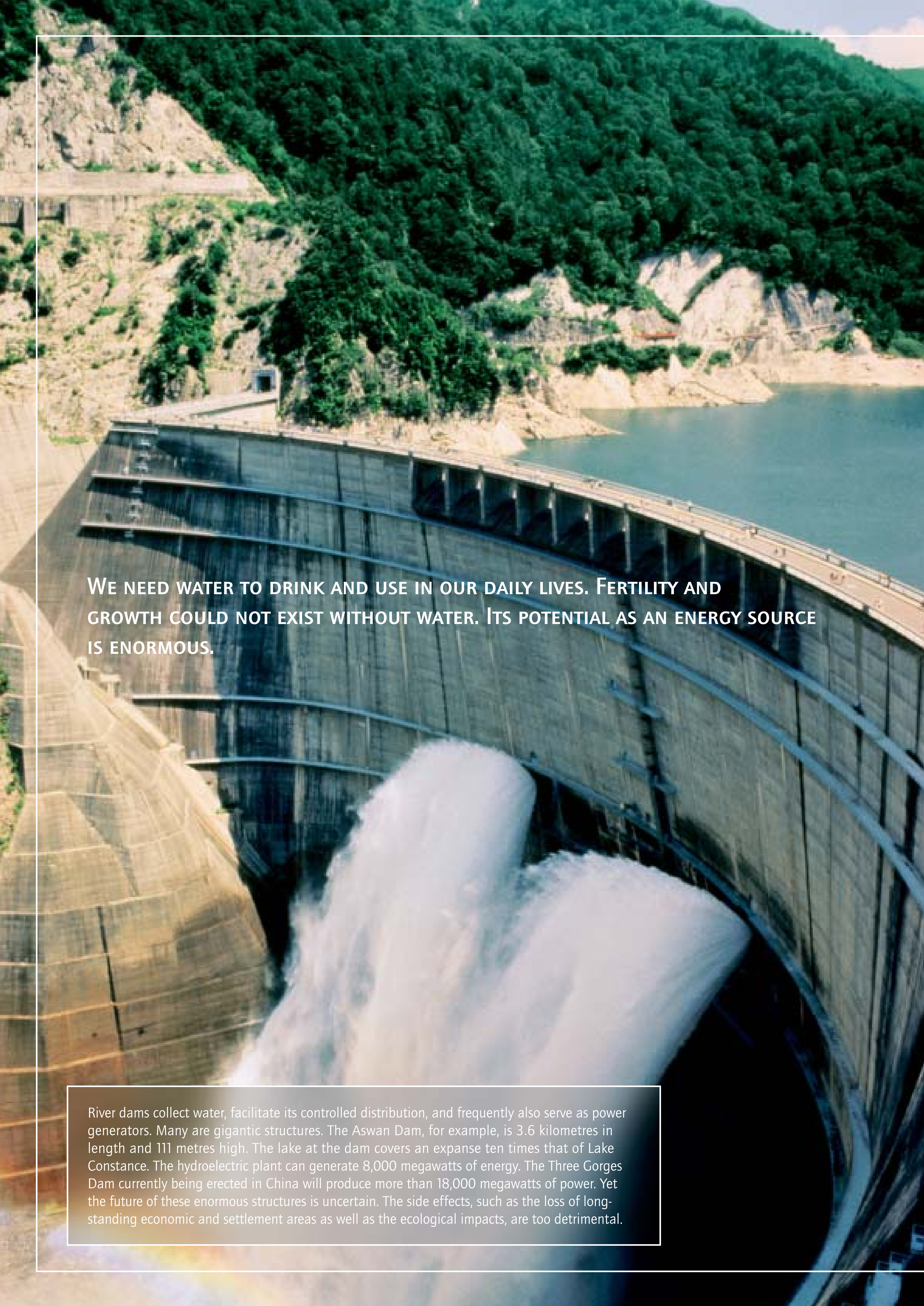
The competitive pressure in the Australian insurance market increased sharply following the insolvency of one of the major market leaders. This insolvency exacerbated still further the liability crisis that had already emerged in 2001. This gave rise to dramatic increases in liability premiums, amounting to several hundred percent in the most extreme cases. Appreciable restrictions on coverage, including reductions in the limits of indemnity and far-reaching exclusions, were also observed in some instances.

The reinsurance industry profited from these developments and enjoyed an exceptionally favourable year 2002, thanks to a market situation that was appreciably better than in the previous year. Large providers with good ratings reaped the greatest benefits. The aforementioned elimination from the market of one of the major Australian insurers prompted heightened quality awareness throughout the entire financial services sector. The insolvency triggered an increased sensitivity across the board to the ratings and financial stability of market players. The Australian insurance regulator also tightened the reporting obligations and capital requirements for insurance companies.

*Our position as number four in the Australian market consolidated*

In this climate we were able to firmly assert our position as the number four in the market. We successfully implemented our strategy of growing with the cyclical upturn and writing profitable business. In the liability lines we made the most of the significant improvement in treaty terms and conditions and enlarged our portfolio; we consolidated our position as market leader for catastrophe excess of loss reinsurance programmes.

Both the premium income and the result of our business were considerably higher in the year under review than in 2001.



We need water to drink and use in our daily lives. Fertility and growth could not exist without water. Its potential as an energy source is enormous.

River dams collect water, facilitate its controlled distribution, and frequently also serve as power generators. Many are gigantic structures. The Aswan Dam, for example, is 3.6 kilometres in length and 111 metres high. The lake at the dam covers an expanse ten times that of Lake Constance. The hydroelectric plant can generate 8,000 megawatts of energy. The Three Gorges Dam currently being erected in China will produce more than 18,000 megawatts of power. Yet the future of these enormous structures is uncertain. The side effects, such as the loss of long-standing economic and settlement areas as well as the ecological impacts, are too detrimental.

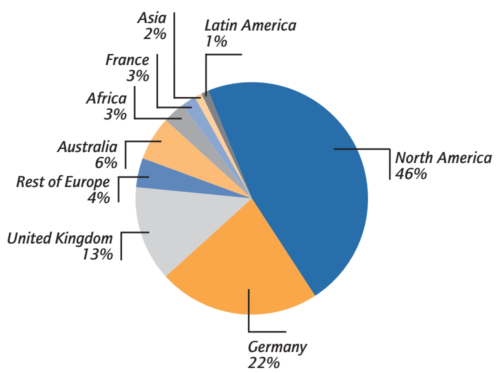
**Yet time and again water is also an incalculable hazard for people and the livelihoods they have established.**

In the summer of 2002 a "once-in-a-century" flood claimed lives and caused damage in the order of EUR 20 billion in Central Europe. The insurance industry suffered losses of EUR 3 billion. The devastation in China was even greater, where between June and August, 140 million people were affected by flooding and several thousand died by the end of 2002. While the aftermath of these events still lingers in our minds, experts are unable to agree whether we are actually seeing a statistical increase in the number of flood disasters.

# Life and health reinsurance

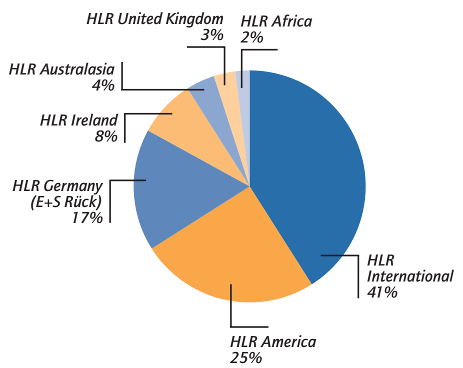
Characterised by a shift in demand towards conventional products with guaranteed benefits and a sharp decline in the market value of dividend-bearing securities, the German life insurance market – served by around 120 companies – was a difficult climate in which to operate in 2002. Although the effects varied from company to company, these developments had generally unfavourable repercussions on the financial strength and solvency of life insurers. Against this backdrop, the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BAFin) took additional steps to obtain a real-time overview of the financial state of life insurers and at the same time exert a stabilising influence on the situation.

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




The German market's hopes of a resounding success with the partial privatisation of the state pension scheme – in the form of the so-called "Riester" pension – were not fulfilled, although in the second half of the year a modest upsurge was observed in this market segment.

*Breakdown of gross premiums by business centers (before consolidation)*




In this competitive environment small and mid-sized life insurers in Germany are finding it particularly difficult to hold their ground. Informed industry observers expect a consolidation in the life insurance market and anticipate that the number of companies squeezed out of this market in the coming years will run into double figures.

Against this backdrop the trend on the international life reinsurance market was satisfactory, albeit without spectacular developments such as those seen in the non-life sector as an after-effect of the events of 11 September 2001 in the USA. Proportional reinsurance continues to be the dominant product line; non-proportional covers are used for the most part in group insurance and as catastrophe excess of loss coverage.

By systematically maintaining our fundamental strategic positions, we asserted ourselves well in the year under review in a highly competitive climate. In vitally important insurance markets such as Germany, France, the United Kingdom, Italy, ASEAN and China we now rank among the top three reinsurers, while in Australia and southern Africa we have actually assumed the role of market leader. In the USA we consider ourselves a leading specialty provider for the reinsurance of already existing complete life and annuity portfolios.

In organisational terms, we are spread across a global network of seven "business centers" in which Hannover Life Re International – the life reinsurance division of Hannover Re – fulfils a central coordinating role.

Consolidated gross premium income – excluding the premium deposits for unit-linked life and annuity products – grew by 4.2% to EUR 2.5 billion in the year under review, while net premiums earned increased by as much as 23.1% to EUR 2.1 billion due to our reduced recourse to the retrocession market. The level of retained premiums thus stood at 86.9% (previous year: 73.7%).

Particularly notable growth impetus derived from a number of European markets, including the United Kingdom and Ireland, as well as Asia.

Key figures for life and health reinsurance

| Figures in EUR million | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|
| Gross written premiums | 2 472 | 2 371 | 2 091 | 2 220 |
| Premium deposits | 256 | 289 | 404 | – |
| Gross premiums incl. premium deposits | 2 728 | 2 660 | 2 495 | 2 220 |
| Net premiums earned | 2 142 | 1 740 | 1 592 | 1 485 |
| Premium deposits | 115 | 129 | 131 | – |
| Net premiums incl. premium deposits | 2 257 | 1 869 | 1 723 | 1 485 |
| Investment income | 268 | 197 | 204 | 217 |
| Claims expenses | 1 219 | 1 066 | 1 209 | 728 |
| Expenses for benefit reserves | 574 | 298 | 37 | 496 |
| Commissions | 453 | 460 | 411 | 391 |
| Own administrative expenses | 57 | 32 | 57 | 50 |
| Other income/expenses | 34 | – | 52 | 23 |
| Operating result (EBIT) | 48 | 50 | 36 | 27 |
| Net income after tax | 30 | 23 | 54 | 22 |
| Earnings per share in EUR* | 0.31 | 0.24 | 0.61 | 0.25 |
| Retention | 87% | 74% | 76% | 67% |

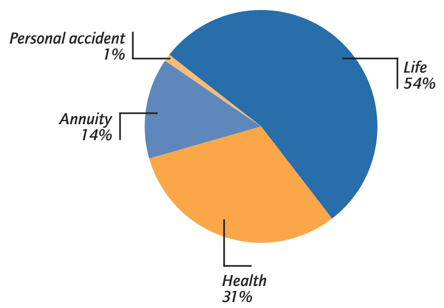
*For previous years stock split of 15 July 2002 in a ratio of 3 for 1 taken into account

The breakdown of the portfolio structure into the typical product lines of life, annuity, health and personal accident shifted further in favour of the preferred lines of life and annuity, which in sum now account for more than 68% of our total premium income.

Hannover Life Re's underwriting results are affected by a number of factors, including mortality, morbidity, persistency of the in-force business and investment income. In the first place, the observed claims experience for the assumed risks plays a role. In this context, we noted a certain deterioration in the mortality risk for major risks in some countries, such as Japan.

As far as financing transactions are concerned, the persistency of the in-force business is a crucial success factor since it safeguards the amortisation of the prefinancing provided. In this respect, the reality of the year under review was very largely in line with our expectations. Although insurers in many markets were downgraded by the rating agencies, we are not aware of a single case where financial difficulties at a ceding company have jeopardised repayment of the funding that we provided.

*Breakdown of premiums by line of business*




Overall, the year under review closed with a diminished operating result (EBIT) of EUR 48.5 million (EUR 50.5 million). Of the components that make up this result, the underwriting result deteriorated by EUR 39.7 million and net investment income improved by EUR 71.7 million. The net income after tax totalled EUR 30.0 million, a rise of 29.1% on the previous year. Earnings per share for the life and health reinsurance business group therefore amounted to EUR 0.31 (EUR 0.24).

## Development of the value of in-force business

*Value of in-force business boosted by 15% to EUR 1.2 billion*

As in the previous years, we subjected the retained in-force portfolio of Hannover Life Re to detailed actuarial analysis in order to determine the present value of future technical profit flows before taxes – the so-called "value of in-force business". Compared to the previous year, the value of in-force business showed a gratifying increase of 15% to reach EUR 1.2 billion[1].

Development of the value of in-force business

| *Figures in EUR million* | *2002* | *2001* | *2000* | *1999* |
|---|---|---|---|---|
| Hannover Life Re Africa | 9 | 7 | 10 | 7 |
| Hannover Life Re America | 170 | 130 | 120 | 95 |
| Hannover Life Re Australasia | 79 | 78 | 76 | 61 |
| Hannover Life Re Germany (E+S Rück) | 227 | 194 | 172 | 74 |
| Hannover Life Re International | 480 | 457 | 401 | 329 |
| Hannover Life Re Ireland | 179 | 124 | 42 | – |
| Hannover Life Re United Kingdom | 62 | 58 | 53 | 43 |
| Total | 1 206 | 1 048 | 874 | 609 |

The following risk discount rates were used here; they are based on the return on long-dated government bonds in the respective currency plus 350 basis points:

| *Currencies in %* | *2002* | *2001* |
|---|---|---|
| Euro | 7.75 | 8.50 |
| US-dollar | 7.25 | 8.50 |
| Australian dollar | 8.75 | 9.75 |
| Pound sterling | 8.00 | 8.50 |
| South African rand | 15.50 | 16.25 |

*Robustly structured portfolio due to short amortisation period of financing transactions*

Sensitivity analyses reveal the influence of changes in the discount rate and exchange rates on the value of in-force business. It should be noted that our portfolio is highly robust due to the relatively short amortisation period of the financing transactions. For the business center Hannover Life Re International, for example, the value of in-force business varies by around EUR -27 million with a change of +/- 100 basis points in the interest rate, while a change of +/- 5% in foreign exchange rates against the euro produces variation of roughly EUR 12 million. We have constituted a valuation reserve of approximately EUR 50 million for future risks arising out of an increase in interest rates.

If we compare the calculated value of the in-force business, which has been audited by highly reputed firms of external actuaries, with the deferred acquisition costs (DAC) determined

[1] *In the case of participations < 100% the full amount is indicated*

in accordance with US GAAP, a positive balance remains. This so-called non-capitalised portfolio value, which amounted to EUR 471 million (EUR 321 million) on a pre-tax basis as at 31 December 2002, developed as follows:

Development of non-capitalised portfolio value

| *Figures in EUR million* | *2002* | *2001* | *2000* | *1999* |
|---|---|---|---|---|
| Portfolio value | 1206 | 1 048 | 874 | 609 |
| Deferred acquisition costs | 979 | 906 | 597 | 374 |
| Unearned revenue reserve | 244 | 179 | – | – |
| Net acquisition costs | 735 | 727 | 597 | 374 |
| Non-capitalised portfolio value | 471 | 321 | 277 | 235 |
| Growth in non-capitalised portfolio value | 150 | 44 | 42 | 90 |

From the standpoint of value creation, Hannover Life Re thus generated value of EUR 192.1 million in 2002, comprising a "visible" component of EUR 41.9 million from the US GAAP statement of income and an indirect value increase of EUR 150.2 million based on analysis of the value of in-force business. This produces a margin of 9.0% on the net premiums earned.

## Germany

In the year under review we systematically expanded our position in Germany as a leading reinsurer for financing transactions in the area of unit-linked policies (life and annuity products). New business from the so-called "Riester" pension products, on the other hand, failed to live up to our expectations in the year under review.

Overall, gross premium income from the German market was roughly on a par with the previous year, amounting to EUR 347.7 million. The underwriting performance based on the mortality and persistency risk remained favourable. Thanks to the typical structure of our contracts, which guarantees us interest income on the benefit reserves, we were not unduly impacted by the turmoil on the financial markets.

*Expansion of our position in Germany as leading reinsurer for financing transactions*

## Rest of Europe

### Great Britain

With our clear strategic concentration on risk-oriented life and critical illness business as well as simple annuity products sold through banks (bancassurance), we have now advanced to become a recognised force in the UK reinsurance market. We boosted gross premiums by 17% to GBP 283.7 million (EUR 451.8 million), while net premiums similarly grew by 17% to GBP 270.2 million (EUR 430.4 million).

The claims experience remained favourable and net investment income was only marginally affected by the depressed state of UK financial markets. Hannover Life Re UK generated an operating result (EBIT) of GBP 3.3 million (EUR 5.3 million) – a gain of 15% year-on-year – and net income after tax of GBP 2.2 million (EUR 3.5 million).

*Gratifying performance thanks to strategic concentration*

In addition, since the mid-1990s several sizeable quota share acceptances of so-called enhanced annuities have been written on the UK market from Hannover. This business also recorded a positive performance within the anticipated parameters.

### Ireland

*Premium income from Ireland surges by 140%*

Hannover Life Re Ireland, Dublin, writes treaty business on a worldwide basis. Premium income surged by 140% to EUR 306.4 million, with its main markets being the USA, the United Kingdom and Canada.

The overall claims experience was gratifying, enabling us to post an improved operating result (EBIT) of EUR 7.0 million.

### France, Italy and Spain

Our activities in these three important markets are concentrated on sizeable accounts in the bancassurance sector. We provide these clients with targeted support in the areas of product design, underwriting and workflow management.

Gross premium income from these markets totalled EUR 214.9 million. The major contributors were France (50%) and Italy (43%). Results, as in previous years, were highly satisfactory and the assumed portfolio was exceptionally well diversified.

## North America

The client base for our life and health reinsurance activities in North America is composed primarily of small and mid-sized US life insurers with good ratings, for whom we provide strategic support in the optimal allocation of capital and liquidity. In this context, by way of retrocessions we are able to apply the know-how available at our Irish life operation on a targeted basis to the benefit of our clients.

*Significantly better operating result (EBIT) posted by Hannover Life Re America*

We concentrate our coverage on individual life and annuity risks. In the year under review, as in previous years, we did not participate in derivative risk components in the area of unit-linked annuities. In contrast to many of our competitors, we adopted a highly restrictive approach to the writing of long-term US term life insurance policies, which under the regulator's so-called "Triple-X regulations" trigger high reserving requirements.

We have largely withdrawn from traditional health reinsurance business, although we expanded our acceptances of health-related products for senior citizens and certain specialist products, such as supplementary insurance for dental services.

The total portfolio of life business in force grew by 46% to USD 41.7 billion (EUR 40.0 billion), while gross premium income climbed by 11% to USD 939.1 million (EUR 993.4 million). The operating result (EBIT) of Hannover Life Re America was marginally in the black. In this context it is also important to bear in mind the considerable income from US business written in America that is reflected at other Hannover Life Re business centers due to internal retrocession arrangements within the Group.

## Other international markets

### Australia and New Zealand

Hannover Life Re Australasia, Sydney, wrote premium income of AUD 271.6 million (EUR 156.1 million), broken down into risk-oriented business (70%), financing transactions (15%) and direct group life business (15%). In the year under review we concentrated primarily on enlarging the portfolio of group life business by working closely together with the trustees of company pension schemes.

*Gratifying profitability in Australia through strict cost management*

Thanks to strict cost management, enabling us to boast the lowest expense ratio of all reinsurers operating in Australia, we were pleased to see a further improvement in profitability.

The operating result (EBIT) increased by 23% to AUD 16.4 million (EUR 9.4 million), and net income after tax improved by 10% to AUD 11.2 million (EUR 6.4 million).

### Africa

In the assessment of a leading worldwide firm of actuaries, Hannover Life Re Africa, Johannesburg, advanced to become the largest life reinsurer on the African continent for the first time in 2001. Acceptances of risk-oriented treaty business – facultative risks are written as part of our service for important obligatory clients – generated gross premium income of ZAR 624.0 million (EUR 63.3 million) and net premiums of ZAR 405.8 million (EUR 41.2 million).

The underwriting result continued to improve. This was, however, virtually offset by exchange losses associated with the unexpected strength of the local currency against the US dollar and the euro. Consequently, our portfolio closed with only a slight profit.

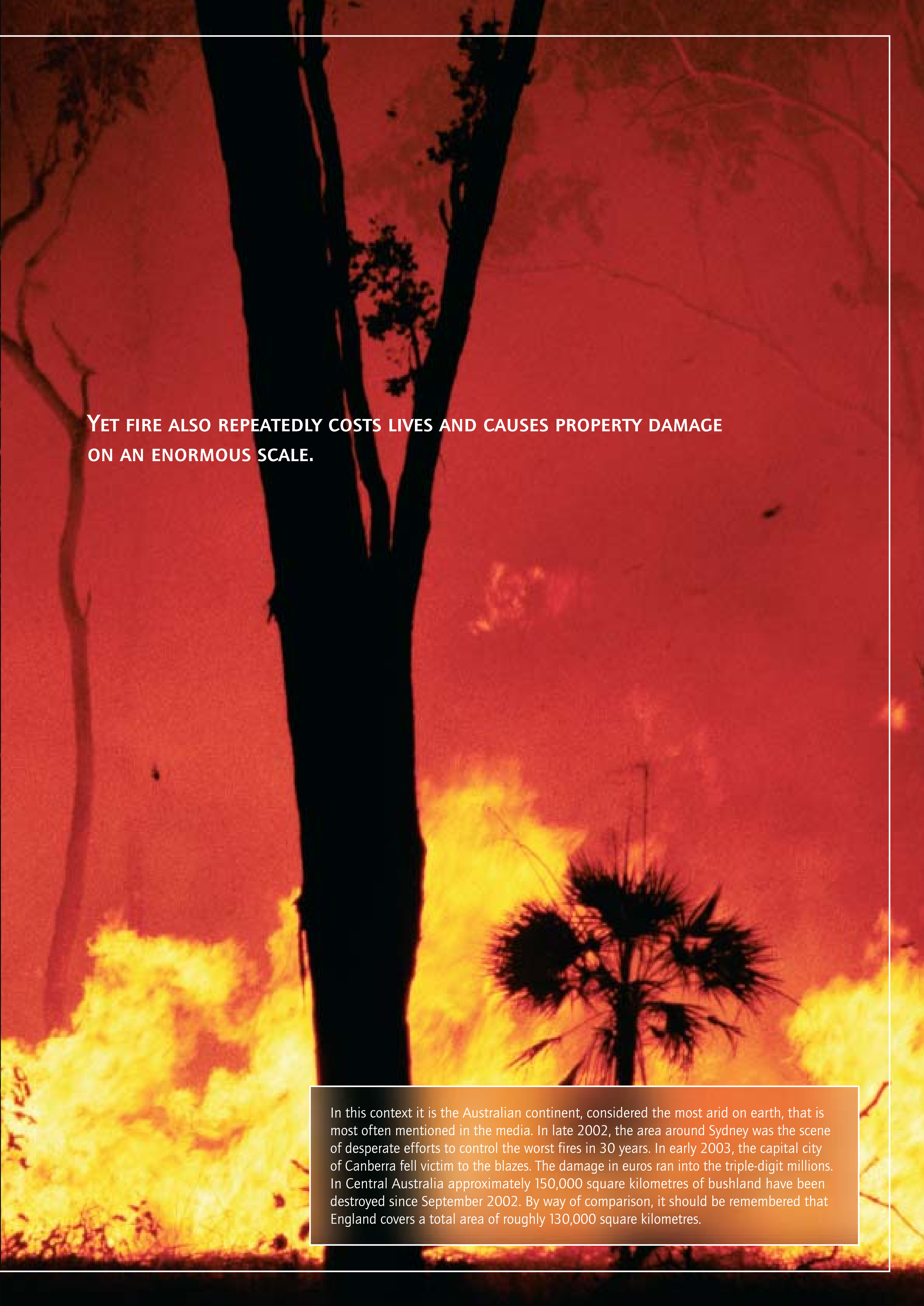
### Asia

Our premium volume on the Asian markets increased to EUR 44.0 million (+ 10%), with growth concentrated in *China* and *Japan*.

In Japan we suffered a loss running into high single-digit millions of euros under a sizeable risk-oriented treaty due to an unusual accumulation of suicides and accidents resulting in death. In most Asian markets, however, the profit situation remains favourable.

**Fire is not only a source of light and heat. It also provides energy and enables steam engines and motors to work – it has given us mobility.**

Around 700,000 years ago, a lightning strike somewhere in Eastern Africa set the dry savannah ablaze – a frightening spectacle for the people of that era, believed to be Homo erectus. Yet some of these early inhabitants overcame their fear and dared to approach the fire. They carried the fire back to their home camps, tamed it and began to use its energy.



## Yet fire also repeatedly costs lives and causes property damage on an enormous scale.

In this context it is the Australian continent, considered the most arid on earth, that is most often mentioned in the media. In late 2002, the area around Sydney was the scene of desperate efforts to control the worst fires in 30 years. In early 2003, the capital city of Canberra fell victim to the blazes. The damage in euros ran into the triple-digit millions. In Central Australia approximately 150,000 square kilometres of bushland have been destroyed since September 2002. By way of comparison, it should be remembered that England covers a total area of roughly 130,000 square kilometres.

## Financial reinsurance

In the year under review the situation on the major primary markets for financial reinsurance was characterised by substantial rate increases around the world. Demand for simple financial reinsurance products aimed at protecting key balance sheet figures climbed sharply owing to the pressure that came to bear on accounting ratios, the risk of rating downgrades and the desire for cost-efficient growth financing. Rate rises were particularly pronounced in the USA as a consequence of the destructive competition that had prevailed for many years and the associated failure by many insurers to constitute adequate reserves. The strong growth in premium volumes led to a squeeze on solvency margins, especially for mid-sized and smaller insurers. Ratings came under appreciable pressure.

An additional factor was the decline in investment income suffered by insurers and reinsurers across the world. In an otherwise favourable climate for primary insurers this development adversely impacted balance sheets.

### Key figures for financial reinsurance

| *Figures in EUR million* | *2002* | *2001* | *2000* | *1999* |
|---|---|---|---|---|
| Gross written premiums | 1 243 | 1 741 | 870 | 509 |
| Net premiums earned | 1 211 | 1 280 | 801 | 463 |
| Operating result (EBIT) | 48 | 66 | 53 | 47 |
| Net income after tax | 40 | 46 | 41 | 36 |
| Earnings per share in EUR* | 0.41 | 0.47 | 0.46 | 0.41 |
| Retention | 95% | 76% | 92% | 91% |

** For previous years stock split of 15 July 2002 in a ratio of 3 for 1 taken into account*

*Preparations underway in Asia to issue directives against the misuse of financial reinsurance arrangements*

Developments on the reinsurance markets paralleled events on the insurance side. Particularly in the USA, substantial premium increases were recorded. They were triggered by the losses resulting from the terrorist attacks on the World Trade Center, with corresponding implications for the reinsurance of exposures in property business. The surprising scale of the need for additional reserves in almost all areas of liability business was also of great concern to reinsurers. What is more, there was another rise in the number of liability claims relating to asbestos-related illnesses. Against the backdrop of these events the rating agencies increasingly began to question the sustained profitability of this business. The entire process left traditional reinsurers no alternative but to implement substantial rate increases and improvements in terms and conditions, hence boosting demand for financial reinsurance solutions.

Due to a number of flagrant accounting scandals, the credibility and accuracy of the information contained in financial statements were repeatedly at the centre of public debate. In this context supervisory authorities are discussing new directives aimed at preventing misuse of financial reinsurance arrangements without curtailing the advantages offered by such products for insurers and reinsurers.

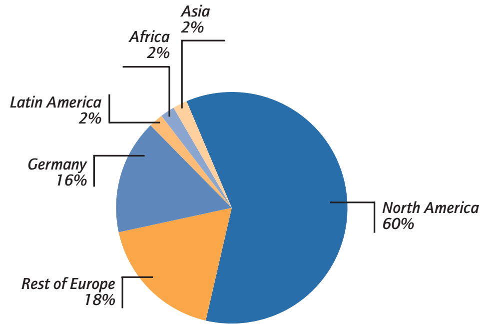
Most countries do not as yet have explicit directives regulating financial reinsurance. This has tended to deter potential clients from taking out such contracts due to the uncertainties surrounding balance sheet disclosure. In a number of Asian markets, in particular, the authorities have now issued directives or are about to do so. Hannover Re Advanced Solutions, the management company responsible for financial reinsurance transacted by the Hannover Re Group, has been consulted quite frequently in this regard.

Preparations are being made for the implementation of International Accounting Standards (IAS) in Europe in 2005. Although not all the details of these standards have yet been finalised, considerably higher volatility of results is to be anticipated than was the case with the currently applicable local standards. This, in turn, is likely to generate stronger demand for reinsurance concepts designed to reduce such volatility.

In the environment described above Hannover Re Advanced Solutions, our well-established brand for financial reinsurance products, has positioned itself among the world's three largest providers. It continues to enjoy a high level of brand recognition and can draw upon many years of expertise. Our underwriting policy was and remains conservative in the assessment of risks and it restricts itself to the simpler forms of financial reinsurance, such as large-volume quota share reinsurance treaties and multi-year catastrophe excess of loss programmes. We have consciously decided against participating in capital-market-driven transactions, assuming loss reserve portfolios or taking on financing projects. For the most part, Advanced Solutions writes the business out of the International Financial Services Centre in Dublin. The Irish companies are adequately capitalised to meet market requirements, have excellent ratings and can draw on considerable expertise.

Thanks to its direct contacts with our specialists in the property and casualty reinsurance business group, our German-based team of experts – Advanced Solutions Germany – is able to ensure that their know-how and the client base are fully integrated. Consequently, our clients have access to the entire range of reinsurance products and solutions that we offer.

*Geographical breakdown of financial reinsurance in % of gross premium income*




If so desired by the client and depending upon the specific regulatory framework in the various countries from which our contracts originate, Advanced Solutions Germany is also able to write and support financial reinsurance transactions from Hannover Re's home office in Germany.

Overall, gross written premiums in financial reinsurance declined by 28.6% to EUR 1.2 billion. This decrease was the consequence of extraordinary premium effects in the previous two years. In particular, considerable additional premiums were booked due to experience – based contracts as an after-effect of the losses of 11 September 2001.Net premiums earned in this business group totalled EUR 1.2 billion (previous year: EUR 1.3 billion), while the operating result (EBIT) stood at EUR 47.8 million (EUR 65.7 million). The performance of financial reinsurance business has been gratifyingly favourable. The portfolio is dominated even more heavily than before by contracts that are less prone to volatility. Earnings per share amounted to EUR 0.41 (EUR 0.47).

*Gratifying business development owing to less volatile contracts in the portfolio of Hannover Re Advanced Solutions*

## Program business

*Intensive controlling of the business brought substantial rehabilitation of Clarendon's portfolio*

The Clarendon Insurance Group, our New York-based subsidiary that has been part of the Hannover Re Group since 1999, writes the bulk of our program business. Since mid-2001 Clarendon has been led by new management, which pursues a business policy focused more closely on the quality of the gross business than used to be the case. A number of measures were implemented in order to safeguard the quality and profitability of the business. As a first step, we significantly tightened up the selection, assessment and controlling of the managing general agents. This led to far-reaching rehabilitation of the portfolio. Around 50% of the programs were terminated, corresponding to roughly 30% of the premium volume. On the other hand, new programs were written that promise considerably improved profitability.

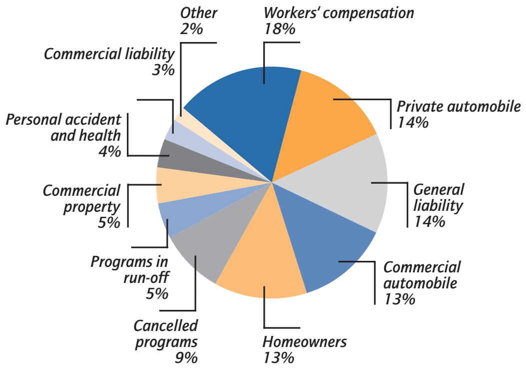
Key figures for program business

| *Figures in EUR million* | *2002* | *2001* | *2000* | *1999* |
|---|---|---|---|---|
| Gross written premiums | 2 729 | 2 457 | 1 974 | 1 364 |
| Net premiums earned | 833 | 486 | 293 | 163 |
| Underwriting result | 52 | 40 | (7) | 42 |
| Operating result (EBIT) | 69 | 34 | 5 | 29 |
| Net income after tax | 43 | 18 | 3 | 16 |
| Earnings per share in EUR* | 0.45 | 0.18 | 0.03 | 0.18 |
| Retention | 38% | 27% | 15% | 12% |
| Combined ratio | 94% | 92% | 102% | 75% |

** For previous years stock split of 15 July 2002 in a ratio of 3 for 1 taken into account*

As part of these restructuring activities we also implemented organisational changes and significantly enlarged and strengthened the infrastructure. Controlling and auditing tasks were expanded and actuarial monitoring of the business was considerably enhanced.

***Clarendon's gross written premiums by lines of business***




Parallel to the aforementioned restructuring Clarendon also substantially increased its level of retained premiums. It now retains a substantial portion of the risk in its own books; the retention has increased steadily and stood at 32.5% by year-end 2002.

The quality of the company is also borne out by the fact that A.M. Best, the most significant rating agency with respect to US business, has awarded Clarendon an "excellent" ("A") rating for a number of years now.

Overall, Clarendon developed very favourably under its new management. Gross premiums grew by 7.2% to EUR 2.4 billion, while net premiums were expanded by as much as 88.1% to EUR 568.1 million. Net income amounted to EUR 44.6 million.

In addition to the Clarendon Group, program business is also written by our US subsidiary, Insurance Corporation of Hannover (ICH). Effective 31 December 2002 we integrated ICH into the Clarendon Group in order to better bundle the Group's activities in program business. ICH constitutes a sensible complement to Clarendon's established business, since it writes relatively small programs run largely in its retention.

The International Insurance Company of Hannover Ltd. (Inter Hannover) in London also transacts program business. Inter Hannover writes the bulk of its business in the United Kingdom and on the European Continent. Motor insurance is by far the most significant line. The market situation in this line remains satisfactory, although the rate increases in the hard market climate are flagging more quickly here than anticipated. In the year under review Inter Hannover substantially expanded the number of programs written in the United Kingdom; a promising foundation was also laid in France as well as in Norway and Sweden. This should be reflected for the first time in the 2003 financial year. In Germany, too, our attempts to open up the market reaped their first rewards.

*Inter Hannover expands program business in Europe*

Overall, Inter Hannover was able to enlarge its gross premium income by 28.8% to GBP 162.1 million (previous year: EUR 258.2 million). Net premiums grew by 71.0% to GBP 127.0 million (EUR 202.2 million). The year under review closed with net income of EUR 7.0 million.

Key figures of the companies transacting program business (before consolidation)

| *2002 Figures in EUR million* | *Clarendon Insurance Group* | *ICH* | *Inter Hannover* | *Compass Insurance* |
|---|---|---|---|---|
| Gross written premiums | 2 358 | 333 | 258 | 34 |
| Net premiums earned | 568 | 41 | 202 | 22 |
| Underwriting result | 64 | (8) | 1 | (5) |
| Operating result (EBIT) | 68 | – | 7 | (5) |
| Net income / loss after tax | 45 | 1 | 7 | (5) |

Along with the aforementioned companies, Compass Insurance Co. Ltd., Johannesburg, another member of the Hannover Re Group, conducts program business. This company was consolidated for the first time in the year under review. Compass established the program model on the South African market and has already achieved notable successes. The company generated gross premiums of ZAR 337.1 million (EUR 34.2 million) in the year under review. Net premiums of ZAR 212.0 million (EUR 21.5 million) were retained after reinsurance. Due to expenses incurred for restructuring, Compass closed the year with a net loss of ZAR 47.4 million (EUR 4.8 million) – a significant improvement on the previous year.

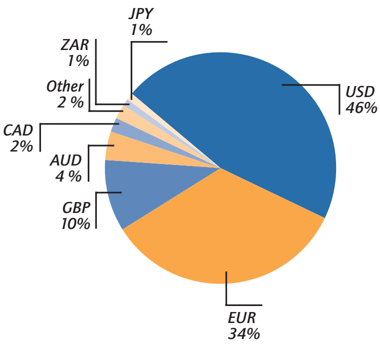
Across all the companies operating in the program business segment under the Hannover Re umbrella, we generated gross premium income of EUR 2.7 billion (EUR 2.5 billion) in the year under review. Net income after tax totalled EUR 43.3 million (EUR 17.8 million). Earnings per share in this business group thus reached EUR 0.45 (EUR 0.18).

# Investments

*Poor performance of equity markets offset by favourable development of our bond portfolio*

The first quarter of 2002 was one of general consolidation on the international equity markets, with share prices for the most part caught in a sideways movement. Subsequently, a decline set in, however, dragging the major indices down to fourth-quarter levels even lower than those witnessed after 11 September 2001. This slump was triggered not only by the general uncertainty concerning the future direction of the economy, but also – and more specifically – by the erosion of confidence due to certain manipulations of financial statements and by the fear of further terrorist attacks. An additional adverse factor was that numerous companies were compelled to revise their profit forecasts downwards. The markets remained unsettled until year-end. Geopolitical crises, such as the looming war on Iraq and the repercussions of the general strike in Venezuela, were the final nail in the coffin for any hopes of a year-end rally. For the third year in succession the major stock indices closed in negative territory.

***Breakdown of investments by currency***




*Reduction in the proportion of dividend-bearing securities protected us against excessive write-downs*

Given the slowdown in economic growth, the US Federal Reserve Board was particularly active as it repeatedly intervened in an attempt to stimulate the markets. The Fed cut the key interest rate several times, on the last occasion trimming it to an all-time low of 1.25% in November 2002.

The national economies of Europe and Japan generated little impetus of their own, hoping to profit from a revival of the US economy. Although the European Central Bank took a lead from its US counterpart and slashed the prime rate by 50 basis points to 2.75% in December, fiscal policy failed to provide any greater impetus owing to the restrictions imposed by the Stability and Growth Pact.

Despite opposing effects associated with exchange rate movements, our total portfolio of self-managed assets (i.e. excluding funds held by ceding companies) grew in the reporting period by 4.8% to EUR 12.7 billion. The excellent performance of our reinsurance business generated significant cash inflows. The weakness of the equity markets was more than offset in our portfolio by the favourable development of our bond holdings, and on balance, we therefore booked unrealised price gains of EUR 143.3 million as at year-end.

The euro appreciated sharply in the course of the year against the majority of key foreign currencies for our company, most notably the US dollar. Had it not been for this factor, the volume of our investments would have grown to as much as EUR 12.8 billion.

Since we continue to view equity markets with scepticism, we further reduced the proportion of dividend-bearing securities in our portfolio in the year under review. Our investment universe remains unchanged, comprising liquid Blue Chips listed on major indices (EuroStoxx, Nikkei, S&P 500). As at year-end a mere 5.7% of our investments were in listed stocks. Thanks to this approach, we suffered considerably less heavily than many of our competitors under the depressed state of the equity markets. Yet, our account, too, was not spared diminutions in value. In accordance with the accounting principles prescribed by the Security Exchange Commission for enterprises that draw up US GAAP-compliant financial statements, we tested all securities listed for six months at more than 20% under their book value for impairment. With an eye to the depressed state of the capital markets at the beginning of the current year, too, we wrote these securities down to fair value without exception. Total write-downs on exchange-listed equities thus amounted to EUR 164.6 million in the year under review, with EUR 67.7 million attributable to the fourth quarter. We realised losses of EUR 52.5 million on the sale of shares; the balance of unrealised losses on our equity portfolio totalled -EUR 141.3 million as at year-end.

In the year under review we consistently pursued our long-term strategy of investing in alternative investments. As a result of their low correlation with exchange-listed securities, these assets produced a moderately favourable overall performance. New investments were made through private equity partnerships and participation structures in the areas of venture capital (EUR 37.2 million) and structured real estate investments (EUR 60.0 million). Sales of real estate holdings and expiring investments generated profits on disposals of EUR 15.8 million. Provisions were made against losses anticipated on specific investments.

Fixed-income securities were once again our preferred asset category in the year under review. In the course of the year we invested free liquidity from maturities and cash inflows primarily in instruments with a short or medium time to maturity so as to minimise the interest rate risk. Our portfolio of fixed-income securities increased from EUR 8.8 billion to EUR 9.5 billion. It accounted for 74.7% of our total investments and cash.

We were able to maintain the high quality of our portfolio of fixed-income securities. The proportion of securities rated "AA" or better was 78%, a figure roughly on a par with the previous year. The minimal strain produced by the spectacular business failures witnessed in the year under review demonstrated that our corporate bonds, too, are of a high quality.

As at year-end 2002 we held a total amount of EUR 1.5 billion in short-term assets, including overnight money and time deposits. Whereas in the previous year anticipated claims payments arising out of catastrophe losses had prompted us to keep relatively high liquidity holdings, in the year under review this action was prompted by the state of the capital markets. We wish to be able to respond flexibly to advantageous market situations, on the one hand, while also limiting the potential for losses from the portfolio.

Ordinary income increased by EUR 177.6 million to EUR 1.1 billion; while at the same time the total investment portfolio (including funds held by ceding companies) grew by 5.3% to EUR 20.3 billion. While current yields declined around the world in the year under review, the disproportionately strong rise can be attributed principally to higher deposit interest income.

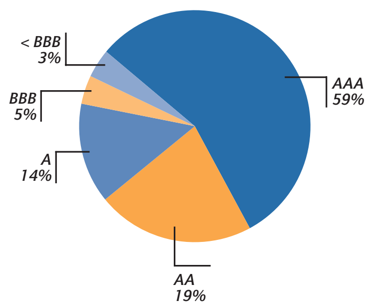
*Total investment portfolio expanded to EUR 20.3 billion*

The balance of realised price gains and losses increased considerably compared to the previous year. Profits on disposals of EUR 201.9 million were generated through the sale of securities. This contrasted with losses on disposals of EUR 108.6 million. The balance of EUR 93.3 million was thus EUR 37.4 million higher than in the previous year.

*Appreciable rise in our extraordinary income compared to the previous year*

The downward slide on equity markets had a significant adverse impact on the investment performance. Write-downs on our investments, primarily on equities, increased by EUR 177.8 million to EUR 207.0 million.

**Rating of fixed-income securities**




Total net investment income declined from EUR 945.7 million to EUR 928.4 million. However, this includes the effects of currency fluctuations that placed a strain on our investment income in the year under review. Bearing in mind the current market climate, we are entirely satisfied with the income from our asset portfolio. As in the previous year, our strategic positioning was proven to be correct.

**The proverbial ground under our feet is our living space and a source of food supply.**

Of the 20 per cent of the earth's surface that could be agriculturally cultivated, just over one third is used for farming. Mankind uses the remaining areas as living space and for roads and industrial plants. Yet much of what we can reap from the soil lies not on the surface but deep below ground: the currently indispensable energy resources of oil, coal and natural gas, as well as precious metals and mineral ores, gemstones and diamonds.

## Yet our living space also gives rise to life-threatening hazards that manifest themselves in earthquakes or volcanic eruptions.

The overall surface of the earth is constantly in motion, the effects of which are felt most intensely at the edges of the 14 large tectonic plates. Immense forces at work under the earth's surface create mountain ranges and seas, but also trigger earthquakes and volcanic eruptions. In the last hundred years alone, more than one million people have been killed by earthquakes. Particularly significant for our industry was the great quake of 1906 in San Francisco, which flattened the city to its foundations. Settling these immense claims brought many insurers to the very brink of insolvency. This event and its consequences highlighted with the utmost urgency the essential role played by reinsurers in protecting the insured risks.

# Risk report

The acceptance of risks and their professional management constitute our core business as an internationally operating reinsurance company. To this extent, the professional assessment and handling of risks is a major competitive factor for our company and a crucial element in steering the Hannover Re Group. Our corporate strategy is geared towards generating a sustained increase in the value of the company. This means that we purposefully enter into entrepreneurial risks provided the associated opportunities promise a commensurate increase in the value of the company.

## Organisation of risk management

*Annual risk inventory safeguards up-to-date status of the risk portfolio*

Hannover Re's risk management is centrally coordinated, but based on local responsibility in the various areas of business. Overall responsibility for risk management is determined according to the specific strategic business groups, within which the responsible board members define the operating objectives. The task of local risk controllers is to identify increased risks in the various business groups as quickly as possible and to initiate counteraction without delay. To this end, we use a number of different quantifying methods that are tailored to individual risks and vary in their design and degree of reporting detail. Within the scope of our risk management system all risks conceivable with the current perspective, which could jeopardise the performance and survival of our company are recorded comprehensively and systematically. The up-to-date status of our risk portfolio, on the level of both individual risks and accumulation risks, is ensured by means of defined reporting procedures and an annual risk inventory. Our risk reporting consists primarily of standard and ad hoc reports that are created using a specially developed IT application and enable Hannover Re Executive Board to assess the overall situation with considerable accuracy. Risks are quantified with an eye to their probability of occurrence and the potential loss. The core risk management elements are set out in guidelines, which apply to the entire Hannover Re Group. Acting independently of these clearly defined procedures, Internal Auditing verifies compliance with the stipulated processes in all functional areas of our company.

Our company's risk situation can be comprehensively described by the following risk categories:

- global risks,
- strategic risks,
- operating risks, which we subdivide into
  - technical risks,
  - investment risks,
  - operational risks.

## Global risks

*Claims trends are constantly monitored for early identification of dangerous developments*

Global risks may arise, for example, as a result of changes in the legal framework (including changes in the general regulatory or tax situation), which are beyond a reinsurer's direct sphere of influence. They may also derive from social or demographic trends or ensue as a consequence of developments in the insurance industry or changes in environmental and climate factors. Such potential risks can scarcely be reduced and there are limits to the extent to which they can be avoided. Risk management measures must therefore be geared to identifying dangerous developments as early as possible.

For that reason, amongst others, we constantly monitor claims trends. Currently notable in this context are liability risks in the USA due to mould, asbestos-related risks in Europe and the settlement of motor-third-party liability claims in foreign markets (Green-Card business).

Trends in the various national economic environments, on the other hand, are monitored first and foremost on a local basis within our business groups, whose market intimacy and experience ensure that even "weak signals" can be detected promptly. One of the central problems facing the reinsurance industry is the growing number of natural disasters around the world and the associated potential for considerable losses. Using detailed simulation models we therefore analyse the increase in the frequency of natural catastrophes caused by climate change and in the extent of the losses that they cause. On the basis of these analyses we are then in a position to determine the maximum exposure we are prepared to accept within the Group and to calculate our own reinsurance requirements.

*Detailed simulation models used to analyse the potential for losses*

## Strategic risks

Strategic risks derive primarily from an imbalance between the defined corporate strategy and the constantly fluctuating framework and the resulting conditions – an environment shaped, on the one hand, by our clients' requirements and, on the other hand, by the strategies of our competitors. Our overriding strategic objective is to generate dynamic growth as an optimally diversified and economically independent reinsurance group of above-average profitability. On the basis of this strategic objective Hannover Re's individual business groups pursue specific and inherently consistent detailed strategies. Company-wide ratios and controlling processes have been defined to monitor achievement of the strategic targets from the operating standpoint. Each business segment's contributions to the Group's overall performance are continuously measured and controlled.

In the year under review we further expanded our value-oriented controlling and management system. Through the progressive introduction of an intrinsic-value-creation (IVC) approach we are implementing a key ratio by means of which all company-wide management processes can be systematically geared to value creation. In this regard, IVC provides an objective ratio that motivates managerial staff to take value-oriented actions and prevents value-destroying management errors.

*Specific mechanisms have been put in place to control technical risks*

## Technical operating risks

The technical risk lies primarily in the danger of accepting risks that surpass the available financial resources, but also in cases where the premiums calculated in advance turn out to be insufficient to finance the resulting loss burden. Possible reasons for situations like that to occur may be inaccurate pricing assumptions or pricing models, unexpected claims developments, inadequate reserves, a failure to appropriately tailor our own reinsurance or default on the part of retrocessionaires. The Group employs various mechanisms – both for the portfolio as a whole and geared to specific business groups – in order to control technical risks.

The loss reserves in property and casualty reinsurance are determined on an actuarial basis. The point of departure is the information provided by ceding companies. The IBNR (incurred but not reported) reserve of EUR 1,014.1 million additionally constituted for this segment has been built up to a confidence level which is clearly above average on a US GAAP basis. For the property, liability and motor lines of business this reserve is calculated according to risk classes and with a regional breakdown; for the credit, aviation and marine lines it is calculated on an aggregate proportional basis.

The anticipated ultimate loss ratios are calculated in altogether 50 subsegments on the basis of statistical run-off triangles and actuarial methods.

*Latent potential from asbestos-related claims and pollution damage comprehensively covered*

Hannover Re has only written business on the US market since the seventies, and even then the volumes were very modest. In the years prior to roughly 1985, comparatively few liability acceptances were written. Our exposure to asbestos-related claims and pollution damage is consequently relatively slight. As an additional factor, we have already commuted numerous existing exposed treaties, meaning that no further liability whatsoever can be incurred under such treaties in the future. Asbestos- and pollution-related risks therefore derive primarily from non-proportional covers in our portfolio, as a consequence of which a considerable portion of the potential risks falls within our clients' retentions.

Developments on the US market in 2002 showed an appreciable increase in asbestos and pollution risks. This is attributable in part to the fact that a potential exposure to claims deriving from so-called "non-product risks" exists in addition to the well-known product liability considerations. We have not as yet received any specific loss advices with respect to such claims.

Additional reserves for asbestos-related claims and pollution damage

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | *Additional reserves in EUR million* | *Survival ratio in years* | *Additional reserves in EUR million* | *Survival ratio in years* |
| Asbestos-related claims/pollution damage | 84.4 | 16.9 | 51.8 | 12.5 |

Nevertheless, in view of the increased risks from asbestos- and pollution-related claims we strengthened our reserves. For 2002 our own additional reserves were boosted by 39%. The relative level of such reserves is normally measured on the basis of the "survival ratio". This indicates the number of years which the reserves will be sufficient to cover if the annual loss expenditure remains unchanged. At the end of the year under review our survival ratio stood at 16.9 – clear proof of the quality of reserves both in absolute terms and relative to our competitors. For the first time these reserves also take account of the potential for asbestos-related claims under our treaty relationships in France and the United Kingdom. An amount of EUR 10.5 million is included in the additional reserves for this business.

Overall, then, we can assert, firstly, that we only have a relatively low exposure in the areas of asbestos and pollution risks. Secondly, we have constituted extensive reserves for such potential exposures. Consequently, we do not expect to incur any significant risks from these areas in the future.

Furthermore, the run-off of the loss reserve is constantly monitored as well.

On the basis of DRS 5–20 § 24 and AICPA Statement of Position (SOP) No. 94–6 "Disclosure of Certain Significant Risks and Uncertainties" the following table shows the net loss and loss adjustment expense reserve for the years 1993 to 2002 in the property and casualty reinsurance business group for all major reinsurance companies as well as the run-off of this reserve. This covers more than 95% of the loss reserves for the business group.

The figures for the years 1993 to 1997 were compiled in accordance with the German Commercial Code (HGB). Since 1998 the data have been based on United States Generally Accepted Accounting Principles (US GAAP).

The following table illustrates in the form of a run-off triangle the run-off of the reserve established as at each balance sheet date, this reserve comprising the provisions constituted in each case for the current and previous occurrence years The run-off of the reserve for individual occurrence years is  not shown in this regard, but rather the run-off of the reserve constituted annually in the balance sheet as at the balance-sheet date.

The run-off triangle – as an indicator used to quantify the loss and loss adjustment expense reserves – shows how the assessment of the reserve has changed over time due to the payments rendered and how the reserve that is to be established as at the corresponding balance sheet date has been reappraised.

In accordance with SFAS 60 the total expenses for settlement of a loss including inflationary and other social and economic factors are to be stated on the basis of empirical values and taking into account current trends. The loss and loss expense adjustment reserves are of course based to some extent on estimations that normally entail an element of uncertainty. The difference between original and current estimates is reflected in the net run-off result. The development of the euro relative to major foreign currencies also is a significant influencing factor in this context.

For Hannover Re the US dollar and pound sterling (cf. section 7.7 in the Notes on the Consolidated Accounts) are particularly important foreign currencies. The depreciation of these currencies against the euro compared to the previous year (USD -18.1% and GBP -6.8%) led to a decrease in the loss and loss adjustment expense reserves.

## Net loss reserve and its run-off

| *Figures in EUR million* | *31.12. 1993* | *31.12. 1994* | *31.12. 1995* | *31.12. 1996* | *31.12. 1997* | *31.12. 1998* | *31.12. 1999* | *31.12. 2000* | *31.12. 2001* | *31.12. 2002* |
|---|---|---|---|---|---|---|---|---|---|---|
| Loss and loss adjustment expense reserve (net) | 3 486.5 | 3 735.6 | 3 957.6 | 4 304.7 | 4 849.4 | 5 002.1 | 5 696.3 | 6 162.3 | 6 867.8 | 5 846.1 |
| Cumulative payments for the year in question and previous year | | | | | | | | | | |
| One year later | 685.1 | 686.3 | 841.2 | 822.1 | 796.9 | 1 114.9 | 1 287.2 | 1 690.4 | 1 986.7 | |
| Two years later | 1 054.8 | 1 206.0 | 1 481.6 | 1 259.0 | 1 423.4 | 1 759.0 | 2 029.8 | 2 659.3 | | |
| Three years later | 1 427.3 | 1 583.6 | 1 786.5 | 1 652.0 | 1 808.5 | 2 209.0 | 2 592.6 | | | |
| Four years later | 1 714.3 | 1 804.8 | 2 039.2 | 1 905.3 | 2 105.2 | 2 575.8 | | | | |
| Five years later | 1 874.5 | 1 986.6 | 2 214.1 | 2 102.5 | 2 327.8 | | | | | |
| Six years later | 2 003.8 | 2 122.8 | 2 356.2 | 2 261.5 | | | | | | |
| Seven years later | 2 094.0 | 2 230.0 | 2 478.4 | | | | | | | |
| Eight years later | 2 176.9 | 2 324.6 | | | | | | | | |
| Nine years later | 2 250.9 | | | | | | | | | |
| Net reserve for the year in question and previous years plus the payments made to date on the original reserve | | | | | | | | | | |
| End of year | 3 486.5 | 3 735.6 | 3 957.6 | 4 304.7 | 4 849.4 | 5 002.1 | 5 696.3 | 6 162.3 | 6 867.8 | 5 846.1 |
| One year later | 3 216.0 | 3 475.7 | 4 110.2 | 4 339.1 | 4 484.9 | 5 322.2 | 5 885.0 | 6 265.0 | 6 819.2 | |
| Two years later | 3 041.0 | 3 403.5 | 4 060.9 | 4 005.9 | 4 590.9 | 5 217.8 | 5 482.1 | 6 017.5 | | |
| Three years later | 3 101.6 | 3 528.6 | 3 835.6 | 4 016.0 | 4 435.9 | 4 841.0 | 5 125.7 | | | |
| Four years later | 3 211.7 | 3 356.2 | 3 811.4 | 3 883.9 | 4 153.7 | 4 630.3 | | | | |
| Five years later | 3 066.0 | 3 329.1 | 3 695.1 | 3 666.3 | 3 949.5 | | | | | |
| Six years later | 3 049.4 | 3 268.3 | 3 547.6 | 3 489.2 | | | | | | |
| Seven years later | 2 990.8 | 3 177.8 | 3 417.5 | | | | | | | |
| Eight years later | 2 939.3 | 3 059.5 | | | | | | | | |
| Nine years later | 2 830.3 | | | | | | | | | |
| Net run-off result of the loss reserve | 656 .2 | 676.1 | 540.1 | 815.5 | 899.9 | 371.8 | 570.6 | 144.8 | 48.5 | |
| Of which currency exchange rate differences | (125.2) | (331.4) | (535.4) | (341.9) | (65.4) | (299.7) | 149.0 | 344.1 | 543.9 | |
| Net run-off result excluding currency exchange rate differences | 781.4 | 1 007.5 | 1 075.5 | 1 157.4 | 965.3 | 671.5 | 421.6 | (199.3) | (495.4) | |

Combined and catastrophe loss ratio

| *Figures in %* | *2002* | *2001* | *2000* | *1999* | *1998* | *1997** | *1996** | *1995** | *1994** | *1993** |
|---|---|---|---|---|---|---|---|---|---|---|
| Combined ratio | 96.3 | 116.5 | 107.8 | 111.1 | 108.1 | 99.5 | 100.4 | 98.4 | 97.2 | 102.2 |
| Of which catastrophe losses | 5.2 | 23.0 | 3.7 | 11.4 | 3.5 | 1.5 | 0.9 | 2.7 | 4.1 | 1.5 |

**Based on figures reported in accordance with the German Commercial Code (HGB)*

When assessing the risk of losses exceeding premiums in property and casualty reinsurance we also take into account the combined ratio over time. This analysis is performed both inclusive and exclusive of catastrophe losses (natural and man-made).

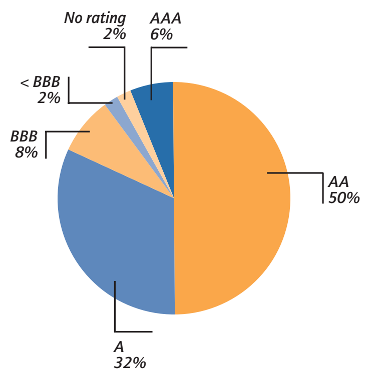
A fundamental instrument of risk limitation and stabilisation of results is retrocession. Whereas premiums are always payable at the beginning of a contract, risks derive from the fact that long periods – sometimes decades – may elapse until losses are paid. It is therefore particularly important to carefully select retrocession partners. Our assessment of our retrocessionaires is guided by the opinions of internationally recognised rating agencies and supported by our own balance sheet and market analyses. Our Security Committee classifies the reinsurers used by Hannover Re with binding effect for the Hannover Re Group.

It can thus be seen that more than 96% of our retrocessionaires have a so-called investment-grade rating (AAA to BBB). A mere 4% of our retrocessionaires do not fall into this category.

The average default rate over the past three years was 0.4%. With respect to the major companies belonging to the Hannover Re Group, 9.2% of our accounts receivable from reinsurance business were older than 90 days as at the balance sheet date.

A further key component of our risk management across business groups is the use of scenarios in US GAAP-based financial analysis. These analyses simulate the effects of hypothetical scenarios (e.g. loss events and capital market developments) on the Group's assets, financial situation and net income. Depending upon the simulation results, the findings produced by our financial analysis enable us to prioritise risk-policy measures.

*Level of receivables due from reinsurers split by external rating classes in percent*




The reserves in life and health reinsurance are always based upon the information provided by our clients. The regulations of the local supervisory authorities ensure that the reserves calculated by ceding companies satisfy all local requirements with respect to the actuarial methods and assumptions (e.g. use of mortality and disability tables, assumptions regarding the lapse probability etc.).

## Investment operating risks

Our investment strategy is shaped by the duration of our commitments and our interest in generating an adequate return. Risks in the investment sector consist most notably of market-, credit-, and liquidity risks. The risks run by an internationally operating reinsurer also include, however, the exchange risk – which we limit by matching commitments in foreign cur-

*Asset liability management provides linkage between reinsurance and investment activities*

rencies as far as possible with assets in the corresponding currencies. This strategy largely offsets exchange gains and losses.

Asset portfolios are based to a significant extent on insurance premiums that are set aside for future loss payments. Asset/liability management provides the linkage between reinsurance and investment activities. A strict separation of functions – i.e. keeping a distinction between trading, settlement and risk controlling – supported by defined reports and analyses is just one of the ways in which compliance with the investment guidelines adopted by the Executive Board is ensured.

Risks in the investment sector are countered using a broad range of efficient management and control mechanisms which are geared to the rules adopted by the Federal Financial Supervisory Authority (BAFin).

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

| *Portfolio* | *Scenario* | *portfolio change based on fair value in EUR million* |
|---|---|---|
| Equities | Stock prices -20% | (143.5) |
| Fixed-income securities | Yield increase +100 basis points | (300.3) |
| Fixed-income securities | Yield decrease - 100 basis points | 344.8 |

Rating structure of our fixed-income securities

| *Rating* | *Government bonds* | | *Corporate bonds* | | *Other fixed-income securities* | |
|---|---|---|---|---|---|---|
| | *in %* | *in EUR million* | *in %* | *in EUR million* | *in %* | *in EUR million* |
| AAA | 78.3 | 2 697.8 | 38.8 | 1 500.4 | 64.8 | 1 416.1 |
| AA | 19.5 | 672.1 | 20.6 | 796.1 | 14.0 | 306.8 |
| A | 2.2 | 75.8 | 27.7 | 1 070.4 | 6.5 | 142.0 |
| BBB | – | – | 9.8 | 378.7 | 4.1 | 90.7 |
| < BBB | – | 0.4 | 3.1 | 118.8 | 10.6 | 230.9 |
| Total | 100.0 | 3 446.1 | 100.0 | 3 864.4 | 100.0 | 2 186.5 |

## Operational risks

Operational risks include, inter alia, human error, inadequate controls and organisational shortcomings. A major integral component of our safeguards and controls is the Internal Controlling System (ICS), which encompasses all harmonised and interlinked checks, activities and rules. Internal Auditing regularly verifies that the ICS is working correctly in all functional areas of our company.

The technological dependence of the company's core processes on information technology is growing sharply – a trend which goes hand-in-hand with a commensurately increasing risk potential. Ensuring high availability of our IT applications and protecting the integrity of mission-critical corporate data are tasks to which we attach fundamental economic importance. In the year under review we initiated an "Information-

Security" project in order to ensure that the existing high level of security will be maintained in the future. This project investigates and, where necessary, supplements the already existing security measures within the Hannover Re Group.

*High level of security will be maintained*

We also classify risks associated with human resources management under operational risks. Fierce competition for qualified specialists and managers is a hallmark of all the markets we operate in. Reinsurance is a highly complex financial service, the success of which is crucially dependent on the expertise, motivation and dedication of our staff. With this in mind we maintain close contacts with, inter alia, a number of universities and set great store in personnel development and training measures.

### Assessment of the risk situation

As an internationally active reinsurance group we are confronted with numerous potential risks that could have a not inconsiderable impact on our net income and assets. Nevertheless, on the basis of the information currently available to us, we do not perceive any risks that could jeopardise the continued existence of our company in the short or medium term or could impair the assets, financial position or net income in a significant or sustained manner.

## Human resources

In the year under review the number of staff employed within the Group increased by 13.2% to 2,016 (previous year: 1,781). We thus created 235 new jobs worldwide with 81.7% of these at offices outside of Germany. The increase in absolute terms was strongest in the USA (+27.7%) with 165 additional jobs, followed by the United Kingdom with 10 (+16.9%) staff added. We thereby continued the strategy pursued in recent years aimed at purposefully strengthening and enlarging our international organisation. The workforce in Hannover grew to 750 (707) (+ 6.1%). The proportion of female employees worldwide stands now at 55.2% (53.4%).

This trend in the labour force is the product of our systematically implemented strategy geared to profit-oriented growth in target markets where we are represented by expert staff.

In addition to capital resources, the skills and motivation of its employees are the guarantors of success for a financial services company operating worldwide. The continual enhancement of these factors was once again the overriding goal of our human resources development and management activities in the year under review.

*Personnel management tools are an important element of our holistic management strategy*

In order to ensure a close dovetailing of corporate and personnel strategy we initiated a strategic approach in the field of human resources management known as "Performance Excellence". By applying this method we are seeking in future to ensure the continual enhancement of key management tools, namely business policy, leadership, employee quality as well as resources and process management.

*Our staff are the guarantors of our success*

With the aid of agreements on targets we support our unceasing efforts to accomplish the objectives derived from our corporate strategy – for every single area of the company and each member of our managerial staff. This process of management by objectives has been defined for the entire Hannover Re Group and thus ensures that managerial staff identify with the company's goals. The system of variable remuneration is consequently based on the level of goal accomplishment, hence creating incentives for a commitment that is in every respect rewarding.

The 270° feedback process launched in 2001 was extended to include all levels of management in the year under review. The potentials for improvement identified here provide a basis and opportunity for the further personal growth of our managerial staff.

Breakdown of employees by country

| Country | 2002 Total | 2002 Male | 2002 Female | 2001 Total |
|---|---|---|---|---|
| USA | 760 | 307 | 453 | 595 |
| Germany | 750 | 358 | 392 | 707 |
| South Africa | 153 | 69 | 84 | 152 |
| Sweden | 75 | 29 | 46 | 77 |
| United Kingdom | 69 | 34 | 35 | 59 |
| Australia | 43 | 19 | 24 | 39 |
| France | 33 | 18 | 15 | 31 |
| Malaysia | 31 | 14 | 17 | 27 |
| Ireland | 27 | 16 | 11 | 23 |
| Mexico | 18 | 12 | 6 | 21 |
| China | 18 | 8 | 10 | 15 |
| Italy | 8 | 4 | 4 | 11 |
| Bermuda | 7 | 4 | 3 | 5 |
| Spain | 6 | 2 | 4 | 6 |
| Japan | 6 | 4 | 2 | 5 |
| Canada | 6 | 2 | 4 | 3 |
| Taiwan | 5 | 2 | 3 | 4 |
| Korea | 1 | 1 | 0 | 1 |
| **Total** | **2 016** | **903** | **1 113** | **1 781** |

## Development of our managerial staff

We summarised the ideas that were obtained from the employee and 270° feedback as well as from job evaluations in a three-part seminar aimed at promoting the personal growth of our new managerial staff. After all, the ability to manage oneself is a precondition for the management of others. In addition to conveying basic know-how relating to the manager's role, this seminar focused on guiding principles and skills needed to realistically assess one's own situation. Further issues that were considered centered on how to interact in groups and how to lead teams effectively as well as conflict management and the shaping of change processes. Executives also were able to draw on the support of an experienced coach of their own choosing.

*The complexity of reinsurance business means that our staff must always be ready to learn*

The complexity of reinsurance business and the pressure of competition in the international markets necessitate a constant readiness to learn. We use state-of-the-art teaching methods to encourage and support our staff. Programmed and structured instruction and visual aids assist individual preparation for subsequent intensive workshops. Computer-aided learning techniques are currently undergoing a trial phase. They are intended to facilitate personal feedback on the acquired level of knowledge and to enable staff to develop their own study rhythm independently of other learners.

Our management simulation game designed in 2000 is now a firmly established part of a complex, holistic system of learning. It provides an excellent learning environment for participants and tutors from our own ranks.

With the introduction of "Employee Self-Service" at our Hannover home office in the year under review, we took another decisive step towards electronic human resources management. Our staff are now able to view online portions of their personal data record. This fosters trust and helps to quickly resolve possible discrepancies. In addition, we shall shortly make a broad range of management information available online to executives via the "Manager Desktop".

We devote special energy toward cultivating our existing contacts with institutions of higher education and attending the relevant university career fairs. The sharp increase in the number of highly qualified applicants bears out the positive response to these efforts. Trainees at our company pass through an 18-month programme for junior executives and get to know many sides of the organisation by spending periods of 6 to 12 weeks in various departments. We also offer students the chance to gain insights into different areas of the company through internships and we support diploma students writing on reinsurance-related topics with appropriate stipends.

*We recruit talents through university contacts and career fairs*

In dual courses of study conducted in cooperation with the internationally oriented "Berufsakademie Berlin" and the "Leibniz-Akademie Hannover" we train students of business administration by providing on-the-job instruction.

### Word of gratitude to all our staff

We would like to thank the staff of all our Group companies for their considerable dedication and loyalty in the 2002 financial year. Our gratitude also extends to the employee council and the senior management committee.

## Outlook

The current economic climate is clouded by considerable uncertainty. The Iraq war and the fear of renewed terrorist attacks have darkened the mood. We find ourselves in what is evidently a sustained downturn. There is still no sign of an end to this downward slide: experts expect 2003 to remain sluggish, with growth of at best 1% to 2%. Some central banks, including the ECB, have announced further interest rate cuts with the hope of injecting new life into the economy. Yet in the current situation it remains open to question whether these money market moves will have their intended effect. The mood on capital markets is sombre, and there is little indication of improvement in the near term.

As the engine of growth for the global economy, the USA has lost momentum. Capital spending has declined markedly due to the low utilisation of industrial production capacity. Even the availability of cheap loans may not remedy this situation. Private consumption and the real estate market have to date been the major pillars of the US economy. As the jobless rate rises, however, the impetus from these factors is also fading.

Japan, the world's second-largest economy, has been sluggish for quite some time now. Germany is still relying on exports at the present time, while domestic demand has fallen off sharply. Here, too, there is little sign of a short-term recovery.

In 2003, as in past years, the insurance industry will not be able to divorce itself from global economic developments and the difficult conditions prevailing on capital markets. The pressure to generate good underwriting results is thus particularly intense. Property and casualty insurance is generally characterised by low reinsurance capacities as well as increased rates and improved conditions. From the reinsurers' perspective, therefore, it can be assumed that the favourable market conditions in property and casualty reinsurance will be sustained in 2003. In personal insurance lines a general trend can be discerned towards greater individual provision for retirement and health needs. This is likely to generate growth impetus for the reinsurance industry.

## Strategic decisions

We have set the future course for 2003 in a number of key strategic respects. Our business with HDI, for example, has been restructured. Henceforth, we shall no longer place HDI's entire reinsurance volume on the market, but instead we shall merely assume the role of preferred reinsurer and book only the premium volume that we actually retain. We shall thus preserve the option of reinsuring attractive portfolios without burdening our balance sheet with the business retroceded for HDI. In the medium term this restructuring will appreciably ease the strain on Hannover Re's capital resources.

In addition, we have implemented a far-reaching reorganisation of the Insurance Corporation of Hannover (ICH), a move that will also reduce our capital requirements. In order to better bundle the Group's activities in both program business and the reinsurance sector, ICH was re-oriented exclusively towards program business with effect from 1 January 2003. Some parts of the reinsurance portfolio were transferred to Hannover Re, while the remaining segments were discontinued.

Last but not least, we shall again systematically scrutinise each of our 22 business centers on an ongoing basis in the current year so as to ensure that our profitability requirements are met.

## Property and casualty reinsurance

*We continue to profit from favourable market conditions in property and casualty reinsurance*

Despite the difficult economic climate, property and casualty reinsurance is currently enjoying a segment-specific boom period. The effects of the cyclical upswing – with profitable rates and advantageous terms and conditions – will probably be fully felt in 2003, for the first time unencumbered by the aftermath of the cyclical downturn experienced in the second half of the nineties.

We were highly satisfied with the treaty renewals as at 1 January 2003, when roughly two-thirds of our treaties came up for renewal. We achieved broad-based improvements in rates and conditions and further enlarged our share of profitable, predominantly non-proportional business. Particularly in the North American market, we observed a sustained positive trend. Improvements in rates and conditions in this market are more striking in liability reinsurance than in property business; it is here that we also see the greatest potential for further improvements in the years to come. Developments on the London Market similarly gave grounds for satisfaction. However, in certain segments, such as aviation fleet business, we observed early signs here of a softening in rates and conditions. In accordance with our strict cycle management we have therefore already slightly reduced our involvement in such segments during the current year.

In Germany, too, the outcome of our treaty renewals was highly satisfactory. Amongst other things, we profited here from the withdrawal of a major competitor from the market. We succeeded in obtaining significant rate increases in non-proportional business and secured substantially better conditions.

Overall, we expect 2003 to be a good year in property and casualty reinsurance. Provided no extraordinary expenditures are incurred for catastrophe losses, this business group is expected to make another very favourable profit contribution.

## Life and health reinsurance

*Impetus for life and health reinsurance anticipated primarily through increased private old age provision*

In view of the well-known demographic trend in most insurance markets, it is our expectation that demand will tend to rise worldwide for products in the area of private provision for retirement and dependants.

Unit-linked life and annuity products will be able to defend a sizeable market share despite the poor performance of equity markets. Annuity products with guaranteed benefits will also continue to be a focus of consumer interest in a number of markets.

As a reinsurer operating worldwide, we expect to participate disproportionately strongly in this development. The total premium volume will likely remain unchanged. The value of the in-force business and the net income generated by life and health reinsurance should rise appreciably.

## Financial reinsurance

*Favourable development anticipated in financial reinsurance due to growing demand for individually tailored solutions*

Financial reinsurance will remain an attractive and profitable business group in the current year. The pressure on companies to show a consistently positive business development will, if anything, only grow in the prevailing economic climate of nervousness and uncertainty. This is especially true of listed companies. It is for this reason that demand for the individually tailored solutions offered by financial reinsurance will rise. Based on our considerable experience and good reputation, and given the limited number of competitors, we expect a favourable development in this environment.

In the current year our clients will again originate primarily from the highly developed financial markets, most notably the USA. Yet, we shall also systematically cultivate the emerging markets in Asia and Latin America and enlarge our portfolio here, too.

In financial reinsurance we anticipate double-digit growth in our premium volume; net income should at least be on a par with the previous year. As in past years, however, individual transactions can have significant repercussions on the premium and result in this business group.

## Program business

*Further portfolio rehabilitation will produce rising profitability*

We shall purposefully press ahead with the reorientation of the Clarendon Insurance Group and optimise the profitability of the portfolio. The integration of the Insurance Corporation of Hannover into Clarendon is also expected to bear fruit. These measures should help to consolidate and further extend the Clarendon Group's leading position on the US market.

In Europe, too, we shall successfully move forward with Inter Hannover and establish the program business model in the Old World. Compass Insurance Company will similarly expand program business in South Africa.

As we take further steps to rehabilitate the portfolio, gross premium income for the current year is expected to remain unchanged from the previous year. Net income in this business group should develop favourably.

## Overall business

In the light of the expectations described above, we anticipate modest growth in our gross premium income for 2003. The level of retained premiums will probably increase.

*Further marked increase in net income expected for the current year*

Given the nature of the economic situation we are currently experiencing, our investment income is particularly difficult to forecast. Capital markets are likely to remain under strain. In view of the uncertain state of the equity markets, we shall keep our equity allocation low and continue to set great store by the high quality of our fixed-income securities. In the prevailing climate we expect current yields to stay on their present level. In the medium term, however, a significant increase is possible – especially in interest rates at the short end of the market. We therefore intend to reinvest primarily in securities with short to medium times to maturity.

Taking into account all the expectations for the development of our various business groups and the associated environment, assuming a normal burden of losses and provided there are no further adverse movements on the capital markets, we expect another marked increase in our overall net income for 2003.

It is our expectation that the prevailing hard market in property and casualty reinsurance will be sustained for at least another one to two years. The capital market should also normalise during this period. Against this backdrop and in the light of the measures that we have taken, we feel wellprepared to face the future.

# CONSOLIDATED ACCOUNTS
## of the Hannover Re Group

# CONSOLIDATED BALANCE SHEET
## as at 31 December 2002

| *Assets* *Figures in EUR thousand* | *Notes* | *2002* | *2001* |
|---|---|---|---|
| Fixed-income securities – held to maturity | 5.1 | 356 333 | 284 070 |
| Fixed-income securities – available for sale | 5.1 | 9 140 755 | 8 422 878 |
| Fixed-income securities – trading | 5.1 | – | 46 895 |
| Equity securities – available for sale | 5.1 | 717 745 | 1 021 451 |
| Equity securities – trading | 5.1 | 5 493 | 8 879 |
| Real estate | 5.1 | 265 858 | 311 207 |
| Other invested assets | 5.1 | 676 563 | 578 578 |
| Short-term investments | 5.1 | 874 027 | 622 569 |
| Total investments without cash | | 12 036 774 | 11 296 527 |
| Cash | | 671 866 | 830 659 |
| **Total investments and cash** | | 12 708 640 | 12 127 186 |
| Prepaid reinsurance premiums | 5.2 | 739 487 | 910 068 |
| Reinsurance recoverables on benefit reserve | 5.2 | 489 784 | 493 650 |
| Reinsurance recoverables on unpaid claims | 5.2 | 6 179 896 | 6 758 763 |
| Reinsurance recoverables on other reserves | 5.2 | 41 902 | 113 017 |
| Deferred acquisition costs | 5.2 | 1 321 961 | 1 196 459 |
| Accounts receivable | | 3 809 631 | 3 148 683 |
| Funds held by ceding companies | | 7 597 206 | 7 150 799 |
| Goodwill | 5.4 | 233 883 | 263 258 |
| Other assets | 5.13 | 280 893 | 291 574 |
| Accrued interest and rent | | 175 688 | 194 137 |
| | | 33 578 971 | 32 647 594 |

| *Liabilities* *Figures in EUR thousand* | *Notes* | *2002* | *2001* |
|---|---|---|---|
| Loss and loss adjustment expense reserve | 5.2 | 18 836 651 | 18 859 679 |
| Policy benefits for life and health contracts | 5.2 | 4 136 701 | 3 908 584 |
| Unearned premium reserve | 5.2 | 2 411 591 | 2 312 432 |
| Provision for contingent commission | 5.2 | 143 120 | 144 228 |
| Other technical provisions | 5.2 | 7 870 | 35 323 |
| Reinsurance payable | | 1 936 514 | 1 336 760 |
| Funds held under reinsurance treaties | | 1 630 200 | 1 744 536 |
| Contract deposits | | 184 884 | 261 250 |
| Minorities | 5.9 | 400 426 | 307 811 |
| Other liabilities | 5.13 | 480 540 | 460 673 |
| Taxes | 5.5 | 110 311 | 99 070 |
| Provision for deferred taxes | 5.5 | 742 078 | 588 555 |
| Notes payable | 5.8 | 698 792 | 797 148 |
| Surplus debenture | 5.8 | 119 831 | 119 517 |
| Total liabilities | | 31 839 509 | 30 975 566 |
| Stockholders' equity | | | |
| Common stock | 5.9 | 97 164 | 82 799 |
| Nominal value 97 164 Authorised capital 48 500 | | | |
| Additional paid-in capital | | 374 451 | 388 816 |
| Cumulative comprehensive income | | | |
| Unrealised appreciation/depreciation of investments, net of deferred taxes | | 43 127 | 31 164 |
| Cumulative foreign currency conversion adjustment, net of deferred taxes | | (100 276) | (58 192) |
| Other changes in cumulative comprehensive income | 5.10 | (54 295) | (15 893) |
| Total comprehensive income | | (111 444) | (42 921) |
| Retained earnings | | | |
| Beginning of period | | 1 243 334 | 1 232 615 |
| Net income | | 267 172 | 11 084 |
| Dividend paid | | – | (69 990) |
| Other changes | | (131 215) | 69 625 |
| | | 1 379 291 | 1 243 334 |
| **Total stockholders' equity** | | 1 739 462 | 1 672 028 |
| | | 33 578 971 | 32 647 594 |

# CONSOLIDATED STATEMENT OF INCOME
## for the 2002 financial year

| *Figures in EUR thousand* | *Notes* | *1.1.–31.12.2002* | *1.1.–31.12.2001* |
|---|---|---|---|
| Gross written premiums | | 12 463 227 | 11 507 489 |
| Ceded written premiums | | 4 328 181 | 4 409 828 |
| Change in gross unearned premiums | | (410 963) | (623 721) |
| Change in ceded unearned premiums | | (35 848) | 22 119 |
| **Net premiums earned** | | 7 688 235 | 6 496 059 |
| Ordinary investment income | 5.1 | 1 119 629 | 941 988 |
| Realised gains on investments | 5.1 | 201 907 | 190 006 |
| Realised losses on investments | 5.1 | 108 554 | 134 053 |
| Unrealised gains and losses on investments | 5.1 | (7 090) | 21 332 |
| Other investment expenses/depreciations | 5.1 | 277 542 | 73 567 |
| **Net investment income** | 5.1 | 928 350 | 945 706 |
| Other technical income | | 21 475 | 17 831 |
| **Total revenues** | | 8 638 060 | 7 459 596 |
| Claims and claims expenses | 5.2 | 5 988 555 | 5 795 449 |
| Change in policy benefits for life and health contracts | 5.2 | 574 123 | 297 973 |
| Commission and brokerage | 5.2 | 1 039 969 | 1 028 602 |
| Other acquisition costs | 5.2 | 35 911 | 11 667 |
| Other technical expenses | | 123 495 | 79 869 |
| Administrative expenses | | 258 767 | 178 574 |
| **Total technical expenses** | | 8 020 820 | 7 392 134 |
| Other income and expenses | 5.15 | (146 318) | 41 774 |
| **Operating profit/loss (EBIT)** | | 470 922 | 109 236 |
| Interest on hybrid capital | | 57 548 | 56 094 |
| Net income before taxes | | 413 374 | 53 142 |
| Taxes | 5.5 | 131 197 | 17 505 |
| Minority interest | | (15 005) | (24 553) |
| **Net income** | | 267 172 | 11 084 |

| *Figures in EUR thousand* | *Notes* | *1.1.–31.12.2002* | *1.1.–31.12.2001* |
|---|---|---|---|
| **Other comprehensive income** | 5.10 | | |
| Net unrealised appreciation/depreciation of investments | | 11 963 | (40 249) |
| Cumulative foreign currency conversion adjustments | | (42 084) | (49 392) |
| Other comprehensive income | | (38 402) | (16 757) |
| **Net comprehensive income** | | 198 649 | (95 314) |
| **Earnings per share** | 5.12 | | |
| Earnings per share in EUR* | | 2.75 | 0.11 |

** For previous year stock split of 15 July in a ratio of 3 for 1 taken into account*

# CASH FLOW STATEMENT
## for the 2002 financial year

| *Figures in EUR thousand* | *1.1.–31.12.2002* | *1.1.–31.12.2001* |
|---|---|---|
| **I. Cash flows from operating activities** | | |
| Consolidated net income (after tax) | 267 172 | 11 084 |
| Appreciation/depreciation | 248 759 | 54 434 |
| Net realised gains and losses on investments | (93 354) | (55 953) |
| Amortisation of investments | (5 296) | (2 650) |
| Minority interest | 15 005 | 24 553 |
| Changes in funds held | (1 374 919) | (2 179 236) |
| Changes in prepaid reinsurance premiums (net) | 429 632 | 603 500 |
| Changes in tax assets/provisions for taxes | 55 681 | (212 995) |
| Changes in benefit reserves (net) | 532 739 | 569 958 |
| Changes in claims reserves (net) | 2 002 234 | 2 695 687 |
| Changes in deferred acquisition costs | (208 275) | (482 738) |
| Changes in other technical provisions | 55 790 | (89 396) |
| Changes in clearing balances | (305 019) | 119 083 |
| Changes in other assets and liabilities (net) | (4 856) | 110 915 |
| **Cash flows from operating activities** | 1 615 293 | 1 166 246 |

| | | |
|---|---|---|
| **II. Cash flows from investing activities** | | |
| Fixed income securities – held to maturity | | |
| Maturities | 8 449 | 15 705 |
| Purchases | (124 606) | (31 745) |
| Fixed income securities – available for sale | | |
| Maturities, sales | 4 941 360 | 3 377 429 |
| Purchases | (6 020 990) | (4 986 378) |
| Equity securities – available for sale | | |
| Sales | 100 719 | 831 694 |
| Purchases | (288 255) | (400 488) |
| Other invested assets | | |
| Sales | 19 397 | 312 654 |
| Purchases | (138 497) | (300 176) |
| Affiliated companies and participating interests | | |
| Sales | 9 273 | 8 767 |
| Acquisitions | (29 298) | (53 939) |
| Real estate | | |
| Sales | 28 372 | 1 094 |
| Acquisitions | (2 536) | (84 360) |
| Short-term investments | | |
| Changes | (239 162) | (151 176) |
| Other changes (net) | (67 844) | (7 972) |
| **Cash flows from investing activities** | (1 803 618) | (1 468 891) |

| Figures in EUR thousand | 1.1.–31.12.2002 | 1.1.–31.12.2001 |
|---|---|---|
| **III. Cash flows from financing activities** | | |
| Inflows from capital increases | – | 209 644 |
| Net changes in contract deposits | (65 267) | 156 214 |
| Dividend paid | – | (69 990) |
| Changes in notes payable | (33 797) | 350 646 |
| Other changes | 63 971 | 6 041 |
| **Cash flows from financing activities** | (35 093) | 652 555 |
| **IV. Exchange rate differences on cash** | 64 625 | (1 513) |
| **Change in cash and cash equivalents (I.+II.+III.+IV.)** | (158 793) | 348 397 |
| Cash and cash equivalents at the beginning of the period | 830 659 | 482 262 |
| Change in cash and cash equivalents according to cash flow statement | (158 793) | 348 397 |
| **Cash and cash equivalents at the end of the period** | 671 866 | 830 659 |
| Income taxes | (29 233) | (97 620) |
| Interest paid | (107 039) | (88 554) |

# SEGMENTAL REPORT
## as at 31 December 2002

In the following table we have allocated the underwriting assets and liabilities as at 31 December 2002 and 2001 to our business segments after eliminating intergroup transactions across segments.

Segmentation of underwriting assets and liabilities

| *in TEUR* | *Property/casualty reinsurance* | | *Life/health reinsurance* | |
|---|---|---|---|---|
| | *2002* | *2001* | *2002* | *2001* |
| **Assets** | | | | |
| Prepaid reinsurance premiums | 94 365 | 135 664 | 1 523 | 503 |
| Deferred acquisition costs (net) | 250 988 | 218 873 | 963 961 | 889 117 |
| Reinsurance recoverables on benefit reserves | – | – | 489 784 | 493 650 |
| Reinsurance recoverables on incurred claims and others | 3 073 835 | 3 309 175 | 112 513 | 187 807 |
| Funds held by ceding companies | 252 479 | 376 714 | 3 329 560 | 3 007 960 |
| **Total underwriting assets** | 3 671 667 | 4 040 426 | 4 897 341 | 4 579 037 |
| **Liabilities** | | | | |
| Loss and loss adjustment expense reserve | 8 954 985 | 10 120 457 | 934 142 | 1 087 888 |
| Policy benefits for life and health contracts | – | – | 4 136 701 | 3 908 584 |
| Unearned premium reserve | 1 124 308 | 1 016 839 | 21 522 | 15 926 |
| Other technical provisions | 110 872 | 135 574 | 20 437 | 36 661 |
| Funds held under reinsurance treaties | 986 831 | 735 653 | 343 819 | 331 418 |
| **Total underwriting liabilities** | 11 176 996 | 12 008 523 | 5 456 621 | 5 380 477 |

| *Financial reinsurance* | | *Program business* | | *Total* | |
|---|---|---|---|---|---|
| *2002* | *2001* | *2002* | *2001* | *2002* | *2001* |
| | | | | | |
| 86 | – | 643 513 | 773 901 | 739 487 | 910 068 |
| 25 604 | 1 590 | 81 408 | 86 879 | 1 321 961 | 1 196 459 |
| – | – | – | – | 489 784 | 493 650 |
| 632 218 | 834 777 | 2 403 232 | 2 540 021 | 6 221 798 | 6 871 780 |
| 4 012 475 | 3 731 432 | 2 692 | 34 693 | 7 597 206 | 7 150 799 |
| 4 670 383 | 4 567 799 | 3 130 845 | 3 435 494 | 16 370 236 | 16 622 756 |
| | | | | | |
| 5 544 198 | 4 544 332 | 3 403 326 | 3 107 002 | 18 836 651 | 18 859 679 |
| | – | – | – | 4 136 701 | 3 908 584 |
| 103 913 | 125 691 | 1 161 848 | 1 153 976 | 2 411 591 | 2 312 432 |
| 19 681 | 4 475 | – | 2 841 | 150 990 | 179 551 |
| 24 164 | 367 945 | 275 386 | 309 520 | 1 630 200 | 1 744 536 |
| 5 691 956 | 5 042 443 | 4 840 560 | 4 573 339 | 27 166 133 | 27 004 782 |

## Segmental statement of income

| *in TEUR* | *Property/casualty reinsurance* | | *Life/health reinsurance* | |
|---|---|---|---|---|
| | *2002* | *2001* | *2002* | *2001* |
| Gross written premiums | 6 020 029 | 4 938 461 | 2 471 500 | 2 371 022 |
| Net premiums earned | 3 502 073 | 2 989 302 | 2 142 270 | 1 740 263 |
| Claims and claims expenses | 2 722 079 | 2 795 966 | 1 218 683 | 1 066 010 |
| Change in policy benefits for life and health contracts | – | – | (574 123) | (297 973) |
| Commission and brokerage and other technical expenses | 543 154 | 590 366 | 478 322 | 489 652 |
| Investment income | 255 860 | 361 353 | 268 424 | 196 751 |
| Administrative expenses | 106 042 | 84 261 | 56 625 | 32 459 |
| Other income and expenses | (81 080) | 79 391 | -34 464 | (445) |
| **Operating profit/loss (EBIT)** | 305 578 | (40 547) | 48 477 | 50 475 |
| Interest on hybrid capital | 40 866 | 41 420 | 6 575 | 6 028 |
| **Net income before taxes** | 264 712 | (81 967) | 41 902 | 44 447 |
| Taxes | 97 642 | (14 387) | 9 755 | 15 764 |
| Minority interest | (12 931) | (7 946) | (2 150) | (5 452) |
| **Net income** | 154 139 | (75 526) | 29 997 | 23 231 |

| Financial reinsurance | | Program business | | Total | |
|---|---|---|---|---|---|
| *2002* | *2001* | *2002* | *2001* | *2002* | *2001* |
| 1 242 611 | 1 740 606 | 2 729 087 | 2 457 400 | 12 463 227 | 11 507 489 |
| 1 210 956 | 1 280 345 | 832 936 | 486 149 | 7 688 235 | 6 496 059 |
| 1 380 973 | 1 557 458 | 666 820 | 376 015 | 5 988 555 | 5 795 449 |
| – | – | – | – | (574 123) | (297 973) |
| 132 924 | 11 336 | 23 500 | 10 953 | 1 177 900 | 1 102 307 |
| 357 194 | 357 955 | 46 872 | 29 647 | 928 350 | 945 706 |
| 5 393 | 2 814 | 90 707 | 59 040 | 258 767 | 178 574 |
| (1 034) | (978) | (29 740) | (36 194) | (146 318) | 41 774 |
| 47 826 | 65 714 | 69 041 | 33 594 | 470 922 | 109 236 |
| 3 716 | 4 436 | 6 391 | 4 210 | 57 548 | 56 094 |
| 44 110 | 61 278 | 62 650 | 29 384 | 413 374 | 53 142 |
| 4 323 | 5 893 | 19 477 | 10 235 | 131 197 | 17 505 |
| (92) | (9 830) | 168 | (1 325) | (15 005) | (24 553) |
| 39 695 | 45 555 | 43 341 | 17 824 | 267 172 | 11 084 |

## Contents

# NOTES

## 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).

At the end of June 2001 the Financial Accounting Standards Board (FASB) issued SFAS 141 "Business Combinations". This Statement requires that all business combinations initiated after 30 June 2001 be accounted for using a single method, namely the purchase method. A distinction is made between acquired intangible assets that are to be recognised separately from goodwill and those that are to be reported in goodwill.

At the same time the FASB issued SFAS 142 "Goodwill and Other Intangible Assets", which states that goodwill will no longer be amortised but will be tested (at least) annually for impairment in a two-step fair value process. SFAS 142 further contains accounting provisions applicable to finite-lived intangible assets (wasting assets) and indefinite-lived intangible assets recognised in financial statements.

Hannover Re has applied the standards since 1 January 2002. The effects are described in section 5.4 "Goodwill; present value of future profits on acquired life reinsurance portfolios".

In August 2001 the FASB published SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". This standard requires that a long-lived asset classified as held for sale be accounted for at the lower of its carrying amount or fair value (less cost to sell). Depreciation (amortisation) is to cease. This means that future losses from discontinued operations and from long-lived assets to be disposed of by sale are no longer recognised before they occur.

The application of SFAS 144 had no significant implications for the consolidated financial statement in the financial year.

In June 2002 SFAS 146 "Accounting for Costs Associated with Exit or Disposal Activities" was published. This Statement requires that costs associated with exit or disposal activities be recognised as liabilities when the costs are incurred, provided the fair value can be reasonably measured. It had previously been the case that such liabilities could be recognised at the date of an entity's commitment to a restructuring plan.

SFAS 146 is to be applied prospectively to exit and disposal activities initiated after 31 December 2002.

In November 2002 the FASB issued Interpretation No. 45 (FIN 45) "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness and Others – an Interpretation of FASB Statements 5, 57 and 107 and recission of FASB Interpretation 34". The interpretation elaborates on the information that a guarantor is required to disclose in its financial statements with respect to the obligations assumed under guarantees that it issues. FIN 45 further clarifies that at the time a company issues a guarantee, the company must recognise an initial liability for the fair value of the obligations it assumes under the guarantee. The disclosure requirements are effective for financial statements of interim or annual periods ending after 15 December 2002. The initial recognition and initial measurement provisions apply to guarantees and contingent liabilities entered into after 31 December 2002.

Hannover Re is currently examining the implications of the recognition and measurement provisions of FIN 45.

In December 2002 the FASB published SFAS 148 "Accounting for Stock-Based Compensation – Transition and Disclosure – an Amendment of FASB Statement No. 123". Supplementary to the existing provisions, this Statement provides alternative methods of transition for voluntary change to the fair value based method of accounting for stock-based employee compensation. It also requires additional disclosures about the method of accounting for stock-based employee compensation and the effect of initial application of the standard on reported results.

In January 2003 the FASB issued FIN 46 "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51". This Statement clarifies consolidation by business enterprises of variable interest entities. Further details are provided in section 5.1 under the heading "Securitisation of reinsurance risks".

All Statements of Financial Accounting Standards (SFAS) issued by the FASB on or before 31 December 2002 with binding effect for the 2002 financial year have been observed in the consolidated financial statement.

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

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 six German and sixteen foreign companies, as well as three foreign consolidated entities. Two German and three foreign companies were consolidated using the equity basis of accounting.

In the financial year Hannover Re transferred its shares in the Insurance Corporation of Hannover to Hannover Finance Inc. By simultaneously purchasing the interest held by E+S Rück in Hannover Finance Inc., Hannover Re is now the sole stockholder of Hannover Finance Inc. (further information is provided in section 6.1 "Transactions with related parties").

Compass Insurance Holdings (Pty) Ltd. was consolidated for the first time in the financial year with effect from 1 January 2002 (cf. section 5.4 "Goodwill"). Compass Insurance is a subsidiary of Lireas Holdings within the subgroup Hannover Reinsurance Group Africa.

HDI Immobilienfonds Nr. 4 Nürnberg Bucher KG, Munich/Germany, was wound up. The company's assets were transferred to Hannover Re (further information is provided in section 6.1 "Transactions with related parties").

Following complete disposal of its shares Protection Reinsurance Intermediaries Ltd., London/UK, left the consolidated group companies in the third quarter.

In conformity with Item 7.1.4 of the recommendations of the German Corporate Governance Code the following table also lists major participations in unconsolidated third companies.

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

The following companies are included in the consolidated financial statement:

| *Name and registered office of the company (Figures in currency units of 1 000)* | *Participation in %* | *Capital and reserves* | | *Results for the last financial year* | |
|---|---|---|---|---|---|
| Affiated companies resident in Germany | | | | | |
| Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany | 100.0 | EUR | 586 504 | EUR | 11 355 |
| Hannover America Private Equity Partners II GmbH & Co. KG, Hannover/Germany | 89.2 | USD | 20 000 | | – |
| Hannover Euro Private Equity Partners III GmbH & Co. KG, Hannover/Germany | 78.4 | EUR | 1 000 | | – |
| GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG Grundstücksgesellschaft, Hannover/Germany | 70.6 | EUR | 58 799 | EUR | 1 265 |
| E+S Rückversicherungs-AG, Hannover/Germany | 56.8 | EUR | 440 281 | EUR | 20 000 |
| Hannover Euro Private Equity Partners II GmbH & Co. KG, Hannover/Germany | 55.2 | EUR | 9 581 | EUR | (89) |
| Affiated companies resident abroad | | | | | |
| Hannover Finance (Luxembourg) S.A., Luxembourg/Luxembourg | 100.0 | EUR | 18 539 | EUR | (9 010) |
| Hannover Finance (UK) Limited, Virginia Water/United Kingdom | 100.0 | GBP | 103 362 | GBP | (4) |
| Hannover Life Reassurance Company of America, Orlando/USA | 100.0 | USD | 87 817 | USD | 1 430 |
| Hannover Life Reassurance (Ireland) Ltd., Dublin/Ireland | 100.0 | EUR | 98 600 | EUR | (1 668) |
| Hannover Life Reassurance (UK) Ltd., Virginia Water/United Kingdom | 100.0 | GBP | 21 438 | GBP | 117 |
| Hannover Re (Bermuda) Ltd., Hamilton/Bermuda | 100.0 | EUR | 575 146 | EUR | 62 918 |
| Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland | 100.0 | EUR | 219 521 | EUR | 35 222 |
| Hannover Re Sweden Insurance Company Ltd., Stockholm/Sweden | 100.0 | | – | SEK | 723 |
| Hannover Services (UK) Ltd., Virginia Water/United Kingdom | 100.0 | GBP | 680 | GBP | 343 |
| International Insurance Company of Hannover Ltd., Virginia Water/United Kingdom | 100.0 | GBP | 64 563 | GBP | 529 |
| Hannover Finance, Inc., Wilmington/USA | 100.0 | USD | 353 043 | USD | 22 349 |
| Hannover Finance, Inc. compiles its own sub-group financial statement, including the following major companies in which it holds the following shares: | | | | | |
| Clarendon America Insurance Company, Trenton/USA | 100.0 | USD | 151 813 | USD | (3 759) |
| Clarendon National Insurance Company, Trenton/USA | 100.0 | USD | 568 128 | USD | 10 742 |

| Name and registered office of the company (Figures in currency units of 1 000) | Participation in % | Capital and reserves | | Results for the last financial year | |
|---|---|---|---|---|---|
| Clarendon Select Insurance Company, Tallahassee/USA | 100.0 | USD | 42 282 | USD | (35) |
| Harbor Specialty Insurance Company, Trenton/USA | 100.0 | USD | 30 729 | USD | 5.941 |
| Insurance Corporation of Hannover, Chicago/USA | 100.0 | USD | 147 008 | USD | (2 650) |
| Lion Insurance Company, Tallahassee/USA | 100.0 | USD | 7 167 | USD | 20 |
| Redland Insurance Company Council Bluffs/USA | 100.0 | USD | 22 874 | USD | 3 878 |
| Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa | 96.9 | ZAR | 382 309 | ZAR | (2 685) |
| Hannover Reinsurance Group Africa (Pty) Ltd. compiles its own sub-group financial statement, including the following major companies in which it holds the following shares: | | | | | |
| Compass Insurance Holdings (Pty) Ltd., Johannesburg/South Africa[3)] | 100.0 | ZAR | 32 355 | ZAR | 4 026 |
| Hannover Life Reassurance Africa Ltd., Johannesburg/South Africa | 100.0 | ZAR | 35 173 | ZAR | 3 135 |
| Hannover Reinsurance Africa Ltd., Johannesburg/South Africa | 100.0 | ZAR | 295 316 | ZAR | (48 322) |
| Hannover Reinsurance Mauritius Ltd., Port Louis/Mauritius | 100.0 | MUR | 164 207 | MUR | 6 064 |
| Lireas Holdings (Pty) Ltd., Johannesburg/South Africa | 100.0 | ZAR | 13 292 | ZAR | (38 810) |
| Aviation Insurance Company Ltd., Cape Town/South Africa[4)] | 25.0 | ZAR | 17 355 | ZAR | 5 453 |
| Hannover Re Real Estate Holdings, Inc., Orlando/USA | 94.2 | USD | 119 835 | USD | 7 519 |
| Hannover Re Real Estate Holdings, Inc. holds a sub-group including the following major companies in which it holds the following shares: | | | | | |
| Hannover USA Real Estate Corporation, Orlando/USA | 94.2 | USD | 50 075 | USD | 1 233 |
| Summit at Southpoint Corporation, Jacksonville/USA | 94.2 | USD | 7 386 | USD | 64 |
| Orange Avenue Corporation, Orlando/USA | 94.2 | USD | 1 122 | USD | 4 955 |
| WRH Offshore High Yield Partners, L.P., Wilmington/USA | 87.0 | USD | 40 634 | USD | 2 030 |
| Penates A, Ltd., Tortola/British Virgin Islands | 86.4 | USD | 45 994 | USD | 3 448 |
| Hannover Life Re of Australasia Ltd, Sydney/Australia | 78.4 | AUD | 173 220 | AUD | 14 220 |

| Name and registered office of the company (Figures in currency units of 1 000) | Participation in % | Capital and reserves | | Results for the last financial year | |
|---|---|---|---|---|---|
| Hannover Re Advanced Solutions Ltd., Dublin/Ireland | 52.3 | EUR | 578 | EUR | (205) |
| **Associated companies resident in Germany** | | | | | |
| WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany | 39.2 | EUR | 74 736 | EUR | 29 828 |
| HANNOVER Finanz GmbH Beteiligungen und Kapitalanlagen, Hannover/Germany[2] | 25.0 | EUR | 106 907 | EUR | 37 100 |
| **Associated companies resident abroad** | | | | | |
| ITAS Assicurazioni S.p.A., Trento/Italy[1] | 43.7 | EUR | 48 754 | EUR | 1 405 |
| ITAS Vita S.p.A., Trento/Italy[1] | 43.7 | EUR | 30 816 | EUR | 35 |
| WPG Corporate Development Associates IV (Overseas), L.L.C., Grand Cayman/Cayman Islands | 26.9 | USD | 3 155 | USD | 2 809 |
| **Participations in Germany** | | | | | |
| JM Management Consulting GmbH, Hannover/Germany | 74.0 | EUR | 47 | EUR | (3) |
| Oval Office Grundstücks GmbH, Hannover/Germany | 50.0 | EUR | 11 | EUR | (13) |
| Willy Vogel Beteiligungs GmbH, Hannover/Germany[1] | 15.0 | EUR | 57 664 | EUR | 2 637 |
| HL Grundstücksgesellschaft, Hannover/Germany | 10.0 | EUR | 30 678 | EUR | 8 |
| Internationale Schule Hannover Region, Hannover/Germany [5] | 8.5 | EUR | 448 | EUR | 185 |
| **Participations abroad** | | | | | |
| Mediterranean Re, PLC, Dublin/Ireland[2] | 33.3 | USD | 3 950 | USD | 277 |
| Special Risk Insurance and Reinsurance Luxemburg S.A., Luxembourg/Luxembourg | 18.2 | EUR | 291 230 | EUR | (8 770) |
| HI Holdings, Inc., Honolulu, Hawaii[3] [6] | 16.3 | USD | 15 389 | USD | 2 095 |
| Inter Ocean Holdings Ltd., Hamilton/Bermuda[1] [3] | 10.0 | USD | 63 948 | USD | 5 318 |
| Acte Vie S.A. Compagnie d' Assurances sur la Vie et de Capitalisation, Strasbourg/France[1] | 9.4 | EUR | 6 906 | EUR | 253 |
| Bulstrad Life Insurance, Sofia, Bulgaria[1] | 9.1 | BGN | 5 358 | BGN | 235 |

*[1] Financial year as at 31 December 2001*
*[2] Provisional (unaudited) figures*
*[3] Consolidated figures*
*[4] Financial year from 1 January 2001 to 31 October 2001*
*[5] Financial year as at 31 July 2002*
*[6] Voting shares: 16.27%*

## 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. After recognition of all acquired intangible assets that in accordance with SFAS 141 are to be accounted for separately from goodwill, the difference between the revalued stockholders' equity of the subsidiary and the purchase price is recognised as goodwill. 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 reported separately. The minority interest in the result is deducted from the net income in the statement of income and totalled EUR 15,005 thousand (previous year: EUR 24,553 thousand) in the 2002 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 profit

The effects of business transactions within the Group were eliminated.

# 4. Acquisitions/new establishments

## Hannover Euro Private Equity Partners II GmbH & Co. KG (HEPEP II)

HEPEP II commenced business operations on 28 January 2002. The company has capital resources of EUR 12.8 million, in which Hannover Re and E+S Rück each hold participations of 35.2%. The object of the company is to build, hold and manage a portfolio of assets comprising equity capital and quasi-equity participations primarily in Europe.

## Hannover Euro Private Equity Partners III GmbH & Co. KG (HEPEP III)

HEPEP III was established on 25 November 2002. The company has capital resources of EUR 1.0 million, in which Hannover Re and E+S Rück each hold participations of 50.0%. The object of the company is to build, hold and manage a portfolio of assets comprising equity capital and quasi-equity participations primarily in Europe.

## Hannover America Private Equity Partners II GmbH & Co. KG (HAPEP II)

HAPEP II was established on 25 November 2002. The company has capital resources of EUR 20.0 million, in which Hannover Re holds a participation of 75% and E+S Rück a participation of 25%. The object of the company is to build, hold and manage a portfolio of assets comprising equity capital and quasi-equity participations primarily in the USA.

### Hannover Rück Beteiligung Verwaltungs-GmbH (HRBV)

Effective 12 December 2002 Hannover Rück Beteiligung Verwaltungs-GmbH was established as a wholly owned subsidiary of Hannover Rückversicherungs-AG. The object of the company is to hold, acquire and dispose of participations in other enterprises. The capital stock amounts to EUR 15.0 million and was furnished by way of a non-cash contribution of the shares in E+S Rück. The contribution was made at the current value of the E+S Rück shares.

## 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 costs. The amortised costs 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.

Contractual maturities of the fixed-income securities in the held-to-maturity portfolio, available-for-sale portfolio and trading portfolio as at the balance sheet dates of 31 December 2002 and 2001

| *Figures in EUR thousand* | *2002* Cost or amortised cost | *2002* Estimated fair value | *2001* Cost or amortised cost | *2001* Estimated fair value |
|---|---|---|---|---|
| **Held-to-maturity** | | | | |
| Due in one year | 30 608 | 31 382 | 7 950 | 7 978 |
| Due after one through five years | 173 937 | 187 824 | 197 670 | 206 654 |
| Due after five through ten years | 130 000 | 138 330 | 75 095 | 64 465 |
| Due after ten years | 21 788 | 24 057 | 3 355 | 18 279 |
| **Total** | 356 333 | 381 593 | 284 070 | 297 376 |
| **Available-for-sale** | | | | |
| Due in one year | 1 279 481 | 1 289 054 | 800 467 | 799 807 |
| Due after one through five years | 4 380 831 | 4 515 430 | 4 571 102 | 4 631 074 |
| Due after five through ten years | 2 059 290 | 2 142 071 | 1 815 000 | 1 859 462 |
| Due after ten years | 1 161 819 | 1 194 200 | 1 163 738 | 1 132 535 |
| **Total** | 8 881 421 | 9 140 755 | 8 350 307 | 8 422 878 |
| **Trading** | | | | |
| Due after one through five years | – | – | 7 832 | 7 878 |
| Due after five through ten years | – | – | 38 789 | 39 016 |
| **Total** | – | – | 46 620 | 46 895 |

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.

Amortised costs and unrealised gains and losses on the portfolio of investments classified as held to maturity

| *2002 Figures in EUR thousand* | *Cost or amortised cost* | *Unrealised gains* | *Unrealised losses* | *Fair value* |
|---|---|---|---|---|
| **Investments held to maturity** | | | | |
| Fixed-income securities | | | | |
| Corporate securities | 238 466 | 16 413 | – | 254 879 |
| Asset-backed securities | 87 867 | 7 560 | – | 95 427 |
| Other securities | 30 000 | 1 601 | 314 | 31 287 |
| **Total** | 356 333 | 25 574 | 314 | 381 593 |

| *2001 Figures in EUR thousand* | *Cost or amortised cost* | *Unrealised gains* | *Unrealised losses* | *Fair value* |
|---|---|---|---|---|
| **Investments held to maturity** | | | | |
| Fixed-income securities | | | | |
| US Treasury Notes | 32 893 | 1 573 | – | 34 466 |
| Other foreign government debt securities | 2 289 | 73 | – | 2 362 |
| Corporate securities | 174 238 | 8 250 | 299 | 182 189 |
| Asset-backed securities | 56 031 | 3 862 | – | 59 893 |
| Other securities | 18 619 | 36 | 189 | 18 466 |
| **Total** | 284 070 | 13 794 | 488 | 297 376 |

Amortised costs and unrealised gains and losses on the portfolios of investments classified as available for sale and trading

| *2002 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 | 1 547 751 | 50 090 | – | 1 597 841 |
| US Treasury Notes | 1 339 647 | 44 464 | – | 1 384 111 |
| Other foreign government debt securities | 451 613 | 13 883 | 1 310 | 464 186 |
| Corporate securities | 3 525 911 | 143 321 | 43 255 | 3 625 977 |
| Asset-backed securities | 1 032 697 | 28 426 | 14 514 | 1 046 609 |
| From investment funds | 521 285 | 22 929 | 380 | 543 834 |
| Other securities | 462 517 | 17 448 | 1 768 | 478 197 |
| | 8 881 421 | 320 561 | 61 227 | 9 140 755 |
| Dividend-bearing securities | | | | |
| Equities | 190 614 | 5 536 | 33 450 | 162 700 |
| From investment funds | 667 257 | – | 113 297 | 553 960 |
| Other dividend-bearing securities | 1 165 | – | 80 | 1 085 |
| | 859 036 | 5 536 | 146 827 | 717 745 |
| Short-term investments | 874 027 | – | – | 874 027 |
| **Total** | 10 614 484 | 326 097 | 208 054 | 10 732 527 |
| **Trading** | | | | |
| Dividend-bearing securities | | | | |
| Derivatives | – | 5 493 | – | 5 493 |
| **Total** | – | 5 493 | – | 5 493 |

| *2001* *Figures in EUR thousand* | *Cost or amortised cost* | *Unrealised* *gains* | *losses* | *Fair value* |
|---|---|---|---|---|
| **Available-for-sale** | | | | |
| Fixed-income securities | | | | |
| Government debt securities of EU member states | 1 696 999 | 20 010 | 8 453 | 1 708 556 |
| US Treasury Notes | 1 381 566 | 39 156 | 2 435 | 1 418 287 |
| Other foreign government debt securities | 383 918 | 8 075 | 14 393 | 377 600 |
| Corporate securities | 3 284 762 | 98 143 | 64 378 | 3 318 527 |
| Asset-backed securities | 788 316 | 15 138 | 16 692 | 786 762 |
| From investment funds | 562 144 | – | 5 545 | 556 599 |
| Other securities | 252 602 | 4 930 | 985 | 256 547 |
| | 8 350 307 | 185 452 | 112 881 | 8 422 878 |
| Dividend-bearing securities | | | | |
| Equities | 309 407 | 33 027 | 21 089 | 321 345 |
| From investment funds | 746 787 | 884 | 47 993 | 699 678 |
| Other dividend-bearing securities | 728 | – | 300 | 428 |
| | 1 056 922 | 33 911 | 69 382 | 1 021 451 |
| Short-term investments | 622 569 | – | – | 622 569 |
| **Total** | 10 029 798 | 219 363 | 182 263 | 10 066 898 |
| **Trading** | | | | |
| Fixed-income securities | | | | |
| Corporate securities | 46 620 | 275 | – | 46 895 |
| Dividend-bearing securities | | | | |
| Derivatives | – | 9 287 | 408 | 8 879 |
| **Total** | 46 620 | 9 562 | 408 | 55 774 |

## Investment income

| *Figures in EUR thousand* | *2002* | *2001* |
|---|---|---|
| Real estate | 33 878 | 23 627 |
| Dividends | 59 025 | 35 644 |
| Ordinary investment income on fixed-income securities | 506 880 | 463 961 |
| Other income | 519 846 | 418 756 |
| **Ordinary investment income** | 1 119 629 | 941 988 |
| Realised gains on investments | 201 907 | 190 006 |
| Realised losses from investments | 108 554 | 134 053 |
| Unrealised gains and losses | (7 090) | 21 332 |
| Real  etate depreciation | 7 982 | 6 470 |
| Write-off on dividend-bearing securities | 164 594 | 12 928 |
| Write-off on fixed-income securities | 25 639 | 9 968 |
| Write-downs on participations | 16 849 | 6 298 |
| Other investment expenses | 62 478 | 37 903 |
| **Total investment income** | 928 350 | 945 706 |

The increase in other income derived largely from higher interest on deposits.

## Rating structure of fixed-income securities

| 2002<br>Figures in EUR thousand | AAA | AA | A | BBB | BB | B | C | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Fixed-income securities – held-to-maturity | 171 069 | 124 091 | 55 791 | 5 113 | – | – | – | 269 | 356 333 |
| Fixed-income securities – available-for-sale | 5 443 188 | 1 650 983 | 1 232 447 | 464 252 | 54 465 | 175 158 | 4 969 | 115 293 | 9 140 755 |
| **Total fixed-income securities** | 5 614 257 | 1 775 074 | 1 288 238 | 469 395 | 54 465 | 175 158 | 4 969 | 115 562 | 9 497 088 |

| 2001<br>Figures in EUR thousand | AAA | AA | A | BBB | BB | B | C | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Fixed-income securities – held-to-maturity | 169 031 | 84 033 | 19 596 | 8 538 | 606 | 2 266 | – | – | 284 070 |
| Fixed-income securities – available-for-sale | 5 085 611 | 1 618 287 | 1 058 751 | 385 980 | 23 886 | 98 049 | 1 800 | 150 514 | 8 422 878 |
| Fixed-income securities – trading | – | – | – | 2 438 | 14 373 | 29 827 | 257 | – | 46 895 |
| **Total fixed-income securities** | 5 254 642 | 1 702 320 | 1 078 347 | 396 956 | 38 865 | 130 142 | 2 057 | 150 514 | 8 753 843 |

Investments were held in the following currencies

| 2002 *Figures in EUR thousand* | AUD | CAD | EUR | GBP | JPY | USD | ZAR | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Fixed-income securities – held-to-maturity | – | – | 354 545 | – | – | 1 788 | – | – | 356 333 |
| Fixed-income securities – available-for-sale | 420 128 | 179 164 | 2 908 165 | 1 087 029 | 31 947 | 4 282 076 | 20 227 | 212 019 | 9 140 755 |
| Equity securities – available-for-sale | 21 438 | 1 886 | 414 762 | 35 936 | 9 537 | 211 503 | 22 000 | 683 | 717 745 |
| Equity securities – trading | – | – | 97 | 5 364 | – | 32 | – | – | 5 493 |
| Other invested assets | 62 | – | 392 386 | 8 206 | 1 170 | 523 896 | 13 036 | 3 665 | 942 421 |
| Short-term investments, cash | 99 672 | 39 147 | 278 380 | 81 209 | 39 108 | 869 301 | 79 166 | 59 910 | 1 545 893 |
| **Total investments and cash** | 541 300 | 220 197 | 4 348 335 | 1 217 744 | 81 762 | 5 888 596 | 134 429 | 276 277 | 12 708 640 |

| 2001 *Figures in EUR thousand* | AUD | CAD | EUR | GBP | JPY | USD | ZAR | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Fixed-income securities – held-to-maturity | – | – | 235 193 | – | – | 48 877 | – | – | 284 070 |
| Fixed-income securities – available-for-sale | 403 571 | 334 705 | 2 707 193 | 939 217 | 63 424 | 3 812 330 | 19 984 | 142 454 | 8 422 878 |
| Fixed-income securities – trading | – | – | – | – | – | 46 895 | – | – | 46 895 |
| Equity securities – available-for-sale | 32 610 | 2 701 | 415 272 | 48 201 | – | 476 820 | 45 517 | 330 | 1 021 451 |
| Equity securities – trading | – | – | 5 124 | 3 755 | – | – | – | – | 8 879 |
| Other invested assets | 77 | – | 288 812 | 6 805 | 1 225 | 581 939 | 7 694 | 3 233 | 889 785 |
| Short-term investments, cash | 71 593 | 27 835 | 322 961 | 66 185 | 18 426 | 809 802 | 32 026 | 104 400 | 1 453 228 |
| **Total investments and cash** | 507 851 | 365 241 | 3 974 555 | 1 064 163 | 83 075 | 5 776 663 | 105 221 | 250 417 | 12 127 186 |

## 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.

## Breakdown of real estate

| Figures in EUR thousand | 2002 | 2001 |
|---|---|---|
| Real estate | 265 858 | 311 207 |
| Own-use real estate (other assets) | 43 119 | 44 299 |

## Cash equivalents

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

## Securitisation of reinsurance risks

In January 2003 the FASB published FIN 46 "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51" addressing the consolidation by business enterprises of variable interest entities. In cases where consolidation is not required on the basis of a majority voting interest, a variable interest entity is to be consolidated by the primary beneficiary. The primary beneficiary is the party that absorbs a majority of the entity's expected losses and receives a majority of its expected residual returns as a result of holding variable interests.

FIN 46 is to be applied for the first time with effect from 1 July 2003. In addition, FIN 46 contains immediately applicable disclosure requirements with respect to existing relationships with variable interest entities that are to be satisfied even if such entities are not consolidated.

Since January 1999 Hannover Re has used a special purpose entity in order to retrocede a defined portfolio of life reinsurance treaties. The reinsurance treaties cover the underwriting years 1999 to 2001.

On payment of the corresponding acquisition costs to Hannover Re a so-called "protected cell" assumes contractually defined unit-linked life reinsurance portfolios and finances the business by sourcing funds on the international capital markets. The experience account totalled EUR 194.2 million as at 31 December 2002.

This transaction falls within the scope of FIN 46. Hannover Re is currently examining whether the transaction establishes variable interests as defined by FIN 46 and whether a Group company is the primary beneficiary, therefore giving rise to a consolidation requirement.

Within the scope of the portfolio-linked securitisation of certain reinsurance risks under transactions concluded in November 1993 and March 2002 Hannover Re has retroceded business on a proportional basis to various insurance enterprises in the form of special purpose entities that finance the business via the international capital markets.

The liable equity capital of these special purpose entities amounts to EUR 276.0 million. It is fully secured and thus does not constitute any risk of loss for Hannover Re. The securitised risks involve natural catastrophes (hurricanes and earthquakes in the USA, windstorms in Europe and earthquakes in Japan) as well as worldwide aviation business.

Based on our current assessment, Hannover Re is not the primary beneficiary in any of the transactions. Furthermore, as things presently stand the maximum risk of loss resulting from these interests is insignificant for the Group.

The extent of the interests in special purpose entities other than those described above is currently being analysed in the light of the scope of FIN 46. There are grounds to presume that further information on these transactions will have to be disclosed when FIN 46 is initially applied. A consolidation requirement does not exist based on our current assessment. As things presently stand, the total scope of these transactions and the resulting maximum risk of loss for the Group are insignificant.

## 5.2 Underwriting assets and liabilities

### Underwriting assets

The retrocessionaires' portions of the technical provisions are based on 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 refer to the expected policy period or period of annuity payment.

### Development of deferred acquisition costs

| *Figures in EUR thousand* | *2002* | *2001* |
|---|---|---|
| Balance as at 1 January | 1 196 459 | 714 427 |
| Currency exchange rate differences | (88 800) | 4 167 |
| | 1 107 659 | 718 594 |
| Changes | 216 821 | 477 659 |
| Currency exchange rate differences between valuation at the average rate and the year-end rate | (2 519) | 206 |
| **Balance as at 31 December** | 1 321 961 | 1 196 459 |

### 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 3.0% 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 1,127.2 million (EUR 1,370.4 million). As at year-end 2002 the discounted provisions amounted to EUR 4,314.9 million (EUR 4,758.3 million).

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

| *Figures in EUR thousand* | *2002* | *2001* |
|---|---|---|
| Reserve as at 31 December of previous year (gross) | 18 859 679 | 12 782 710 |
| Reserve as at 31 December of previous year (retro) | 6 758 763 | 3 532 690 |
| Reserve as at 31 December of previous year (net) | 12 100 916 | 9 250 020 |
| Effects of currency conversion as at 1 January of year under review | (1 418 010) | 264 825 |
| Net reserve as at 1 January of year under review | 10 682 906 | 9 514 845 |
| Change in additions to/departures from the consolidated group | 4 963 | – |
| Incurred claims and claims expenses | | |
| Year under review | 4 267 103 | 4 813 028 |
| Previous years | 1 721 452 | 982 421 |
| | 5 988 555 | 5 795 449 |
| Less: | | |
| Claims and claims expenses paid (net) | | |
| Year under review | 744 315 | 617 209 |
| Previous years | 3 198 517 | 2 564 727 |
| | 3 942 832 | 3 181 936 |
| Effects of currency conversion at exchange rates on 31 December of year under review (net) | (76 837) | (27 442) |
| Reserve as at 31 December of year under review (net) | 12 656 755 | 12 100 916 |
| Reserve as at 31 December of year under review (retro) | 6 179 896 | 6 758 763 |
| **Reserve as at 31 December of year under review (gross)** | 18 836 651 | 18 859 679 |

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. With the exception of the contractually agreed fee payable by the ceding company, these contracts were eliminated in full from the technical account. The profit components were netted under other income/expenses. The payment flows resulting from these contracts were reported in the cash flow statement under financing activities. Technical amounts were shown as net changes in contract deposits, the fair values of which corresponded approximately to their book values.

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

At the end of June 2001 the FASB issued the accounting standards SFAS 141 "Business Combinations" and SFAS 142 "Goodwill and Other Intangible Assets". Hannover Re has applied these provisions since 1 January 2002. Goodwill was therefore no longer amortised, but was tested for impairment in a two-step fair value process.

Development of goodwill

| *Figures in EUR thousand* | *2002* | *2001* |
|---|---|---|
| Goodwill net as at 1 January | 263 258 | 266 066 |
| Currency exchange rate differences | (30 132) | 10 569 |
| | 233 126 | 276 635 |
| Additions | 1 945 | – |
| Impairments | 1 188 | 13 377 |
| **Goodwill net as at 31 December** | 233 883 | 263 258 |

The impairments reported in the financial year were primarily attributable to Compass Insurance Holdings held by Lireas Holdings within Hannover Reinsurance Group Africa.

In addition, no unscheduled amortisation was necessary in the financial year.

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

| *Figures in EUR thousand* | *2002* | *2001* |
|---|---|---|
| Balance as at 1 January | 17 015 | 19 409 |
| Amortisation | 2 394 | 2 394 |
| **Balance as at 31 December** | 14 621 | 17 015 |

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 based on the current tax rates. In the event of a change in the tax rates on which the calculation of the deferred taxes is based, appropriate allowance is made in the year in which the change in the tax rate is stipulated in law with sufficient certainty. Deferred taxes at the Group level are booked using the Group tax rate of 40%.

| *Figures in EUR thousand* | *2002* | *2001* |
|---|---|---|
| Current taxes | | |
| Germany | 28 759 | 6 665 |
| Outside Germany | 7 225 | 15 501 |
| Deferred taxes | | |
| Germany | 201 037 | 41 970 |
| Outside Germany | (105 824) | (46 631) |
| **Total** | 131 197 | 17 505 |

Deferred tax assets and deferred tax liabilities of all Group companies

| *Figures in EUR thousand* | *2002* | *2001* |
|---|---|---|
| **Deferred tax assets** | | |
| Tax loss carry-forwards | 40 622 | 99 581 |
| Loss and loss adjustment expense reserves | 98 624 | 180 975 |
| Policy benefits for life and health contracts | 115 497 | 128 476 |
| Other provisions | 102 075 | 75 001 |
| Valuation differences relating to investments | 79 012 | 35 691 |
| Other valuation differences | 31 530 | (17 865) |
| **Total** | 467 360 | 501 859 |
| **Deferred tax liabilities** | | |
| Loss and loss adjustment expense reserves | 93 821 | 71 003 |
| Policy benefits for life and health contracts | 66 919 | 50 044 |
| Other technical/non-technical provisions | 1 715 | 12 485 |
| Equalisation reserve | 442 713 | 394 893 |
| Deferred acquisition costs | 426 003 | 362 483 |
| Valuation differences relating to investments | 131 802 | 85 975 |
| Other valuation differences | 46 465 | 113 531 |
| **Total** | 1 209 438 | 1 090 414 |
| Deferred tax liabilities | 742 078 | 588 555 |

The following table presents a reconciliation of the expected expense for income taxes with the actual provision for income taxes reported in the statement of income. The pre-tax result is multiplied by the Group tax rate in order to calculate the Group's expected expense for income taxes. The Group tax rate used is composed of the corporate-income-tax rate of 25%, the German reunification charge of 5.5% levied on corporate income tax and trade earnings tax of 13.625% calculated on the basis of this effective corporate-income-tax rate.

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

| Figures in EUR thousand | 2002 | 2001 |
|---|---|---|
| Profit before income taxes | 413 374 | 44 985 |
| Expected tax rate | 40% | 38% |
| Expected expense for income taxes | 165 350 | 17 094 |
| Change in deferred rates of taxation | 8 523 | 1 605 |
| Taxation differences affecting foreign subsidiaries | (54 072) | (35 790) |
| Other | 11 396 | 34 596 |
| Actual provision for income taxes | 131 197 | 17 505 |

## 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 1,900 (previous year: 1,676). Of this number, 750 were employed in Germany in the year under review. The majority of staff were employed at the consolidated Group companies abroad.

| Personnel information | Average in 2001 | 31.3.2002 | 30.6.2002 | 30.9.2002 | 31.12.2002 | Average in 2002 |
|---|---|---|---|---|---|---|
| Number of employees (excluding board members) | 1 676 | 1 833 | 1 869 | 1 882 | 2 016 | 1 900 |

| Nationality of employees | US | German | Other | South African | UK | Irish | Total |
|---|---|---|---|---|---|---|---|
| Number of employees | 742 | 700 | 321 | 151 | 85 | 17 | 2 016 |

### 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* | *2002* | *2001* |
|---|---|---|
| a) Wages and salaries | | |
| aa) Expenditures on insurance business | 96 222 | 83 208 |
| ab) Expenditures on the administration of investments | 9 225 | 6 334 |
| | 105 447 | 89 542 |
| b) Social security contributions and expenditure on provisions and assistance | | |
| ba) Social security contributions | 11 356 | 10 120 |
| bb) Expenditures for pension provision | 12 013 | 6 418 |
| bc) Expenditures for assistance | 2 851 | 2 589 |
| | 26 220 | 19 127 |
| **Total** | 131 667 | 108 669 |

## 5.7 Provisions for pensions and similar liabilities

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

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

From 1997 onwards it has been possible to obtain pension commitments through deferred compensation. The employee-funded commitments included in the provisions for accrued pension rights are protected by an insurance contract with HDI Lebensversicherung AG, Hamburg.

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

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

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

Additional similar obligations based upon length of service exist at some Group companies. Expenditures for these commitments in the financial year totalled EUR 767,400.

Provisions for pensions are established in accordance with SFAS 87 "Employers' Accounting for Pensions" using 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: 5.75% to 7.25%
- Rate of compensation increase: 2.9% to 5.5%
- Projected long-term yield on plan assets (US plans): 8.0%
- Indexation: 4.5% (every three years)

The commitments to employees in Germany predominantly 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

| *Figures in EUR thousand* | *2002* | *2001* |
|---|---|---|
| **Change in projected benefit obligation** | | |
| Projected benefit obligation at the beginning of the reporting year | 48 289 | 45 361 |
| Currency exchange-rate differences | (895) | 245 |
| Service cost | 3 002 | 3 162 |
| Interest cost | 2 853 | 2 731 |
| Actuarial gain/loss in the reporting year | (2 182) | 1 633 |
| Deferred compensation | 326 | 379 |
| Benefits paid during the year | (1 380) | (1 143) |
| Business combinations, divestitures and other activities | (353) | (813) |
| **Projected benefit obligation at the end of the reporting year** | 54 024 | 48 289 |
| **Fair value of plan assets** | | |
| At the beginning of the year | 3 775 | 3 425 |
| Currency exchange rate differences | (578) | 187 |
| Business combinations, divestitures and other activities | (174) | 206 |
| Return on plan assets | (166) | (246) |
| Employer's contributions | 982 | 307 |
| Benefits paid | (97) | (104) |
| **At the end of the year** | 3 742 | 3 775 |
| **Funded status of plan** | | |
| Unrecognised net obligation | 560 | 1 017 |
| Unrecognised actuarial gain/loss | (1 015) | 403 |
| Unamortised prior-service cost | 1 215 | 303 |
| | 2 790 | 917 |
| **Accrued pension liability** | 47 492 | 43 597 |
| **Net periodic pension cost of the year** | | |
| Service cost | | |
| Year under review | 3 002 | 3 162 |
| Amortisation for previous years | 20 | 24 |
| Interest cost | 2 853 | 2 731 |
| Expected return on plan assets | (328) | (543) |
| Recognised net actuarial loss | 11 | – |
| Amortisation of net obligation | 457 | 457 |
| **Total** | 6 015 | 5 831 |

## 5.8 Surplus debenture and loans

### Loans

On 31 March 1999 Hannover Finance Inc., Wilmington/USA, 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.

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.

In order to safeguard the sustained financial strength of the Hannover Re Group, Hannover Re issued subordinated debt. A subordinated loan was placed via Hannover Finance (Luxembourg) S.A. – a wholly owned subsidiary of Hannover Re – on the European capital market. The debt, which is secured by Hannover Re, was issued in the amount of EUR 350 million with a term of 30 years. It may be redeemed by the issuer after 10 years at the earliest. Hannover Re received from Hannover Finance a loan in the amount of EUR 100 million.

### Surplus debenture (Genussrechtskapital)

On 2 November 1993 Hannover Re and E+S Rück issued surplus debentures in the amounts of EUR 76.7 million at an interest rate of 7.55% and EUR 40.9 million at an interest rate of 7.75% respectively. 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 catastrophe losses, Hannover Re took out a new credit line of EUR 250 million in 2000 in the form of a syndicated loan. 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.

Additional bilateral, secured credit lines in the amount of EUR 200.0 million – available variably for both cash and guarantee credit financing – as well as similar unsecured credit lines with a volume of EUR 70.0 million were arranged with Landesbank Hessen-Thüringen Girozentrale for the purpose of short-term borrowing.

## 5.9 Stockholders' equity and minority interests

The stockholders' equity is shown as a separate component of the financial statement in accordance with SFAS 130 "Reporting of Comprehensive Income". The change in 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 not recognised in the statement of income.

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

On 15 July 2002 Hannover Re implemented a 3 for 1 stock split. The stockholders' equity was increased to EUR 97,164 thousand through a withdrawal of EUR 14,365 thousand from the additional paid-in capital. One no-par-value share worth a theoretical amount of EUR 3.00 of the capital stock was replaced by three no-par-value shares each worth EUR 1.00. The capital stock is divided into 97,163,928 no-par-value registered shares, which are fully paid up. The new shares carry a full dividend entitlement for the 2002 financial year.

In addition, conditional authorised capital of up to EUR 48.5 million is available. It can be used to grant shares to holders of convertible and warrant bonds and to issue employee shares in the amount of EUR 1.0 million. It has a time limit of 13 November 2007.

### Consolidated statement of changes in stockholders' equity

| *2002<br>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 | 82 799 | 14 365 | – | – | 97 164 | | |
| Additional paid-in capital | 388 816 | (14 365) | – | – | 374 451 | | |
| Cumulative comprehensive income | (42 921) | – | (68 523) | – | (111 444) | | |
| Treasury stock | – | – | – | – | – | | |
| Retained earnings | 1 243 334 | – | – | – | 1 243 334 | | |
| Net income | – | – | – | 267 172 | 267 172 | | |
| Dividends paid | – | – | – | – | – | | |
| Other changes | – | – | – | (131 215) | (131 215) | | |
| **Total** | 1 672 028 | – | (68 523) | 135 957 | 1 739 426 | 400 426 | 2 139 888 |

| 2001<br>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 | 75 493 | 7 306 | – | – | 82 799 | | |
| Additional paid-in capital | 201 794 | 187 022 | – | – | 388 816 | | |
| Cumulative comprehensive income | 63 477 | – | (106 398) | – | (42 921) | | |
| Treasury stock | – | – | – | – | – | | |
| Retained earnings | 1 232 615 | – | – | – | 1 232 615 | | |
| Net income | – | – | – | 11 084 | 11 084 | | |
| Dividends paid | – | – | – | (69 990) | (69 990) | | |
| Other changes | – | – | – | 69 625 | 69 625 | | |
| **Total** | 1 573 379 | 194 328 | (106 398) | 10 719 | 1 672 028 | 307 811 | 1 979 839 |

## 5.10 Other comprehensive income

The changes of -EUR 38.4 million in the cumulative comprehensive income in the year under review resulted principally from the application of SFAS 133 "Accounting for Derivative Instruments and Hedging Activities". This development was due to changes in the fair value of interest rate swaps included in a cash flow hedge transaction used to hedge floating-rate loans.

## 5.11 Treasury stock

By a resolution of the Annual General Meeting of Hannover Rückversicherungs-AG adopted on 24 May 2002, the company was authorised until 31 October 2003 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 31 December 2002.

## 5.12 Earnings per share

The basic earnings per share and the fully diluted earnings per share as at 31 December 2002 shown in the statement of income are calculated as follows on the basis of the year-end result

| | 2002 | | | 2001 | | |
|---|---|---|---|---|---|---|
| | *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 | | 97 163 928 | | | 97 163 928 | |
| Less treasury stock (weighted) | | – | | | (5 709) | |
| Basic earnings per share | 267 172 | 97 163 928 | 2,75 | 11 084 | 97 158 219 | 0.11 |
| Dilution through payment of outstanding capital | | – | | | – | |
| Fully diluted earnings per share | 267 172 | 97 163 928 | 2,75 | 11 084 | 97 158 219 | 0.11 |

The total number of fully-paid shares, the weighted average portfolio of treasury stock and the weighted average number of shares were adjusted for the 2001 financial year due to the 3 for 1 stock split implemented on 15 July 2002. This produced earnings per share of EUR 0.11 for the previous year.

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* | *2002* | *2001* |
|---|---|---|
| Securities payable | 8 565 | 18 614 |
| Own-use real estate | 43 119 | 44 299 |
| Other non-technical contracts | 22 079 | 18 761 |
| Present value of future profits on acquired life reinsurance portfolios | 14 621 | 17 015 |
| Fixtures, fittings and equipment | 21 986 | 24 042 |
| Other intangible assets | 30 717 | 31 561 |
| Interest and rent payable on investments | 1 025 | 16 470 |
| Tax refund claims | 56 584 | 41 107 |
| Other | 82 197 | 79 705 |
| **Total** | 280 893 | 291 574 |

Other liabilities

| *Figures in EUR thousand* | *2002* | *2001* |
|---|---|---|
| Provisions for pensions and similar obligations | 45 613 | 43 814 |
| Liabilities from derivatives | 96 132 | 44 365 |
| Interest | 25 270 | 42 132 |
| Dividends payable | 722 | – |
| Deferred income | 17 055 | 21 378 |
| Costs of the annual financial statements | 4 807 | 3 688 |
| Liabilities to trustees | 24 004 | 28 345 |
| Loans | 115 248 | 92 584 |
| Interest on additional tax payments | 7 023 | 6 045 |
| Stock options | – | 1 311 |
| Liabilities due to banks | 5 775 | 50 287 |
| Other | 138 891 | 126 724 |
| **Total** | 480 540 | 460 673 |

## 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/expenses

| *Figures in EUR thousand* | *2002* | *2001* |
|---|---|---|
| Other income | | |
| Exchange gains | 64 377 | 126 032 |
| Other interest income | 4 297 | 35 338 |
| Income from services | 13 346 | 14 569 |
| Sundry income | 38 157 | 32 096 |
| | 120 177 | 208 035 |
| Other expenses | | |
| Exchange losses | 116 379 | 18 074 |
| Other interest expenses | 62 341 | 36 958 |
| Depreciation | 9 631 | 12 951 |
| Expenses for services | 18 206 | 9 310 |
| Expenses for the company as a whole | 16 698 | 15 965 |
| Separate value adjustments | 41 584 | 6 324 |
| Goodwill impairments | 1 188 | 13 377 |
| Sundry expenses | 468 | 53 662 |
| | 266 495 | 166 261 |
| **Total** | (146 318) | 41 774 |

## 6. Related party disclosures

### 6.1 Transactions with related parties

SFAS 57 defines related parties as parent companies and subsidiaries, subsidiaries of a common parent company, entities and trusts under the influence of the management, major owners and the management of the company itself, close family of the owners and management as well as associated companies.

HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI) indirectly holds more than 75% of the shares of Hannover Re through HDI Verwaltungs-Service AG as well as through Erste HDI Beteiligungsgesellschaft mbH and Zweite HDI Beteiligungsgesellschaft mbH.

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

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

In the year under review Hannover Re transferred its shares in the Insurance Corporation of Hannover to Hannover Finance Inc. at book value. By simultaneously purchasing the interest held by E+S Rück in Hannover Finance Inc., Hannover Re is now the sole stockholder of Hannover Finance Inc. and hence of the Clarendon Insurance Group. This transaction was prompted by the desire not only to streamline the structure of the subgroup but also to restructure program business in the USA.

E+S Rück implemented a capital increase of EUR 300.0 million in the year under review. The amount apportionable to Hannover Re totalled EUR 210.7 million. Hannover Re also called unpaid capital and acquired shares of E+S Rück worth EUR 25.0 million from third parties, most of which were resold to other stockholders. In November 2002 Hannover Rück Beteiligung Verwaltungs-GmbH was established by way of a non-cash contribution by Hannover Re as the sole stockholder, the latter contributing its interest of 56.78% in E+S Rück at current value. The object of the company is to hold, acquire and sell equity participations in other enterprises of the same or a similar type.

In November 2002 Hannover Re (Bermuda) Ltd. increased its capital resources by EUR 250.0 million through allocation of this amount to its additional paid-in capital.

Hannover Re holds 50% of the shares in Oval Office Grundstücks GmbH, which was established in November 2002 with common stock of EUR 1.0 million.

HDI Immobilienfonds Nr. 4 Nürnberg Bucher KG was wound up in January 2002 through accretion to Hannover Re for tax purposes. All assets and liabilities were transferred to Hannover Re. The book value prior to accretion was EUR 11.4 million.

Hannover Re (Bermuda) Ltd. granted Hannover Re a fixed-rate loan of EUR 200.0 million due in 2007.

HDI Asset Management GmbH manages the investments of Hannover Re and some of its subsidiaries. In this connection it renders services within the scope of an agreement on the outsourcing of functions and performs IT services and administrative tasks.

The HDI Group grants us insurance protection, inter alia, in the areas of public liability, fire, group accident and business travel collision insurance. We received legal protection insurance coverage from HDI Rechtschutz Versicherung AG.

All transactions were effected at normal market conditions. We gave an account of these transactions with regard to Hannover Re and E+S Rück in the corresponding dependent company reports.

## 6.2 Compensation and stockholdings of the management boards of the parent company and further information with respect to the German Corporate-Governance Code

Total compensation of EUR 2,993 thousand was paid to the Executive Board and EUR 285 thousand to the Supervisory Board in the year under review. Former members of the Executive Board and their surviving dependants received EUR 772 thousand, and a liability of EUR 10,128 thousand was shown as at year-end.

The total compensation received by the members of the Executive Board included variable components of EUR 707 thousand. The variable remuneration of the Executive Board is determined on the basis of the year-end result and the value creation. The value creation is measured using an appropriate benchmark (the performance of the Hannover Re share relative to the unweighted "Reactions" World Reinsurance Index). The benchmarks cannot be retroactively changed.

Transactions implemented by Executive Board and Supervisory Board members of Hannover Re and by their spouses or registered partners and first-degree relatives involving shares, options or derivative financial instruments of Hannover Re as well as of the parent companies (so-called "Directors' Dealings"), which with effect from 1 July 2002 are to be reported in accordance with § 15a of the German Securities Act (WpHG), are set out in the table below:

| *Name* | *Type of transaction* | *Type of security* | *Security ID number* | *Transaction date* | *Number of securities* | *Price* |
|---|---|---|---|---|---|---|
| André Arrago | Purchase | Share | 840221 | 16.9.2002 | 5 451 | 21.08 |
| André Arrago | Purchase | Share | 840221 | 16.9.2002 | 1 000 | 21.07 |
| André Arrago | Purchase | Share | 840221 | 16.9.2002 | 1 080 | 20.96 |
| André Arrago | Purchase | Share | 840221 | 18.9.2002 | 2 469 | 20.97 |
| André Arrago | Purchase | Share | 840221 | 1.10.2002 | 2 000 | 16.84 |

Members of the Supervisory Board and Executive Board of Hannover Re as well as of the parent companies and their spouses or registered partners and first-degree relatives hold less than 1% of the issued shares. As at 31 December 2002 the total holding amounted to 0.034% of the issued shares, i.e. 33,008 shares. The total volume of stock options held by members of the Executive Board on the basis of the virtual stock option plan amounted to 0.92% of the capital stock as at the balance sheet date. The value of these stock options was EUR 895 thousand. Further information is provided in section 6.3 "Stock options".

The compensation received by the Supervisory Board comprises fixed and variable components determined by the paid dividend. Appropriate allowance is made for the functions performed by the Chairman, Deputy Chairman and the members of the committees when determining the level of compensation paid to the members of the Supervisory Board. In the year under review the company did not pay any compensation to members of the Supervisory Board for personally rendered services, e.g. consulting or mediation services.

Mortgage loans granted to members of the management boards

| *Figures in EUR thousand* | *Position as at 1.1.2002* | *Reclassi-fication* | *Repayment* | *Position as at 31.12.2002* | *Interest rate* |
|---|---|---|---|---|---|
| Executive Board | 121 | – | 29 | 92 | 5,5% |

The company did not enter into any contingent liabilities for members of the management boards. The names of the members of the management boards of the parent company are listed on pages 5 to 7.

## 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 the movement in the price of the Hannover Re share relative to an industry benchmark based upon the (unweighted) Reactions World 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%.

As a second performance criterion, a calculation is made to determine the extent to which the stock market performance of the Hannover Re share exceeds or undershoots the development of the Reactions World 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.

No new stock options were granted in the year under review.

The existing option rights were valued on the basis of the Black/Scholes option pricing model.

As at 1 January 2002 the existing number of stock options stood at 1,138,005; 40,770 option rights were forfeited in the year under review. The total number of stock options existing as at year-end stood at 1,097,235. The average exercise price per option amounted to EUR 25.50. All figures relating to the number of options and the exercise price are based on the situation after the stock split implemented on 15 July 2002.

The calculations were based on the year-end closing price of the Hannover Re share as at 30 December 2002 of EUR 24.30, volatility of 48.5%, a dividend yield of 2.88% and a risk-free rate of interest of 4.26%.

On this basis a provision of EUR 3,371 thousand was established for the stock options existing as at 31 December 2002.

### 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

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

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

### 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 1,491.9 million (previous year: EUR 1,403.6 million). The securities held in the master trust are shown as available-for-sale investments.

A major success in 2002 was the placement of an unsecured and syndicated large credit line for letters of credit. The amount of USD 1.725 billion placed through the three mandated lead arrangers Bayerische Hypo- und Vereinsbank AG, BNP Paribas and Dresdner Kleinwort Wasserstein was considerably higher than the volume originally sought and secures the guarantee credit backing that is especially important for US business on a lasting basis until 31 December 2006.

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 3,754.5 million (previous year: EUR 3,314.4 million).

Outstanding capital commitments with respect to special investments exist in the amount of EUR 79.0 million for E+S Rückversicherungs-AG and EUR 144.3 million for Hannover Re. These involve primarily private equity funds and venture capital firms in the form of private limited companies. Further information is provided in section 4 "Acquisitions/new establishments".

Within the scope of a novation agreement regarding a life insurance contract we assumed contingent reinsurance commitments with respect to due date and amount estimated at EUR 17.0 million as at the balance sheet date.

## 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 meets its liabilities, an obligation exists to take over such other member's share within the framework of the quota participation.

## 7.4 Derivative financial instruments

Since Hannover Re concludes reinsurance transactions worldwide in numerous international currencies, the Group is exposed to currency fluctuations.

Hannover Re uses derivative financial instruments to control these currency exposures as well as interest rate risks and market price risks arising out of the use of financial instruments (e.g. investments in variable-yield and fixed-income securities). Derivative financial instruments are used within the Hannover Re Group solely for hedging purposes.

The fair values of the financial instruments were determined on the basis of the market information available as at the balance sheet date and by using the valuation methods set out below. If the underlying transaction and the derivative cannot be reported as a single unit, the derivative is recognised under the "trading-portfolio" item in the balance sheet.

### Fair value hedges

In the case of a fair value hedge, the results of the fair valuation of the derivatives and the corresponding underlying transactions are recognised in the statement of income.

### Cash flow hedges

In the case of a cash flow hedge, the hedge-effective part of the changes in fair value is initially recognised under the stockholders' equity (cumulative comprehensive income). It is only reported in the statement of income when the underlying hedged transaction has been recognised in the statement of income. The hedge-ineffective part of the changes in fair value is recognised in the statement of income immediately. Furthermore, derivatives embedded in host contracts are to be reported separately.

### Breakdown of nominal amounts by product type and period to maturity

| *Figures in EUR thousand* | *1 to 5 years* | *5 to 10 years* | *more than 10 years* | *Total* |
|---|---|---|---|---|
| Interest rate swaps | 51 129 | 581 646 | 28 141 | 660 916 |
| Currency swaps | 10 226 | 23 418 | – | 33 644 |

Derivatives involving exposures were of minimal significance within the total asset portfolio of the Hannover Re Group. The fair value of unmatched positions used for hedging purposes was -EUR 3.3 million.

The fair value of derivatives used in fair value hedges was -EUR 3.7 million. The fair value of derivatives used in cash flow hedges totalled -EUR 69.6 million. Derivatives recognised in the trading portfolio had a fair value of -EUR 8.7 million.

One contract matured in the year under review; this gave rise to losses on disposals of EUR 1.7 million.

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

No 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

Summary of leasing commitments

| *Figures in EUR thousand* | *Payments* |
|---|---|
| 2003 | 4 669 |
| 2004 | 4 364 |
| 2005 | 3 444 |
| 2006 | 2 078 |
| 2007 | 1 971 |
| Subsequent years | 8 732 |

Operating leasing contracts produced expenditures of EUR 4,892 thousand in the 2002 financial year.

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

In the year under review Hannover Reinsurance Africa Ltd. concluded a sale-and-lease-back contract for land and business premises effective February 2002 for a period of eight years. SFAS 13 requires that this be recognised as an operating lease. A further lease agreement ending on 31 October 2005 exists for the business premises of Compass Insurance Holdings Ltd.

### Rented property

Hannover Re Real Estate Holdings rents out real estate in Florida; the period of the rental 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* |
|---|---|
| 2003 | 13 026 |
| 2004 | 13 055 |
| 2005 | 12 386 |
| 2006 | 11 579 |
| 2007 | 10 224 |
| Subsequent years | 26 963 |

Rental income totalled EUR 23,027 thousand in the 2002 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.

### Key exchange rates

| *1 EUR corresponds to:* | *Mean rate of exchange on the balance sheet date* | | *Average rate of exchange* | |
|---|---|---|---|---|
| | *31.12.2002* | *31.12.2001* | *31.12.2002* | *31.12.2001* |
| AUD | 1.8497 | 1.7332 | 1.7405 | 1.7364 |
| CAD | 1.6385 | 1.4102 | 1.4835 | 1.3858 |
| GBP | 0.6502 | 0.6088 | 0.6279 | 0.6199 |
| MYR | 3.9754 | 3.3549 | 3.5911 | 3.3982 |
| SEK | 9.1450 | 9.3300 | 9.1504 | 9.2572 |
| USD | 1.0415 | 0.8820 | 0.9453 | 0.8951 |
| ZAR | 8.9550 | 10.4200 | 9.8562 | 7.7383 |

Hannover, 10 April 2003

Executive Board

Zeller Dr. Becke Gräber

Dr. Pickel Arrago Dr. König Wallin

# AUDITORS' report

We have audited the consolidated financial statements of Hannover Rückversicherungs-Aktiengesellschaft for the business year from January 1 to December 31, 2002, 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, 2002, 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, 10 April 2003

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Dr. Dahl | Schuster |
| (German Public Auditor) | (German Public Auditor) |

# REPORT OF THE SUPERVISORY BOARD
## of Hannover Re for the Hannover Re Group

We supervised the management of Hannover Rückversicherungs-AG (Hannover Re), the parent company of the Hannover Re Group, regularly during 2002 on the basis of detailed written and verbal reports from the Executive Board. The Supervisory Board held a total of four meetings – each lasting several hours – in order to adopt the necessary resolutions. In addition, particularly urgent decisions were taken on five occasions using a written procedure. The Standing Committee, a committee within the meaning of § 107 Para. 3 German Stock Corporation Act, met on three occasions. Furthermore, we received quarterly written reports from the Executive Board on the course of business and the position of the company pursuant to § 90 German Stock Corporation Act. These reports contain, inter alia, up-to-date details of the current planned figures for the Group with regard to the growth in premiums, the burden of catastrophe losses, the development of administrative expenses as well as the investment portfolio, investment income and the increase in the global workforce. The quarterly reports with the quarterly financial statements and key figures for the Hannover Re Group constitute a further important source of information for the Supervisory Board. In addition, the Chairman of the Supervisory Board was constantly advised of major developments and impending decisions by the Chairman of the Executive Board. All in all, we were involved in decisions taken by the Executive Board as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. The development of our major subsidiaries and participations was also included at all times in our consultations.

In a difficult economic climate the deliberations of the Supervisory Board focused primarily on considerations of capital strength and the further development of our Corporate Governance. As part of its discussion of important individual projects the Supervisory Board considered, inter alia, the preparation of an Extraordinary General Meeting, at which the shareholders authorised the Executive Board to issue – with the consent of the Supervisory Board – bonds in the form of convertible and warrant bonds, dividend bonds and participation rights. In this connection it was also decided to create conditional and authorised capital each amounting to EUR 48.5 million. The purpose of these measures is to be able to quickly and flexibly strengthen the company's capital resources as necessary in order to respond promptly to the latest market developments, enhance its competitive position and maintain its excellent ratings.

In addition, the Supervisory Board considered capital increases at various subsidiaries. Due to in some cases marked premium growth the Supervisory Board approved capital increases at E+S Rückversicherungs-AG, Hannover Re (Bermuda) Ltd. and Hannover Life Reassurance (UK) Ltd. as well as an increase in the capital reserves at Hannover Finance (Luxembourg) S.A. In order to bundle the activities in US program business the American subsidiaries of Hannover Re operating in this segment were organisationally combined with the consent of the Supervisory Board. To this end, the Insurance Corporation of Hannover was integrated into Clarendon National Insurance Company, New Jersey/USA. The Supervisory Board further discussed and approved the acquisition by Hannover Rückversicherungs-AG of the 20 percent share of Hannover Finance Inc. (HFI), Wilmington/USA held by E+S Rückversicherungs-AG. The Supervisory Board additionally approved a substantial participation by Hannover Re in the newly established Special Risk Insurance and Reinsurance Company in Luxembourg. The Supervisory Board further stayed informed of the current status of significant pending legal actions involving the Group companies.

With an eye to the repercussions of the terrorist attacks of 11 September 2001 in the USA the Supervisory Board also closely monitored the progress of the renewals in property and casualty reinsurance and supported the Executive Board in its review of the strategic objectives and principles.

The Supervisory Board again devoted considerable attention to the issue of Corporate Governance, which it examined at length in two meetings. The Corporate Governance principles were approved at the Supervisory Board meeting on 9 December 2002. In this connection the Supervisory Board adopted procedural rules and set up its second committee – the Balance Sheet

Committee – within the meaning of § 107 Para. 3 German Stock Corporation Act. The Declaration of Conformity pursuant to § 161 German Stock Corporation Act regarding compliance with the German Corporate Governance Code was issued as at year-end. The recommendations of the Code have not been implemented in only one respect. Details of this issue are provided on pages 120 and 121 of the present annual report as well as in the company's publications on the Internet.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG DTG), Hannover, was mandated – without the existence of any legal requirement to this effect – to audit the consolidated financial statement and the Executive Board's report for the Hannover Re Group (compiled in accordance with United States Generally Accepted Accounting Principles – US GAAP). KPMG DTG issued an unqualified audit certificate. The Balance Sheet Committee discussed the financial statement and Executive Board's report at an extensive meeting attended by the auditors. The auditors' report was distributed to all members of the Supervisory Board and scrutinised in detail – with the participation of the auditors – at the Supervisory Board meeting held to consider the annual results.

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

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

1. its factual details are correct,

2. in the case of the transactions detailed in the report, the expenditure of the company was not unreasonably high,

3. in the case of the measures specified in the report, there are no circumstances which would point to an assessment which differs significantly from that of the Executive Board."

We examined both the Executive Board's report and the auditors' report on the company's relations with affiliated companies, and we found everything to be in order. In the light of our examination, we had no objections to the statement by the Executive Board at the end of its report on relations with affiliated companies.

On 24 May 2002, the date of the Annual General Meeting, Dr. Horst Dietz and Dr. Erwin Möller – as representatives of the shareholders – and Ms. Karola Böhme – representing the employees – stepped down from this body. The Supervisory Board thanked them for their many years of constructive work and expressed its appreciation of their contribution to the development of the company and the Group. The Annual General Meeting elected Mr. Bengt Pihl and Mr. Herbert Haas as new members of the Supervisory Board. In the period until 31 January 2002, Mr. Haas had served for eight years on the company's Executive Board, moving to the Board of Management of HDI V.a.G. with effect from 1 February 2002. Mr. Hans-Günter Siegerist was elected to succeed Ms. Böhme as an employees' representative on the Supervisory Board.

Effective 1 January 2002, Dr. Elke König was appointed as a deputy member of the Executive Board.

Hannover, 11 April 2003

For the Supervisory Board

Wolf-Dieter Baumgartl
Chairman

# CORPORATE GOVERNANCE
## report

Good and transparent Corporate Governance ensures that an enterprise is responsibly managed and supervised with an orientation towards value creation. Corporate governance thereby serves the goal to strengthen and consolidate the trust in the enterprise held by present and future shareholders, business partners, clients, employees and the general public. In recent months this has become of even greater relevance to the assessment and valuation of listed companies. In February 2002, the "Government Commission on the German Corporate Governance Code" appointed by the Federal Government published the "German Corporate Governance Code". This Code states in practical terms standards of conduct for Supervisory and Management Boards and defines duties of disclosure with respect to shareholders as well as the role of auditors. Last but not least, it is aimed at standardising the methods and procedures used in existing practice so far and creating transparency concerning the Code stipulations that are already law in Germany.

Hannover Re supports the principles of value-oriented and transparent enterprise management and supervision and recognises their importance in guiding its activities. The goal of generating sustained value enhancement for all shareholders of Hannover Re is firmly enshrined in our corporate philosophy. Major elements of its principles, the requirements of which have now been defined in writing, have long been "lived" as part of the standard practice at our company. This is true, for example, of the following principles:

- All investors have equal rights to information ("fair disclosure")
- Up-to-date information is provided via the Internet, press releases and newsletters
- Regular meetings are held with analysts
- The agenda and voting results of the Annual General Meeting can be accessed via the Internet
- Value-oriented management of the company that takes into account the interests of all shareholders constitutes an integral component of our corporate philosophy
- The Executive Board receives variable remuneration linked to the growth in the company's value (stock option plan)
- A reliable benchmark is used to measure the increase in the company's value (change in Hannover Re's share price relative to the unweighted "Reactions" World Reinsurance Index
- Financial statements are drawn up on the basis of internationally recognised accounting principles (US GAAP)
- Quarterly reports are compiled, including segmental reports and earnings per share

In the year under review we stepped up our Investor Relations activities, which are guided by the dictum of transparency and reliability:

- We organised a total of six international telephone conferences for analysts and investors with live video transmission of our presentations to each telephone conference
- Our analyst conferences and telephone conferences are recorded and can be accessed online via video/audio streaming
- More than 30 roadshows and company conferences were held at various international financial marketplaces

- In the course of roughly 50 visits to Hannover we conducted personal discussions with international analysts and investors

- Two seminars for analysts and investors were held in order to meet the need for supplementary and more detailed background information

In December 2002 the Executive Board and Supervisory Board of Hannover Re approved the company's own Corporate Governance principles, which incorporate most of the recommendations and suggestions of the German Code. In doing so we created a precise set of company-specific rules encompassing an entire system of responsible enterprise management and supervision oriented towards value creation.

Our Corporate Governance principles are reviewed at regular intervals and modified whenever necessary. These reviews are conducted against the backdrop of our self-image which is guided by internationally valid "best practice" standards and legal requirements. The disclosure mandated by law according to the recommendation of the German Corporate Governance Code still to be implemented is provided in the following declaration of conformity:

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

The "German Corporate Governance Code" (DCGK) was published on 26 February 2002. It sets out the major legal stipulations governing the management and supervision of German listed companies and contains both internationally and nationally recognised standards of good and responsible enterprise management. Under § 161 Stock Corporation Act (AktG) it is incumbent on the Management Board and Supervisory Board of a listed company to confirm conformity with the recommendations of the Code or explain which recommendations of the Code are not applied. From the very outset Hannover Re has supported the deliberations of the Government Commission on the "German Corporate Governance Code" in the interests of our shareholders and the company. The implementation of the recommendations at Hannover Rückversicherungs-AG diverges in only one aspect from the German Corporate Governance Code. The consolidated financial statements are supposed to be publicly accessible within 90 days of the end of the financial year, and interim reports within 45 days of the end of the reporting period in question (Code Item 7.1.2, Sentence 2). Due to some special features of international reinsurance business and the associated regulatory frameworks, we marginally exceed the recommended periods at present. Yet, by no means do we use the full scope of the deadlines permitted by law. By further optimising our reporting processes we expect to achieve conformity with the recommended periods from 2004 onwards.

We are in conformity with all other recommendations of the Code.

| | |
|---|---|
| For the<br>Executive Board | For the<br>Supervisory Board |

# BRANCH OFFICES AND SUBSIDIARIES
## of the Hannover Re Group abroad

### Australia

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General Manager:
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Managing Director:
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Senior Vice President:
Stephen Fitzpatrick

*Until June 2003*

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

***Acquisition cost, deferred (DAC):*** cost of an insurance company that arises from the acquisition or the renewal of an insurance treaty (e.g. commission for the closing, cost of the transaction- or risk-examination, etc.).The capitalisation results in a distribution of the cost over the duration of the treaty.

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

***American Depositary Receipt (ADR):*** share certificates written by US Banks on foreign shares deposited there. Instead of trading the foreign shares directly, US stock exchanges trade the ADRs.

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

***Cash flow statement:*** statement on the origin and utilisation of cash and cash equivalents during the business year. It shows the changes in liquid funds separated into cash flows from operating, investing and financing activities.

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

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

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

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

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

***Confidence level (also: probability level):*** the confidence level defines the probability with which the defined amount of risk will not be exceeded.

***Corporate Governance:*** serves to ensure responsible management and supervision of enterprises and is intended to foster the trust of investors, clients, employees and the general public in companies.

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

***Creditworthiness:*** Cf. → credit status

***Critical illness coverages:*** cf. → dread disease coverages

***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 factor. In the case of the loss reserves this is necessary because of the new profit calculation methods for tax purposes applicable to German joint-stock corporations.

***Diversification:*** orientation of business policy towards various revenue streams in order to minimise the effects of economic fluctuations and stabilise the result. Diversification is an instrument of growth policy and risk policy for a company.

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

***Due diligence:*** activity generally performed as part of a capital market transaction or in the case of mergers and acquisitions, covering inter alia an examination of the financial and tax situation.

***Earnings per share, diluted:*** ratio, which is calculated by dividing the group's net income by the weighted average number of shares outstanding. The diluted earnings per share are calculated based on a number of shares that includes subscription rights already exercised or that still can be exercised.

***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.

***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.

***Financial Accounting Standards Board (FASB):*** committee in the USA whose task it is to determine and improve the standards of accounting and reporting.

***Financial Accounting Standards (FAS):*** cf. → Statement of Financial Accounting Standards (SFAS)

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

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

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

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

***Funds held by ceding companies/funds held under reinsurance treaties:*** collateral provided to cover insurance liabilities between insurer and reinsurer. 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.

***Goodwill:*** the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed.

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

***Hybrid capital:*** debt structure which because of its subordination bears the character of both debt and equity.

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

***Impairment:*** Extraordinary amortisation taken when the present value of the estimated future cash flow of an asset is less than its book value.

***Insured loss:*** the insured loss reflects the total amount of losses.

***International Securities Identification Number (ISIN):*** ten-character universal code used to identify securities internationally. It is prefixed by a country code that specifies the country where the issuer entity is legally registered or in which it has legal domicile, e.g. DE = Germany

***Investment grade:*** investment-grade ratings are awarded to companies and assigned to securities that have a low risk profile. They contrast with non-investment-grade ratings, which by definition include speculative elements and therefore entail a significantly higher risk.

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

***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:*** proportion of loss expenditure in the → retention relative to the (gross or net) premiums earned.

***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). 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.

***Other securities, available-for-sale:*** securities that are not classified as "trading" or "held-to-maturity"; these securities can be disposed of any time and are reported at their market value at the balance sheet date. Changes in market value do not affect the statement of income.

***Other securities, held-to-maturity:*** investments in debt securities intended to be held to maturity. They are measured at amortised cost.

***Other securities, trading:*** securities that are held principally for short-term trading purposes. They are measured at their market value at the balance sheet date.

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

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

***Present value of future profits (PVFP):*** Intangible asset primarily arising from the purchase of life and health insurance companies or portfolios. The present value of expected future profits from the portfolio assumed is capitalised and amortised according to plan.

***Price earnings ratio (PER):*** ratio between the market value of a share and the earnings per share of the publicly traded corporation.

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

***Probability level:*** Cf. → confidence level

***Program business:*** A well-established business model in the US primary insurance market. It is transacted by primary insurers ("program insurers") in very close cooperation with highly specialised managing general agents (MGAs). The business group is focused on strictly defined, homogeneous primary insurance portfolios (programs), typically comprising niche and non-standard coverages, i. e. risks that are impossible or difficult to place with conventional insurers. Functions normally performed by the insurer, such as sales, closing contracts, issuing policies, collection, policy administration and claims settlement, are assumed by the MGAs or by other external service-providers.

***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 direct insurer's 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).

***Purchase cost, amortised:*** the cost of acquiring an asset item including all ancillary and incidental purchasing costs; in the case of wasting assets less scheduled and/or special amortisation.

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

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

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

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

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

***Retro:*** cf. → Gross/Retro/Net

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

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

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

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

***Statement of Financial Accounting Standards, SFAS (also: Financial Accounting Standards, FAS):*** standards published by the Financial Accounting Standards Board on accounting and reporting.

***Survival ratio:*** this reflects the ratio of loss reserves to paid losses under a specific contract or several contracts in a balance sheet year.

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

***Treaty reinsurance:*** cf. → obligatory reinsurance.

***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.

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

***Variable Interest Entity:*** Legal structure with specific characteristics not bound to a particular form of organisation. It is used to conduct defined activities or to hold assets.

***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.

# INDEX OF KEY TERMS

# STRATEGIC BUSINESS GROUPS
## of the Hannover Re Group

hannover re

### Property and Casualty reinsurance
hannover re®

- E+S Rück, Hannover
- Hannover Re, Hannover
- Hannover Re Africa, Johannesburg
- Hannover Re Bermuda, Hamilton/Bermuda
- 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
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- Hannover Re Ireland, Dublin
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- Inter Hannover, London
- Compass Insurance, Johannesburg

* Until 31 December 2002

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